



ICM

JUNE 2017

ACCOUNTING II

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 any FIVE questions
- All questions carry equal marks. Marks for each question are shown in []
- Non-programmable calculators are permitted in this examination

- The following trial balance has been taken from the books of Brownley Ltd as at 31 May 2017:

	£	£
Turnover		2,372,000
Purchases	1,564,000	
Stock (inventory) (01 06 16)	160,000	
Postage and stationery	42,000	
Rent, rates and insurance	68,000	
Advertising	135,000	
Heating and lighting	62,000	
Auditor's fee	15,000	
Salaries	221,000	
Debenture interest	5,000	
Wages	127,000	
Creditors (amounts payable)		147,000
Provision for doubtful debts		17,000
Equipment at cost	500,000	
Depreciation of equip. (01 06 16)		120,000
Debentures (5%)		200,000
Ordinary share capital (£1)		150,000
Profit and loss a/c bal. (01 06 16)		87,000
Debtors (amounts receivable)	201,000	
Bank balance		7,000
	-----	-----
	3,100,000	3,100,000
	=====	=====

Notes at 31 May 2017:

- Stock is valued at £146,000
- Salaries owing amounted to £18,000
- Insurance prepaid amounted to £8,000
- The provision for doubtful debts is to be reduced to £14,000
- The equipment is to be depreciated by 20% pa on cost
- The directors wish to provide £2,000 for corporation tax
- The directors have declared an ordinary dividend of 4p per share

TASKS

- Prepare the income statement (profit and loss account) for the year ended 31 May 2017. [11]
- Prepare the position statement (balance sheet) as at 31 May 2017. [9]

continued overleaf

2. Bradley and Taylor are in partnership. Interest is allowed on capital and on the opening current account balances at 4% pa. Bradley is to be credited with a salary of £35,000 in recognition of extra duties. Interest is charged on drawings (see note). Bradley and Taylor agree to share profits equally. The following trial balance was drawn up on 31 May 2017:

	£	£
Capital accounts – Bradley		150,000
Taylor		150,000
Current accounts – Bradley		40,000
Taylor		10,000
Drawings – Bradley	50,000	
Taylor	40,000	
Purchases	327,000	
Sales		776,000
Postage and stationery	15,000	
Staff wages	130,000	
Rent and insurance	32,000	
General expenses	16,000	
Bad debts written off	2,000	
Stock (inventory) (01 06 16)	40,000	
Equipment at cost	280,000	
Premises	159,000	
Debtors (amounts receivable)	78,000	
Creditors (amounts payable)		41,000
Cash and bank	6,000	
Prov. for doubtful debts		8,000
	-----	-----
	1,175,000	1,175,000
	=====	=====

Notes at 31 May 2017:

- Stock (inventory) was valued at £32,000
- Staff wages owing amounted to £6,000
- Insurance prepaid amounted to £7,000
- Equipment is to be depreciated at 20% on cost
- The provision for doubtful debts is to be increased by £2,000
- BOTH partners are to be charged £1,200 interest on drawings

TASKS

- Prepare the firm's income statement (trading and profit and loss account), including the appropriation section for the year ended 31 May 2017. [9]
- Prepare the partners' current accounts for the year ended 31 May 2017. [4]
- Prepare the firm's position statement (balance sheet) as at 31 May 2017. [7]

3. You have obtained the following information in respect of O'Driscall Ltd:

	£000		£000
Sales (all credit)	2,400	Cost of sales	1,100
Administration expenses	420	Distribution costs	330
Interest paid	30	Provision for taxation	100
Proposed dividend	170	Value of fixed assets	900
Closing stock	80	Opening stock	90
Closing debtors	250	Closing bank balance	20
Closing creditors	130	Issued ordinary share capital (£1)	500

TASKS

- Prepare a summarised profit and loss account for the year. [4]
- Calculate the following ratios:
 - Gross profit to sales percentage [2]
 - Operating profit (PBIT) as a percentage of sales [2]
 - The earnings per share (EPS) [2]
 - The stock turnover period in days [2]
 - The debtor collection period in days [2]
 - The total expenses as a percentage of sales [2]
- State how you would judge whether these ratios are reasonable. [4]

continued overleaf

4. The summarised financial statements of BestMan Ltd for 2016 and 2017 were as follows:

Balance sheets as at 31 May:

	2016		2017	
	£000	£000	£000	£000
Fixed assets at cost	40,000		45,000	
Depreciation	(22,000)	18,000	(33,000)	12,000
Current assets (non-fixed assets)				
Stock (inventory)	14,000		17,000	
Debtors (amounts receivable)	15,000		14,000	
Bank	--		6,000	
	-----		-----	
	29,000		37,000	
	-----		-----	
Current liabilities				
Creditors (amounts payable)	6,000		8,000	
Taxation	5,000		7,000	
Dividends	8,000		3,000	
Bank	2,000		--	
	-----		-----	
	21,000		18,000	
	-----		-----	
Working capital		8,000		19,000
Long-term loans		(5,000)		--
		-----		-----
		21,000		31,000
		-----		-----
Capital and reserves:				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		11,000		21,000
		-----		-----
		21,000		31,000
		-----		-----

BestMan Ltd's income statement (profit and loss account) for the year ended 31 May 2017:

	£000
Operating profit	20,400
Interest paid	(400)

Profit before tax	20,000
Taxation	(7,000)

Profit after tax	13,000
Dividend	(3,000)

Retained profit	10,000

TASKS

- a) Prepare a cash flow statement for BestMan Ltd for the year ended 31 May 2017. [10]
 - b) Comment on the change in liquidity between the two balance sheets, credit will be given for the use of ratios and identification of sources of cash. [10]
- 5.
- a) Explain why spreadsheets are so widely used by accountants. [10]
 - b) Explain the main differences between the financial statements of non-profit-orientated organisations and those of profit-orientated organisations. [10]

continued overleaf

6. The following balances as at 31 May 2017 have been extracted from the accounting records of Moore Ltd:

	£
Raw material in stock at 01 06 16	12,000
Raw material purchases	140,000
Carriage inwards	5,000
Direct labour	140,000
Indirect factory labour	79,000
Factory power (indirect)	30,000
Insurance of production equipment	15,000
Depreciation of production equipment	55,000
Other production overheads	40,000
WIP at 01 06 16	38,000
Finished goods stock at 01 06 16	50,000
Sales	890,000
Distribution costs	160,000
Administration expenses	110,000
Raw material in stock at 31 05 17	15,000
WIP at 31 05 17	29,000
Finished goods stock at 31 05 17	46,000

TASKS

- a) Prepare the manufacturing account for the year ended 31 May 2017. [7]
- b) Write notes on the following:
 - i An aged debtor schedule [4]
 - ii The use of a suspense account [4]
 - iii The accounting treatment of subscriptions for a sports club [5]

7. The following are the records of a business which has not kept a full set of accounts:

Assets and liabilities	£	£
	01 06 16	31 05 17
Fixed assets (book value)	121,000	?
Debtors (amounts receivable)	36,000	31,000
Creditors (amounts payable)	22,000	27,000
Stock (inventory)	29,000	24,000
Wages owing	5,000	8,000
Prepaid insurance	500	600
Balance at bank	4,000	?

Summary of the bank transactions in the year:

	Payments	Receipts
	£	£
Purchase of new fixed assets	37,000	
Wages	99,000	
Insurance	8,000	
Rent and rates	15,000	
Postage and telephones	19,000	
Payments to suppliers	197,000	
Misc. expenses	12,000	
Drawings	38,000	
Receipts from debtors		405,000

It has been decided to depreciate fixed assets by 20%.

TASKS

- a) Calculate the opening capital. [2]
- b) Calculate the bank balance as at 31 May 2017. [3]
- c) Calculate the total amount of sales for the year. [2]
- d) Calculate the total amount of purchases for the year. [2]
- e) Prepare the income statement (trading and profit and loss account) for the year ended 31 May 2017. [6]
- f) Prepare the position statement (balance sheet) as at 31 May 2017. [5]