



ICM

SEPTEMBER 2017

ACCOUNTING, PURCHASING & COST CONTROL

Instructions to candidates:

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

1. You work as the accountant of a company called WPU Ltd and have just taken out the trial balance as at 31 August 2017:

	£dr	£cr
Sales		1,980,000
Purchases	1,240,000	
Inventory (01 09 16)	41,000	
Accounts receivable	77,000	
Accounts payable		35,000
Business rates and insurances	48,000	
Communication expenses	37,000	
Energy costs	59,000	
Misc. expenses	31,000	
Marketing expenses	43,000	
Audit fee	6,000	
Distribution costs	39,000	
Payroll costs	196,000	
Buildings at cost	450,000	
Equipment at cost	160,000	
Equipment depn. (01 09 16)		60,000
Bank	3,000	
Cash	1,000	
£1 Ordinary share capital		100,000
Profit and loss account (01 09 16)		256,000
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	2,431,000	2,431,000
	=====	=====

Notes at 31 August 2017:

- Inventory was valued at £42,000
- Business rates prepaid amounted to £2,000
- Payroll costs owing amounted to £5,000
- The directors have decided to write off £2,000 of the total accounts receivable as irrecoverable
- The equipment is to be depreciated by 20% on cost
- The directors wish to provide £38,000 for taxation

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2017. [12]
- b) Prepare the position statement (balance sheet) as at 31 August 2017. [12]
- c) Calculate the current ratio. [2]
- d) Calculate the acid test ratio. [2]
- e) Analyse the liquidity position of WPU Ltd. [6]
Note: The equivalent ratios at the end of the previous year were:
Current ratio – 2.2:1
Acid test ratio – 1.4:1
- f) Explain the principles of VAT (sales tax). [6]

continued overleaf

2. The following data relates to two leisurewear shops:

	A	B
	£000	£000
Sales in year (all on credit)	4,500	6,100
Cost of sales for the year	1,600	2,100
Total expenses for the year	2,700	3,000
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Opening inventory value	100	110
Closing inventory value	120	130
Closing total accounts receivable	130	140
Closing total current assets	160	190
Closing total current liabilities	75	95

TASKS

- a) For EACH company calculate the following:
- i The gross profit to sales percentage
 - ii The net profit to sales percentage
 - iii The stock turnover ratio in days
 - iv The debtor turnover ratio in days
 - v The expenses to sales percentage
 - vi The current ratio
 - vii The acid test ratio
- [2 each]
- b) Compare the financial performance of the two shops. [6]

3. a) You are in the process of organising an event (a wedding exhibition) at a well known historical venue. Most of the exhibitors will be charged (by you) to set up their exhibits. You have carried out research and have established the following data:

	£
Income from exhibitors	20,000
Cost of hiring the venue	(40,000)
Cost of hiring equipment	(3,000)
Insurance costs	(4,500)
Staffing costs	(2,500)
Advertising expenses	(5,000)
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The maximum possible capacity of the venue is 12,000 customers.

The budgeted number of customers (visitors) is 7,000.

Customers (visitors) will pay a standard ticket price on entry.

The budgeted standard ticket price has been set at £7.50.

TASKS

- i Calculate the budgeted cost per customer (visitor). [3]
 - ii Calculate the break-even number of customers (visitors). [3]
 - iii Calculate the profit or loss if the total number of customers (visitors) is 9,400. [4]
- b) An employee has worked 40 hours at £12.00 per hour, AND 6 hours of overtime at £15.00 per hour. The first £180.00 of these wages is tax free. The remainder is subject to statutory deductions amounting to 30% of the taxable pay.

TASKS

- i Calculate the gross pay. [2]
 - ii Calculate the net pay. [2]
- c) Outline the importance of stock control in the hospitality industry. [6]

4. You are planning to purchase a hotel. You have established the following cash flows:

	£
Initial cost	1,800,000
Net surplus returns:	
Year 1	400,000
Year 2	600,000
Year 3	800,000
Year 4	1,000,000
Year 5	700,000

The cost of borrowing is 9%.

The discount factor at 9% is:

Year 0	1.0000
Year 1	0.9174
Year 2	0.8417
Year 3	0.7722
Year 4	0.7084
Year 5	0.6499
Year 6	0.5963

TASKS

- a) Calculate the payback period. [2]
- b) Calculate the accounting rate of return. [2]
- c) Calculate the NPV. [4]
- d) Explain whether or not it would be a sound decision to complete the purchase of the hotel. [4]
- e) Discuss the benefits of budgetary control. [8]

5. Write notes on FOUR of the following:

- a) Variance analysis
- b) A partnership agreement
- c) Credit control
- d) The purpose of a trial balance
- e) Depreciation of fixed assets
- f) Spreadsheet applications in accounting
- g) Apportionment of overheads

[5 each]