



ACCOUNTING, PURCHASING & COST CONTROL

Friday 9th June 2023

Time allowed

- You have 3 hours

Instructions

- Ensure that you pay particular attention to words in **bold**.
- Write the question number next to each answer in your answer booklet.
- You are **not** required to rewrite the question in your answer booklet.

Information

- Different questions may carry a different number of marks.
- Marks for each question are shown in [].

Advice

- Read each question carefully before you start to answer it.
- Use the full time permitted and check all your answers.

Materials

- Notes or books are **not** permitted.
- Non-programmable calculators are permitted.



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ANSWER FOUR QUESTIONS IN TOTAL
ANSWER QUESTION ONE AND ANY OTHER THREE QUESTIONS

1. Table 1 shows the trial balance for a limited company at 31st December 2022:

Table 1: Trial balance at 31st December 2022

	£	£
£1 Ordinary share capital		500,000
10% Debentures		100,000
Retained profits		60,000
Land and buildings at cost	485,000	
Fixtures and fittings at cost	200,000	
Fixtures and fittings – accumulated depreciation		40,000
Motor vehicles at cost	100,000	
Motor vehicles – accumulated depreciation		20,000
Sales		900,000
Inventory 1 st January 2022	55,000	
Purchases	400,000	
Accounts Receivable (debtors)	85,000	
Accounts Payable (creditors)		69,000
Rates and insurance	50,000	
General expenses	2,000	
Energy bills	30,000	
Audit fee	20,000	
Bad debt	2,000	
Directors' remuneration	63,000	
Debenture interest	10,000	
Salaries and wages	160,000	
Interim ordinary dividends	20,000	
Cash	2,000	
Bank	5,000	
Totals	1,500,000	1,500,000

Notes at 31st December 2022:

- Inventory was valued at £65,000
- Insurance prepaid £3,000
- Accruals for energy bills £1,000 and audit fee £2,000
- An additional bad debt of £1,000 to be written off
- Depreciation of fixtures and fittings at 20% on straight line and motor vehicles by 20% on reducing balance
- The directors wish to provide £20,000 for taxation
- The directors propose a final ordinary dividend of 9p per share

- (a) Prepare the income statement for the year ended 31st December 2022. [18 marks]
- (b) Prepare the statement of financial position at 31st December 2022. [18 marks]
- (c) Explain the going concern concept. [4 marks]

2. A hotel manager is preparing a flexible budget. Table 2 shows the flexible budget information and Table 3 shows the information for week 45:

Table 2: Flexible budget

Number of guests	100	200
Costs	£	£
Cost of food	2,000	4,000
Energy costs	500	1,000
Cleaning & laundry	1,000	2,000
Administration costs	3,250	3,250

Table 3: Week 45 (number of guests = 120)

Costs	£
Cost of food	2,500
Energy costs	700
Cleaning & laundry	1,400
Administration costs	3,150

- (a) Prepare a flexible budget for week 45. [8 marks]
- (b) Prepare a budgetary control statement for week 45 including the variances from the flexible budget prepared in question 2(a). [4 marks]
- (c) Discuss the use of a fixed budget and a flexible budget. [8 marks]
3. A production manager is considering an investment for a new product line with a 5-year expected life. Table 4 shows the projected net cashflows relating to the new investment proposal and Table 5 shows the discount factors at 20%:

Table 4: Project net cashflows

Year	Projected net cashflows (£)
1	450,000
2	525,000
3	825,000
4	750,000
5	800,000

Notes:

- Initial investment required (in year 0) is £1,620,000
- The company's cost of capital is 20%
- Maximum payback required is 3 years

Table 5: Discount factors at 20%

Year	Discount factors
1	0.833
2	0.694
3	0.579
4	0.482
5	0.402

- (a) (i) Calculate the payback period for the new investment. [3 marks]
- (ii) Suggest whether the investment should be accepted, including the reason for your suggestion. [3 marks]
- (b) (i) Calculate the net present value for the new investment. [6 marks]
- (ii) Suggest whether the investment should be accepted, including reasons for your suggestion. [4 marks]
- (c) Define what is meant by the technique 'internal rate of return'. [4 marks]

4. A restaurant operator plans to launch a new meal in its chain of restaurants. The selling price and cost relationships of the new meal are as follows:

Selling price and cost relationships

- Selling price per meal: £4.00
- Variable costs per meal: £1.60
- Fixed costs: £60,000 per month
- Maximum production/sales capacity: 35,000 meals per month
- Expected sales volume: 30,000 meals per month

- (a) Calculate the monthly breakeven sales volume. [4 marks]
- (b) Calculate the profit or loss from the expected monthly sales volume. [4 marks]
- (c) Calculate the margin of safety. [2 marks]
- (d) Explain what is meant by margin of safety. [4 marks]
- (e) Calculate the monthly sales volume required to make a profit of £16,800. [4 marks]
- (f) Explain what is meant by contribution. [2 marks]

5. A company had 200 units of a component in its stores at 1st April 2023. The purchase cost was valued at £50 per unit. Table 6 shows the purchases made over two months and Table 7 shows the issues made to the factory:

Table 6: Purchases made over two months

Date	Purchase
6 th April 2023	600 units @ £58 each
15 th April 2023	400 units @ £64 each
28 th April 2023	600 units @ £72 each
14 th May 2023	200 units @ £73 each

Table 7: Issues made to the factory

Date	Issue
10 th April 2023	400 units
18 th April 2023	600 units
12 th May 2023	200 units

- (a) Prepare the stores ledger account for the component using the weighted average cost (WAVCO) method. The account should show the receipts, issues and inventory in hand in both quantities and values. [14 marks]
- (b) Outline **two** alternative stock valuation methods. [6 marks]

END OF QUESTIONS