



ACCOUNTING II

Monday 6th March 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.



ICM

ANSWER ANY FIVE QUESTIONS FROM THE FOLLOWING EIGHT QUESTIONS

1. Table 1 shows the trial balance taken from the accounts of a limited company at 31st January 2022:

Table 1: Trial balance at 31st May 2022

	£	£
Turnover		9,200,000
Purchases	5,800,000	
Stock (inventory) (1 st February 2022)	1,500,000	
General expenses	48,000	
Advertising	275,000	
Professional fees	35,000	
Salaries and wages	1,800,000	
Interest paid	30,000	
Insurance	8,000	
Energy costs	110,000	
Provision for doubtful debts		39,000
Accounts payable		925,000
Accounts receivable	846,000	
Premises	3,150,000	
Equipment	880,000	
Depreciation of equipment		480,000
Ordinary share capital £1		200,000
Profit and loss a/c bal (1 st February 2022)		3,815,000
Long-term loan payable		600,000
Dividend paid	550,000	
Bank	227,000	
	15,259,000	15,259,000

Notes at 31st January 2023:

- Stock (inventory) is valued at £1,550,000
- The directors will provide £160,000 for corporation tax
- The equipment is to be depreciated by 20% pa on cost
- Salaries and wages owing amounted to £170,000
- Professional fees of £7,000 are to be accrued
- Advertising costs of £38,000 have been prepaid

- (a) Prepare the income statement (profit and loss account) for the year end 31st January 2023.
- (b) Prepare the position statement (balance sheet) at 31st January 2023.

[11 marks]

[9 marks]

2. Table 2 shows the receipts and payments relating to a company for the year ended 31st January 2023:

Table 2: Receipts and payments

Receipts and payments:	£	£
Receipts from debtors (accounts receivable)	744,000	
Receipts from cash customers	42,000	
Payments to creditors (accounts payable)	569,000	
Cash purchases	19,000	
Rent paid	26,000	
Rates paid	3,000	
Wages paid	69,250	
Payment for equipment	26,000	
Insurance paid	12,500	
Sundry payments	14,800	
Drawings	46,500	
The company's assets and liabilities were:	1st February 2022	31st January 2023
Balance at bank	25,000	X
Debtors (accounts receivable)	52,000	58,000
Creditors (accounts payable)	35,000	32,000
Wages owing	6,200	6,000
Insurance prepaid	2,000	2,500
Equipment (original cost £200,000)	160,000	X
Inventory (stock)	52,500	49,000

Note:

- Equipment is to be depreciated at 20% on cost

- (a) Prepare the cash book for the year ended 31st January 2023. [4 marks]
- (b) Calculate the sales and purchases for the year ended 31st January 2023. [4 marks]
- (c) Prepare the income statement (profit and loss account) for the year ended 31st January 2023. [6 marks]
- (d) State the company's current assets and current liabilities for the position statement (balance sheet) at 31st January 2023. [6 marks]
3. Explain what is meant by each of the following in the context of accounting:
- (a) Company directors [4 marks]
- (b) Loan notes [8 marks]
- (c) Share capital [6 marks]
- (d) The income statement (profit and loss account) [2 marks]

4. Alex and Blake are in partnership. Interest is allowed on capital and on the opening current account balances at 5% pa. Alex is to be credited with a salary of £65,000 in recognition of extra duties. Interest is charged on drawings (see notes). Alex and Blake agree to share profits equally. Table 3 shows the trial balance drawn up on 30th November 2022:

Table 3: Trial balance at 30th November 2022

		£	£
Capital accounts:	Alex		120,000
	Blake		120,000
Current accounts:	Alex		20,000
	Blake		40,000
Drawings:	Alex	85,000	
	Blake	56,000	
Purchases		495,000	
Sales			1,178,000
Professional fees		22,000	
Salaries		242,000	
Insurance		24,000	
Communication costs		32,000	
Bad debts written off		12,000	
Inventory (stock) (1 st December 2021)		62,000	
Equipment at cost		450,000	
Debtors (accounts receivable)		169,000	
Creditors (accounts payable)			129,000
Bank overdraft			42,000
		1,649,000	1,649,000

Notes:

- Inventory (stock) was valued at £59,000
- Communication costs prepaid amounted to £5,000
- Salaries owing amounted to £19,000
- Equipment is to be depreciated at 25% on cost
- A £9,000 provision for doubtful debt is to be provided for
- Both partners are to be charged £2,500 interest in drawings

- (a) Prepare the company's income statement (trading profit and loss account), including the appropriation section for the year ended 30th November 2022. [9 marks]
- (b) Prepare the partners' current accounts for the year ended 30th November 2022. [4 marks]
- (c) Prepare the company's position statement (balance sheet) at 30th November 2022. [7 marks]

5. Table 4 shows information relating to the accounts of a limited company:

Table 4: Accounting information

	£
Sales (all credit)	4,200,000
Administration expenses	425,000
Interest paid	75,000
Proposed dividend	325,000
Closing stock	140,000
Closing debtors (accounts receivable)	360,000
Closing creditors (accounts payable)	210,000
Cost of sales	2,950,000
Distribution costs	350,000
Provision for taxation	120,000
Value of fixed assets	900,000
Opening stock (inventory)	120,000
Closing bank balance	90,000
Issued ordinary share capital (£1)	1,000,000
Cost of sales	2,950,000

- (a) Prepare a summarised income statement (profit and loss account) for the year. [4 marks]
- (b) Calculate each of 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) Accounts payable (creditors) period in days [2 marks]
 - (v) Accounts receivable (debtor) collection period in days [2 marks]
 - (vi) Stock (inventory) turnover [2 marks]
 - (vii) Total expenses as a percentage of sales [2 marks]
 - (viii) Current ratio [2 marks]
6. (a) Explain the difference between revenue expenditure and capital expenditure. Use examples to support your explanation. [10 marks]
- (b) State **two** methods of depreciation. [2 marks]
- (c) Explain what is meant by depreciation. [3 marks]
- (d) Table 5 shows information relating to a limited company which began operating 1st February 2022:

Table 5: Company information

Date	Transaction
1 st February 2022	Bought equipment for £36,000
1 st April 2022	Bought equipment for £48,000
1 st August 2022	Bought equipment for £18,000

Note:

- Depreciation is at the rate of 25% per annum on cost and is charged for each full month of ownership

Prepare the equipment account and provision for depreciation account for the year ended 31st January 2023.

[5 marks]

7. (a) Table 6 and Table 7 show accounting data provided for a limited company:

Table 6: Summary results

	2020	2021	2022
Sales	596	668	733
COS	432	465	486
Gross profit	164	203	247
Expenses	108	128	155
Net profit	56	75	92

Table 7: Performance ratios

	2020	2021	2022
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

Analyse the limited company's financial performance.

[12 marks]

- (b) Suggest the additional information that could be requested from the limited company to prepare a more detailed report.
- (c) Explain what is meant by 'materiality' in the context of accounting.

[4 marks]

[4 marks]

END OF QUESTIONS