



ACCOUNTING, PURCHASING & COST CONTROL

September 2019

Time allowed

Three hours

Instructions

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

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

- No other computer equipment, notes or books are permitted.
- For those exams for which numeracy skills are required:
 - a) Non-programmable calculators are permitted.
 - b) Data tables are included at the back of the paper if necessary.



ANSWER QUESTION 1 AND ANY THREE OTHER QUESTIONS.

Question 1 carries 40% of the marks, all other questions carry 20% of the marks.

1. The following trial balance was extracted from the books of City Hotel Ltd for the year ended 31/07/2018:

	£000	£000
Purchases and sales	1346	1950
Cash	4	
Inventory (1/08/2017)	85	
Accounts receivable and payable	82	66
Insurance	45	
Business rates	40	
Miscellaneous expenses	23	
Energy costs	44	
Audit fee	8	
Advertising	39	
Interest on long-term bank loan	5	
Land and buildings at cost	500	
Furniture and fittings at cost	150	
Furniture and fittings – accumulated depreciation		50
Bank	5	
Salaries and wages	182	
£1 Ordinary shares		250
5% long-term bank loan		110
Retained profit	-	<u>132</u>
Totals	<u>2558</u>	<u>2558</u>

Notes at 31/07/2018:

- Inventory was valued at £90000
- Insurance prepaid £4000; Wages owing £1000; Advertising expenses owing £3000
- Interest of £500 on the long-term bank loan to be accrued
- Bad debts of £3000 to be written off
- Furniture and fittings are to be depreciated at 20% on cost
- The directors wish to provide £44000 for taxation
- The directors propose a dividend of 12p per share

Required for City Hotel Ltd:

- (a) The income statement for the year ended 31/07/2018. **[15 marks]**
- (b) The statement of financial position as at 31/07/2018. **[15 marks]**
- (c) Under what circumstances may a business decide to undertake a revaluation of some or all of its non-current assets? **[10 marks]**

continued overleaf

2. The management of PDC plc is considering investing in three projects. The finance director has prepared the following estimates for the three projects A, B and C as follows:

Project	A	B	C
Cash flows in:			
Year 0	(60000)	(120000)	(180000)
Year 1	25000	50000	95000
Year 2	30000	70000	80000
Year 3	32000	80000	58000

The company's cost of capital is 10%.

Present value factors at 10% are:

Year	1	2	3
Present value factors	0.909	0.826	0.751

Required:

- (a) Rank the **three** projects in order of investment potential using the following methods:
- (i) Payback [6 marks]
 - (ii) Net present value [6 marks]
- (b) Critically evaluate the above methods. [8 marks]

3. Discuss the differences between **equity** and **debt** in the context of public listed companies. [20 marks]

4. Katie produces and sells luxury family meals online. One of these products marketed and on offer is Meal B2 and the following details relate to this product.

During the previous accounting period ending 30/06/2019 she sold 20000 meals. The product's unit selling price is £42 and its variable cost is £24. The annual fixed costs specific for this product line is £440000.

In July 2019, Katie increased the selling price of Meal B2 to £45 per meal in an attempt to improve profitability. The annual fixed costs have increased by 4% and she was able to negotiate a discount on the cost of materials for bulk buying which will reduce variable costs per meal by 2%. Despite the increase in the selling price, the sales volume is expected to remain the same at 20000 meals.

Required:

- (a) Calculate the total contribution for the year ended 30/06/2019. [3 marks]
- (b) Calculate the contribution to sales ratio for the year ended 30/06/2019. Explain the significance of your answer. [5 marks]
- (c) Prepare a statement to show the expected total contribution and the resulting net profit or loss for the year ended 30/06/2020. [6 marks]
- (d) Explain **two** other actions that Katie could take to improve profitability. [6 marks]

5. (a) Describe **two** limitations of break-even analysis as an aid to decision making. [5 marks]
- (b) State the uses of budgets. [5 marks]
- (c) Recommend and discuss the solutions that can be used to overcome the problem of overtrading. [5 marks]
- (d) Explain the accruals basis of accounting. [5 marks]

END OF QUESTIONS