



---

# ACCOUNTING II

September 2021

---

## 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

- Notes or books are not permitted.
- Non-programmable calculators are permitted.



ICM

**ANSWER ANY FIVE QUESTIONS FROM THE FOLLOWING SEVEN QUESTIONS**

1. The following trial balance has been taken from the accounts of a limited company as at 31<sup>st</sup> March 2021:

	£000	£000
Sales (revenue)		29,250
Purchases	13,850	
Stock (inventory) (1 <sup>st</sup> April 2020)	3,100	
Salaries	3,800	
Advertising	1,900	
Insurance	1,250	
Rates	450	
External services	1,100	
Utilities	800	
Administration fees	1,200	
Internet service fees	240	
Professional fees	190	
Audit fees	150	
Interest paid	100	
Provision for doubtful debts (1 <sup>st</sup> April 2020)		650
Accounts payable		6,800
Accounts receivable	8,500	
Freehold land	2,500	
Freehold property	2,000	
Plant and machinery at cost	4,500	
Depreciation of plant and machinery (1 <sup>st</sup> April 2020)		2,300
Fixtures and fittings at cost	1,700	
Depreciation of fixtures and fittings (1 <sup>st</sup> April 2020)		700
Ordinary share capital £1		100
Profit and loss a/c bal (1 <sup>st</sup> April 2020)		11,330
Long-term loan payable (5% pa)		2,000
Dividend paid	5,000	
Bank	800	-
	<b>53,130</b>	<b>53,130</b>

**Notes at 31<sup>st</sup> March 2021:**

- Plant and machinery is to be depreciated 25% pa reducing balance
- Fixtures and fittings are to be depreciated 25% pa reducing balance
- Freehold land is not depreciated
- Freehold property is to be depreciated by 4% pa on cost
- Stock (inventory) is valued at £2,150,000
- Insurance of £250,000 has been prepaid
- Salaries and bonuses of £290,000 need to be accrued
- Audit fees of £25,000 are to be accrued
- Internet service fees of £40,000 have been paid in advance
- The doubtful debt provision is to be reduced by £200,000
- The directors wish to provide £280,000 for corporation tax

- (a) Prepare the income statement for the year end 31<sup>st</sup> March 2021.  
 (b) Prepare the position statement as at 31<sup>st</sup> March 2021.

[12 marks]

[8 marks]

2. The following details have been obtained from the accounts of Westminster plc for the last three years:

	2018	2019	2020
	£m	£m	£m
Sales (all on credit)	596	668	733
Cost of sales	432	465	486
Total expenses	108	128	155
Closing debtors	49	51	55
Average stock	32	36	38
Purchases (all on credit)	400	440	456
Closing creditors	33	37	42

- (a) Prepare the summarised profit and loss account for each of the three years. [3 marks]
- (b) Calculate for each of the three years:
- (i) The gross profit percentage [1 mark]
  - (ii) The net profit percentage [1 mark]
  - (iii) The expenses to sales percentage [1 mark]
  - (iv) The debtor collection period in days [1 mark]
  - (v) The stock turnover period in days [1 mark]
  - (vi) The creditor payment period in days [1 mark]
- (c) Discuss the ratios you have calculated in part (b). [11 marks]



3. Harry's summarised receipts and payments for the year ended 31<sup>st</sup> May 2021 were as follows:

Harry's receipts and payments	£	
Receipts from cash customers	92,500	
Receipts from debtors (accounts receivable)	655,000	
Cash purchases	27,500	
Payments to creditors (accounts payable)	408,000	
Wages paid	121,500	
Rent paid	14,000	
Purchase of equipment	75,000	
Sundry payments	14,900	
Drawings	62,000	
Insurance paid	12,000	

Harry's assets and liabilities	On 1 <sup>st</sup> June 2020	On 31 <sup>st</sup> May 2021
	£	£
Balance at bank	7,500	?
Creditors (amounts payable)	32,000	35,000
Debtors (amounts receivable)	65,000	59,000
Wages owing	2,200	3,100
Insurance prepaid	1,900	2,000
Equipment	125,000	?
Inventory	35,000	41,000

**Note:**

Harry depreciates equipment by 20% pa on the total cost.

- |  |           |
|--|-----------|
| (a) Prepare the cashbook for the year ended 31 <sup>st</sup> May 2021.   | [4 marks] |
| (b) Calculate the sales (revenue) and purchases for the year ended 31 <sup>st</sup> May 2021.                                    | [4 marks] |
| (c) Prepare Harry's income statement for the year ended 31 <sup>st</sup> May 2021.   | [6 marks] |
| (d) State Harry's current assets and liabilities as they would appear in the position statement as at 31 <sup>st</sup> May 2021. | [6 marks] |

4. The following balances as at 31<sup>st</sup> May 2021 have been extracted from the accounting records of a limited company:

	£
Raw material in stock (inventory) 1 <sup>st</sup> June 2020	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 1 <sup>st</sup> June 2020	34,000
Sales (revenue)	810,000
Selling and distribution costs	150,000
Administration expenses	95,000
Raw material in stock 31 <sup>st</sup> May 2021	15,000
WIP at 31 <sup>st</sup> May 2021	29,000
Finished goods in stock (inventory) 1 <sup>st</sup> June 2020	50,000
Finished goods in stock (inventory) 31 <sup>st</sup> May 2021	42,000

- (a) Explain what is meant by the following terms:
  - (i) Absorption costing
  - (ii) Job costing
  - (iii) Process costing
- (b) Prepare the following for the year ended 31<sup>st</sup> May 2020:
  - (i) Manufacturing account
  - (ii) Income statement

**[3 marks]**

**[3 marks]**

**[3 marks]**

**[7 marks]**

**[4 marks]**

5. (a) A client has provided a list of expenses for the last year:

	£
Electricity	1,200
New generator	7,500
Painting of existing premises	1,600
New machinery	24,000
Machine delivery and installation	2,400
Machinery maintenance	6,000
Replacement of van	16,000
Van windscreen	350
Fuel for van	2,500
New laptop	1,100

- (i) State which expenses are revenue and which are capital. [5 marks]
- (ii) Explain the effect on the financial statements of incorrectly treating capital expenditure as revenue expenditure. [4 marks]

- (b) A construction company bought a vehicle on 1<sup>st</sup> June 2017 for £66,000. The vehicle was sold on 1<sup>st</sup> June 2020 for £25,000. The company policy for depreciation is 30% pa reducing balance. The company prepares its accounts to the 31<sup>st</sup> May each year.

- (i) Calculate the depreciation charge for years ended 31<sup>st</sup> May 2018, 2019 and 2020. [3 marks]
- (ii) Calculate the profit or loss on disposal on date of sale. [1 mark]

- (c) A book club charges its members an annual subscription of £30 per member.

- On 1<sup>st</sup> January 2020, 21 members had not paid their subscriptions for 2019.
- In December 2019, 8 members fully paid for the year 2020.
- During the year 2020, the book club received £6,660 into the bank:
  - o For 2019: £630
  - o For 2020: £5,670
  - o For 2021: £360

At 31<sup>st</sup> December 2020, 14 members had not paid their 2020 subscriptions.  
Write up the subscriptions account for the year ended 31<sup>st</sup> December 2020.

[7 marks]



6. Kate and William are in partnership. Interest is allowed on capital and on the opening current account balances at 10% pa. Profits and losses are agreed to be shared in the ratio 3:2 between Kate and William. William is to be credited with a salary of £50,000 in recognition of extra duties. Interest is charged on drawings (see note). The following trial balance was drawn up to 31<sup>st</sup> January 2021:

		£	£
Capital accounts –	Kate		60,000
	William		40,000
Current accounts –	Kate		15,000
	William		15,000
Drawings –	Kate	55,000	
	William	59,000	
Purchases		329,000	
Sales (revenue)			915,000
Advertising		12,000	
Wages and salaries		164,000	
Rent		18,000	
General expenses		21,000	
Bad debts written off		3,000	
Inventory (stock) (1 <sup>st</sup> February 2020)		25,000	
Equipment at cost		400,000	
Accumulated depreciation			84,000
Debtors (amounts receivable)		215,000	
Creditors (amounts payable)			209,000
Provision for doubtful debt			5,000
Bank		42,000	-
		<b>1,343,000</b>	<b>1,343,000</b>

**Notes at 31<sup>st</sup> January 2021:**

- The partners have agreed to pay staff bonuses totalling £48,000 for the financial year
- Stock (inventory) was valued at £26,000
- Advertising in advance of £4,000 had been paid
- Equipment is to be depreciated at 30% on cost
- The provision for doubtful debts is to be reduced by £2,000
- Both partners are to be charged £2,500 each for interest on drawings

- (a) Prepare the company's income statement (profit and loss account) including the appropriation section for the year ended 31<sup>st</sup> January 2021. [9 marks]
- (b) Prepare the partners' current accounts for the year ended 31<sup>st</sup> January 2021. [6 marks]
- (c) Prepare the company's position statement. [5 marks]

7. (a) Explain what is meant by the following accounting concepts:
- (i) The business entity concept [4 marks]
- (ii) The dual aspect concept [4 marks]
- (iii) The monetary measurement concept [4 marks]
- (iv) The accruals concept [4 marks]
- (b) Explain what is meant by materiality in accounting. [4 marks]

**END OF QUESTIONS**