



ICM

SEPTEMBER 2016

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 Jacobs Ltd as at 31 August 2016:

	£	£
Turnover		2,230,000
Purchases	1,110,000	
Stock (inventory) (01 09 15)	130,000	
Postage and stationery	44,000	
Rent, rates and insurance	69,000	
Advertising	116,000	
Heating and lighting	52,000	
Auditor's fee	12,000	
Salaries	203,000	
Debenture interest	3,000	
Wages	245,000	
Creditors (amounts payable)		130,000
Provision for doubtful debts		17,000
Equipment at cost	580,000	
Depreciation of equip. (01 09 15)		95,000
Debentures (6%)		100,000
Ordinary share capital (£1)		100,000
Profit and loss a/c bal (01 09 15)		122,000
Debtors (amounts receivable)	234,000	
Bank balance (overdrawn)		4,000
	-----	-----
	2,798,000	2,798,000
	=====	=====

Notes at 31 August 2016:

- Stock is valued at £114,000
- Salaries owing amounted to £14,000
- Insurance prepaid amounted to £6,000
- The provision for doubtful debts is to be reduced to £12,000
- The equipment is to be depreciated by 20% pa on Net Present Value
- The directors wish to provide £80,000 for Corporation Tax
- The directors have declared an ordinary dividend of 77p per share

TASKS

- Prepare the income statement (profit and loss account) for the year ended 31 August 2016. [11]
- Prepare the position statement (balance sheet) as at 31 August 2016. [9]

continued overleaf

2. The following are the records of the Lower Pinkerton Snooker Club which has not kept a full set of accounts:

Assets and liabilities	01 Sep 15	31 Aug 16
	£	£
Fixed assets (book value)	150,000	?
Investments (long-term)	10,000	10,000
Debtors (accounts receivable – bar)	4,000	3,500
Creditors (bar purchases)	7,000	7,700
Bar stock	5,000	4,100
Wages (bar staff) owing	500	700
Prepaid insurance	3,000	5,000
Balance at bank	4,500	?
Subscriptions outstanding	800	1,100

Summary of the bank transactions in the year:

	Payments	Receipts
	£	£
Purchase of fixed assets	20,000	
Wages (bar staff)	32,000	
Insurance	12,000	
Rent and rates	15,000	
Postage and stationery	1,500	
Payments to suppliers (bar)	84,000	
Sundry expenses	2,100	
Bar sales		186,000
Subscriptions received		20,000
Investment income		400

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

TASKS

- Calculate the accumulated fund as at 01 Sep 2015. [2]
- Calculate the bank balance as at 31 Aug 2016. [2]
- Prepare the bar trading account for the year ended 31 Aug 2016. [4]
- Prepare the income and expenditure account for the year ended 31 Aug 2016. [6]
- Prepare the balance sheet (position statement) as at 31 Aug 2016. [6]

3. The following details have been obtained from the final accounts of Spock plc for the last three years:

Year ended 31 Aug	2014	2015	2016
	£m	£m	£m
Sales all on credit	180	210	240
Cost of sales	90	105	115
Total expenses	60	75	90
Closing debtors	19	21	21
Average stock	12	14	18
Total purchases (all on credit)	90	109	117
Closing creditors	8	10	14

TASKS

- Prepare the summarised profit and loss account for EACH of the three years. [2]
- Calculate for EACH of the three years:
 - The gross profit percentage
 - The net profit percentage
 - The expenses to sales percentage
 - The debtor collection period in days
 - The stock turnover period in days
 - The creditor payment period in days [8]
- Demonstrate your understanding by commenting on the ratios you have calculated. [10]

continued overleaf

4. The summarised financial statements of Karenis Ltd for 2015 and 2016 were as follows:

Karenis Ltd position statements (balance sheets) as at 31 August

	2015		2016	
	£000	£000	£000	£000
Fixed assets at cost	31,000		38,000	
Depreciation	(14,000)	17,000	(25,000)	13,000
Current assets (non-fixed assets)				
Stock (inventory)	13,000		11,000	
Debtors (amounts receivable)	10,000		11,000	
Bank	-		-	
	-----		-----	
	23,000		22,000	
	-----		-----	
Current liabilities				
Overdraft	3,000		5,000	
Creditors (amounts payable)	6,000		3,000	
Taxation	3,000		2,000	
Dividends	4,000		5,000	
	-----		-----	
	16,000		15,000	
	-----		-----	
Working capital		7,000		7,000
Long-term loans		(6,000)		
		-----		-----
		18,000		20,000
		-----		-----
Capital and reserves;				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		8,000		10,000
		-----		-----
		18,000		20,000
		-----		-----

Karenis Ltd income statement (profit and loss account) for the year ended 31 August 2016:

	£000
Operating profit	10,200
Interest paid	(1,200)

Profit before tax	9,000
Taxation	(2,000)

Profit after tax	7,000
Dividend	(5,000)

Retained profit	2,000

TASKS

- a) Prepare a cash flow statement for Karenis Ltd for the year ended 31 August 2016. [10]
 - b) Calculate the following for year ended 31 August 2016:
 - i EPS
 - ii Dividend Cover [2 each]
 - c) Comment on the financial performance during the year ended 31 August 2016. [6]
- 5.
- a) Explain the main differences between the financial statements of non-profit orientated organisations and those of profit orientated organisations. [6]
 - b) Explain the term '**materiality**' as it is used in accounting. [6]
 - c) List the main parts of the accounting cycle. [8]

continued overleaf

6. Brown and Hewit are in partnership. Interest is allowed on capital and on the opening current account balances at 5% pa. Brown is to be credited with a salary of £20,000 in recognition of extra duties. Interest is charged on drawings (see note). Brown and Hewit agree to share profits and losses equally. The following trial balance was drawn up on 31 August 2016:

	£	£
Capital accounts – Brown		70,000
Hewit		70,000
Current accounts – Brown		12,000
Hewit		4,000
Drawings – Brown	30,000	
Hewit	21,000	
Purchases	292,000	
Sales		720,000
Postage and stationery	12,000	
Staff wages	76,000	
Rent and insurance	22,000	
General expenses	6,000	
Bad debts written off	7,000	
Stock (inventory) (01 09 15)	43,000	
Equipment at cost	350,000	
Debtors (amounts receivable)	69,000	
Creditors (amounts payable)		41,000
Cash and bank		7,000
Prov. for doubtful debts		4,000
	-----	-----
	928,000	928,000
	=====	=====

Notes at 31 August 2016:

- Stock (inventory) was valued at £35,000
- Staff wages owing amounted to £5,000
- Insurance prepaid amounted to £3,000
- Equipment is to be depreciated at 20% on cost
- The provision for doubtful debts is to be increased to £9,000
- BOTH partners are to be charged £1,000 each, 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 August 2016. [9]
 - Prepare the partners' current accounts for the year ended 31 August 2016. [4]
 - Prepare the firm's position statement (balance sheet) as at 31 August 2016. [7]
- 7.
- Control Accounts are used mainly for debtors and creditors. Explain:
 - why it may be appropriate to use control accounts [4]
 - the advantages of using them [4]
 - Explain the need for a Bank Reconciliation Statement. [4]
 - List FOUR typical uses of The Journal. [4]
 - Clearly explain 'The Sum of the years' digits method' of depreciation, with a worked example. [4]