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# ACCOUNTING II

December 2019

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## 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 in which numeracy skills are required:
  - a) Non-programmable calculators are permitted.
  - b) All data tables are included at the back of the paper if necessary.



ICM

**ANSWER FIVE QUESTIONS FROM SEVEN.**

✓ 1.

The following trial balance has been taken from the accounts of Storm Limited as at 31 Oct 2019:

	£	£
Turnover		9200000
Purchases	5800000	
Stock (inventory) (01.11.2018)	1500000	
General expenses	48000	
Advertising	275000	
Professional fees	35000	
Salaries and wages	1800000	
Interest paid	30000	
Insurance	8000	
Energy costs	110000	
Provision for doubtful debts		39000
Accounts payable		925000
Accounts receivable	846000	
Premises	3150000	
Equipment	880000	
Depreciation of equipment		480000
Ordinary share capital £1		200000
Profit and loss a/c bal (01.11.2018)		3815000
Long-term loan payable		600000
Dividend paid	550000	
Bank	227000	
	<u>15259000</u>	<u>15259000</u>

Notes at 31 Oct 2019:

- Stock (inventory) is valued at £1550000
  - The directors wish to provide £160000 for corporation tax
  - The equipment is to be depreciated by 20% pa on cost
  - Salaries and wages owing amounted to £170000
  - Professional fees of £7000 are to be accrued
  - Advertising costs of £38000 have been prepaid
- (a) Prepare the income statement (profit and loss account) for the year end 31 Oct 2019.
- (b) Prepare the position statement (balance sheet) as at 31 Oct 2019.

**[11 marks]**

**[9 marks]**

- ✓ 2. The following are the receipts and payments relating to Minogue, for the year ended 30 June 2019:

	£	£
Receipts from debtors (accounts receivable)	744000	
Receipts from cash customers	42000	
Payments to creditors (accounts payable)	569000	
Cash purchases	19000	
Rent paid	26000	
Rates paid	3000	
Wages paid	69250	
Payment for equipment	26000	
Insurance paid	12500	
Sundry payments	14800	
Drawings	46500	
Minogue's assets and liabilities were	01 07 2018	30 06 2019
Balance at bank	25000	?
Debtors (accounts receivable)	52000	58000
Creditors (accounts payable)	35000	32000
Wages owing	6200	6000
Insurance prepaid	2000	2500
Equipment (original cost £200000)	160000	?
Inventory (stock)	52500	49000

Equipment is to be depreciated at 20% on cost.

- Prepare the cash book for the year ended 30 June 2019. [4 marks]
- Compute the sales and purchases for the year ended 30 June 2019. [4 marks]
- Prepare Minogue's income statement (profit and loss account) for the year ended 30 June 2019. [6 marks]
- State Minogue's current assets and current liabilities as they would appear in the position statement (balance sheet) as at 30 June 2019. [6 marks]

- ✓ 3. Explain the following:

- Company directors [4 marks]
- Loan notes [8 marks]
- Share capital [6 marks]
- The income statement (profit and loss account) [2 marks]



4. Dave and Fredo are in partnership. Interest is allowed on capital and on the opening current account balances at 5% pa. Dave is to be credited with a salary of £65000 in recognition of extra duties. Interest is charged on drawings (see note). Dave and Fredo agree to share profits equally. The following trial balance was drawn up on 30 November 2019:

		£	£
Capital accounts –	Dave		120000
	Fredo		120000
Current accounts –	Dave		20000
	Fredo		40000
Drawings –	Dave	85000	
	Fredo	56000	
Purchases		495000	
Sales			1178000
Professional fees		22000	
Salaries		242000	
Insurance		24000	
Communication costs		32000	
Bad debts written off		12000	
Inventory (stock) (01.12.2018)		62000	
Equipment at cost		450000	
Debtors (accounts receivable)		169000	
Creditors (accounts payable)			129000
Bank overdraft			42000
		<u>1649000</u>	<u>1649000</u>

Notes at 30 November 2019:

- Inventory (stock) was valued at £59000
  - Communication costs prepaid amounted to £5000
  - Salaries owing amounted to £19000
  - Equipment is to be depreciated at 25% on cost
  - A £9000 provision for doubtful debt is to be provided for
  - Both partners are to be charged £2500 interest in drawings
- (a) Prepare the firm's income statement (trading profit and loss account), including the appropriation section for the year ended 30 November 2019. **[9 marks]**
- (b) Prepare the partners' current accounts for the year ended 30 November 2019. **[4 marks]**
- (c) Prepare the firm's position statement (balance sheet) as at 30 November 2019. **[7 marks]**

- ✓ 5. You have obtained the following information in respect of Pyramid Limited:

	£000		£000
Sales (all credit)	4200	Cost of sales	2950
Administration expenses	425	Distribution costs	350
Interest paid	75	Provision for taxation	120
Proposed dividend	325	Value of fixed assets	900
Closing stock	140	Opening stock (inventory)	120
Closing debtors (accounts receivable)	360	Closing bank balance	90
Closing creditors (accounts payable)	210	Issued ordinary share capital (£1)	1000

- (a) Prepare a summarised income statement (profit and loss account) for the year. [4 marks]
- (b) Calculate the following ratios:
- (i) Gross profit to sales percentage [2 marks]
  - (ii) Operating profit (PBIT) as a percentage of sales [2 marks]
  - (iii) Dividend cover [2 marks]
  - (iv) The accounts payable (creditors) period in days [2 marks]
  - (v) The accounts receivable (debtor) collection period in days [2 marks]
  - (vi) Stock (inventory) turnover [2 marks]
  - (vii) The total expenses as a percentage of sales [2 marks]
  - (viii) The current ratio [2 marks]

6. (a) Explain the difference between **revenue expenditure** and **capital expenditure** and include **two** examples of **each**. [10 marks]
- (b) Explain what is meant by **depreciation** and provide **two** depreciation methods. [5 marks]
- (c) Gallagher Limited started in business on 01 October 2018. You are to write up the equipment account and provision for depreciation account for the year ended 30 September 2019. Depreciation is at the rate of 25% per annum on cost and is charged for each full month of ownership.

01 October 2018 – Bought equipment for £36000

01 December 2018 – Bought equipment for £48000

01 April 2019 – Bought equipment for £18000

[5 marks]

7. (a) You have been provided with the following accounting data for Marr Limited and have been asked to comment on its financial performance.

[12 marks]

Summary results:

	2017	2018	2019
Sales	596	668	733
COS	<u>432</u>	<u>465</u>	<u>486</u>
Gross profit	<b>164</b>	<b>203</b>	<b>247</b>
Expenses	<u>108</u>	<u>128</u>	<u>155</u>
Net profit	<u><b>56</b></u>	<u><b>75</b></u>	<u><b>92</b></u>

	2017	2018	2019
The gross profit percentage	28%	30%	34%
The net profit percentage	9%	11%	13%
The expenses to sales percentage	18%	19%	21%
The debtor collection period in days	30	28	27
The stock turnover period in days	27	28	29
The creditor payment period in days	28	29	32

- (b) What additional information would you request to help make a more detailed report?
- (c) Describe what is meant by **materiality** in accounting.

[4 marks]

[4 marks]

END OF QUESTIONS