



# ICM

SEPTEMBER 2016

ACCOUNTING, PURCHASING & COST CONTROL

**Instructions to candidates:**

- Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- Answer Question 1 and any THREE other questions
- Question 1 carries 40% of the marks, all other questions carry 20% of the marks. Marks for each question are shown in [ ]
- Non-programmable calculators are permitted in this examination

- You work as the accountant of a company called TDX Ltd and have just taken out the trial balance as at 31 August 2016:

	£dr	£cr
£1 Ordinary share capital		100,000
5% Debentures		100,000
Profit and loss account (1/09/15)		273,000
Long-term bank loan		90,000
Sales		1,840,000
Purchases	1,280,000	
Inventory at 1/09/15	44,000	
Accounts receivable	82,000	
Accounts payable		35,000
Business rates	49,000	
Insurances	37,000	
Energy costs	58,000	
Advertising	74,000	
Loan interest paid	6,000	
Buildings at cost	400,000	
Equipment at cost	200,000	
Equipment depn. (1/09/15)		40,000
Payroll costs	245,000	
Bank	2,000	
Cash	1,000	
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	2,478,000	2,478,000
	=====	=====

Notes at 31 August 2016:

- Inventory was valued at £42,000
- Advertising expenses prepaid amounted to £4,000
- Payroll costs owing amounted to £6,000
- The debenture interest is due for payment on 1 September 2016
- The equipment is to be depreciated by 25% on cost
- The directors wish to provide £8,000 for taxation

**TASKS**

- Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2016. [12]
- Prepare the position statement (balance sheet) as at 31 August 2016. [12]
- Calculate the following:
  - Gross profit as a percentage of sales
  - Net profit before tax as a percentage of sales
  - The current ratio
  - The acid test ratio[2 each]

*Question 1 continues overleaf*

d) Analyse the financial performance of TDX Ltd over the financial year.

[8]

Note: the equivalent ratios for the previous financial year were: gross profit percentage 27%; net profit before tax percentage 5.1%; current ratio 2.8:1; acid test ratio 1.7:1

2. Lovelygrub is a restaurant business with 3 restaurants. The results for the year ended 31 August 2016 were as follows:

Restaurant	A	B	C	Total
	£000	£000	£000	£000
Sales/revenue	600	1,000	400	2,000
Food and beverage costs	(180)	(280)	(160)	(620)
Wages per restaurant	(120)	(160)	(100)	(380)
Expenses per restaurant	(100)	(140)	(120)	(360)
Head Office expenses				(400)

All the purchasing, accounting, marketing and personnel activities are carried out from the Head Office. The Head Office costs are apportioned in proportion to sales.

The directors are concerned about the profitability of the business and are considering the possibility of closing one of the restaurants.

#### TASKS

- Prepare an analysed profit and loss statement (in which you show the gross and net profit of EACH restaurant) for the whole business. [8]
- Advise the directors in respect of their possible closure decision. (You may ignore the impact of any redundancy costs.) [7]
- Explain what **fixed costs** are. [5]

3. Monkeyland Ltd is a tourist attraction. The attraction also includes a café and a shop. The following are the receipts and payments for the year ended 31 August 2016:

	£(payments)	£(receipts)
Entrance fees		440,000
Café sales		199,000
Shop sales		78,000
Café cost of sales	68,000	
Shop cost of sales	25,000	
Advertising	120,000	
Business rates and insurance	50,000	
General wages	220,000	
Communication costs	30,000	
Depreciation costs	40,000	
Other expenses	20,000	

The business is divided into three profit centres; A – the attraction itself, C – the café, and S – the shop. The cost of advertising is wholly allocated to A, whilst all other overheads are to be apportioned 80% to A, 15% to C and 5% to S.

#### TASKS

- Prepare an analysed profit statement. The profit statement must show the gross profits of C (the café) and S (the shop), and also the net profits of A (the attraction) and C and S. [10]
- Explain why budgetary control is important in regard to the management of a successful business. [10]

4. You are thinking of buying a hotel. You have carried out substantial research and have narrowed your choice to two possibilities – Hotel M or Hotel N. You have established the following future cash flows:

	Hotel M	Hotel N
	£	£
Initial cost	2,300,000	2,300,000
Net surplus returns:		
Year 1	650,000	550,000
Year 2	700,000	650,000
Year 3	800,000	850,000
Year 4	1,000,000	1,100,000
Year 5	1,000,000	1,200,000

The average cost of borrowing is 8%.

NPV (DCF) factors at 8%:

Year 0	1.000
Year 1	.926
Year 2	.857
Year 3	.794
Year 4	.735
Year 5	.681

#### TASKS

- Calculate the payback period for both Hotel M and Hotel N. [3]
- Calculate the accounting rate of return for Hotel M and Hotel N. [3]
- Calculate the NPV for Hotel M and Hotel N. [8]
- Explain which of the hotels you would invest in. [6]

5. Write notes on FOUR of the following:

- Stock control
- VAT
- A cash budget
- Bookkeeping
- Break-even point (BEP)
- Depreciation
- Provisions for doubtful debts

[5 each]