



# ICM

SEPTEMBER 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 accounts of Carter Ltd as at 31 August 2017:

	£000	£000
Turnover		1,600
Purchases	960	
Stock (inventory) (01 09 16)	76	
Postage, telephone, fax expenses	32	
Rent, rates and insurance	54	
Advertising	40	
Gas and electric	48	
Wages and salaries	256	
Debenture interest paid	3	
Debtors (amounts receivable)	180	
Creditors (amounts payable)		86
Cash and bank (overdrawn)		15
5% Debentures (repayable 2022)		120
Equipment at cost	400	
Depreciation of equip. (01 09 16)		180
Provision for doubtful debts (01 09 16)		14
£1 Ordinary share capital		200
Premises	400	
Depreciation of premises (01 09 16)		84
Profit and loss account (01 09 16)		150
	-----	-----
	2449	2449
	=====	=====

Notes at 31 August 2017:

- |   |      |
|---|------|
|   | £000 |
| • Stock (inventory) is valued at                                    | 64   |
| • Wages owing amounted to   | 6    |
| • Rates prepaid amounted to   | 4    |
| • The provision for doubtful debts is to be increased to 10%        |      |
| • The equipment is to be depreciated by 30% on the reducing balance |      |
| • The premises are to be depreciated by 2% on cost                  |      |
| • The directors wish to provide 24 (£000) for taxation              |      |
| • The directors have declared an ordinary dividend of 6p per share  |      |

**TASKS**

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

*continued overleaf*

2. Arundel's summarised receipts and payments for year ended 31 August 2017 were as follows:

	£	
Receipts from cash customers	74,000	
Receipts from debtors (accounts receivable)	534,000	
Cash purchases	25,000	
Payments to creditors (accounts payable)	350,000	
Wages paid	68,000	
Rent and rates paid	19,200	
Purchase of equipment	60,000	
Sundry payments	9,800	
Drawings	45,000	
Insurance paid	10,500	
Arundel's assets and liabilities were:	On 01 09 16	On 31 08 17
	£	£
Balance at bank	5,000	?
Creditors (amounts payable)	30,000	37,000
Debtors (amounts receivable)	59,000	48,000
Wages owing	1,900	2,800
Insurance prepaid	1,800	2,500
Equipment	100,000	?
Stock (inventory)	27,000	35,000

Arundel has decided to depreciate the equipment by 25% of the total closing value.

#### TASKS

- Prepare the cash book for the year ended 31 August 2017. [4]
- Compute the sales and purchases for the year ended 31 August 2017. [4]
- Prepare Arundel's income statement (profit and loss account) for the year ended 31 August 2017. [6]
- State Arundel's current assets and current liabilities as they would appear in the position statement (balance sheet) as at 31 August 2017. [6]

3. You have obtained the following information in respect of Chesterfield Ltd:

	£000
Sales (all credit)	1,800
Cost of sales	800
Administration expenses	350
Distribution costs	250
Interest paid	20
Provision for taxation	80
Proposed dividend	70
Closing value of fixed assets	900
Closing stock	80
Opening stock	70
Closing debtors	175
Closing cash/bank balance	30
Closing creditors	85
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
  - Operating profit (PBIT) as a percentage of sales
  - The earnings per share (EPS)
  - The stock turnover period in days
  - The debtor collection period in days
  - The total expenses as a percentage of sales
  - The current ratio
  - The acid test [2 each]

4. Sundance and Cassidy are in partnership. Interest is allowed on capital and on the opening current account balances at 3% pa. Sundance is to be credited with a salary of £25,000 in recognition of extra duties. Interest is charged on drawings (see note). Sundance and Cassidy agree to share profits equally. The following trial balance was drawn up on 31 August 2017:

	£	£
Capital accounts – Sundance		100,000
Cassidy		100,000
Current accounts – Sundance		10,000
Cassidy		10,000
Drawings – Sundance	60,000	
Cassidy	24,000	
Purchases	380,000	
Sales		790,000
Postage and stationery	12,000	
Staff wages	120,000	
Rent and insurance	29,000	
General expenses	16,000	
Bad debts written off	5,000	
Stock (inventory) (01 09 16)	44,000	
Equipment at cost	280,000	
Debtors (amounts receivable)	80,000	
Creditors (amounts payable)		39,000
Cash and bank	3,000	
Prov. for doubtful debts		4,000
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	1,053,000	1,053,000
	=====	=====

Notes at 31 August 2017:

- Stock (inventory) was valued at £50,000
- Staff wages owing amounted to £3,000
- Insurance prepaid amounted to £1,000
- Equipment is to be depreciated at 20% on cost
- The provision for doubtful debts is to be increased to £7,000
- Interest on drawings to be charged: Sundance £1,500, Cassidy £600

#### TASKS

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

5. The following balances as at 31 August 2017 have been extracted from the accounting records of Zentek Ltd:

	£
Raw material in stock at 01 09 16	10,000
Raw material purchases	130,000
Carriage inwards	6,000
Direct labour	120,000
Indirect factory labour	69,000
Factory power (indirect)	30,000
Insurance of production equipment	35,000
Depreciation of production equipment	45,000
Other production overheads	30,000
WIP at 01 09 16	34,000
Finished goods stock at 01 09 16	50,000
Sales	810,000
Distribution costs	150,000
Administration expenses	95,000
Raw material in stock at 31 08 17	15,000
WIP at 31 08 17	29,000
Finished goods stock at 31 08 17	42,000

#### TASKS

- Prepare the manufacturing account for the year ended 31 August 2017. [7]
- Prepare the trading and profit and loss account for the year ended 31 August 2017. [6]
- Compare and contrast financial and management accounting. [7]

*continued overleaf*

6. The summarised financial statements of Yellop Ltd for 2016 and 2017 were as follows:

Yellop Ltd position statements (balance sheets) as at 31 August:

	2016		2017	
	£000	£000	£000	£000
Fixed assets at cost	30,000		35,000	
Depreciation	(14,000)	16,000	(19,000)	16,000
Current assets (non-fixed assets)				
Stock (inventory)	12,000		10,000	
Debtors (amounts receivable)	12,000		15,000	
Bank	5,000		13,000	
	-----		-----	
	29,000		38,000	
	-----		-----	
Current liabilities				
Creditors (amounts payable)	6,000		2,000	
Taxation	5,000		6,000	
Dividends	7,000		8,000	
	-----		-----	
	18,000		16,000	
	-----		-----	
Working capital		11,000		22,000
Long-term loans		(10,000)		(5,000)
		-----		-----
		17,000		33,000
		-----		-----
Capital and reserves:				
Ordinary shares (£1)		9,000		18,000
Profit and loss account		8,000		15,000
		-----		-----
		17,000		33,000
		-----		-----

Yellop Ltd income statement (profit and loss account) for the year ended 31 August 2017:

	£000
Operating profit	21,500
Interest paid	(500)
	-----
Profit before tax	21,000
Taxation	(6,000)
	-----
Profit after tax	15,000
Dividend	(8,000)
	-----
Retained profit	7,000
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#### TASKS

- Prepare a cash flow statement for Yellop Ltd for the year ended 31 August 2017. [10]
- 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]

7. Write notes on the following:

- An aged debtor schedule
- Goodwill
- Share capital
- The use of a suspense account
- Depreciation

[4 each]