



SEPTEMBER 2015

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

1. The following trial balance has been taken from the accounts of Juliet Ltd as at 31 August 2015:

	£000	£000
Turnover		2,000
Purchases	1,330	
Stock (inventory) (01 09 14)	86	
Postage, telephone, fax expenses	39	
Rent, rates and insurance	59	
Advertising	42	
Gas and electric	54	
Wages and salaries	284	
Debenture interest paid	4	
Debtors (amounts receivable)	200	
Creditors (amounts payable)		92
Cash and bank (overdrawn)		15
5% Debentures (repayable 2019)		160
Equipment at cost	400	
Depreciation of equip. (01 09 14)		280
Provision for doubtful debts (01 09 14)		16
£1 ordinary share capital		200
Premises	500	
Depreciation of premises (01 09 14)		85
Profit and loss account (01 09 14)		150
	-----	-----
	2,998	2,998
	=====	=====

Notes at 31 August 2015:

- |   | £000 |
|---|------|
| • Stock (inventory) is valued at                                    | 74   |
| • Wages owing amounted to   | 16   |
| • 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 2015. [11]
- Prepare the position statement (balance sheet) as at 31 August 2015. [9]

2. Cannon and Ball are in partnership. Interest is allowed on capital and on the opening current account balances at 2% pa. Cannon is to be credited with a salary of £30,000 in recognition of extra duties. Interest is charged on drawings (see note). Cannon and Ball agree to share profits equally. The following trial balance was drawn up on 31 August 2015:

	£	£
Capital accounts – Cannon		100,000
Ball		100,000
Current accounts – Cannon		20,000
Ball		5,000
Drawings – Cannon	40,000	
Ball	34,000	
Purchases	390,000	
Sales		840,000
Postage and stationery	13,000	
Staff wages	120,000	
Rent and insurance	34,000	
General expenses	17,000	
Bad debts written off	4,000	
Stock (inventory) (01 09 14)	48,000	
Equipment at cost	330,000	
Debtors (amounts receivable)	86,000	
Creditors (amounts payable)		36,000
Cash and bank		10,000
Prov. for doubtful debts		5,000
	-----	-----
	1,116,000	1,116,000
	=====	=====

Notes at 31 August 2015:

- Stock (inventory) was valued at £45,000
- 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: Cannon £800, Ball £700

#### TASKS

- a) Prepare the firm's income statement (trading and profit and loss account), including the appropriation section for the year ended 31 August 2015. [9]
- b) Prepare the partners' current accounts for the year ended 31 August 2015. [4]
- c) Prepare the firm's position statement (balance sheet) as at 31 August 2015. [7]
3. The following balances as at 31 August 2015 have been extracted from the accounting records of Robertson Ltd:

	£
Raw material in stock at 01 09 14	15,000
Raw material purchases	130,000
Carriage inwards	6,000
Direct labour	140,000
Indirect factory labour	72,000
Factory power (indirect)	31,000
Insurance of production equipment	35,000
Depreciation of production equipment	45,000
Other production overheads	28,000
WIP at 01 09 14	32,000
Finished goods stock at 01 09 14	40,000
Sales	830,000
Distribution costs	170,000
Administration expenses	110,000
Raw material in stock at 31 08 15	10,000
WIP at 31 08 15	37,000
Finished goods stock at 31 08 15	42,000

#### TASKS

- a) Prepare the manufacturing account for the year ended 31 August 2015. [7]
- b) Prepare the trading and profit and loss account for the year ended 31 August 2015. [6]
- c) Briefly discuss the practical difficulties Robertson Ltd might experience valuing stock. [7]

*continued overleaf*

4. The summarised financial statements of B & M Ltd for 2014 and 2015 were as follows:

B & M Ltd position statements (balance sheets) as at 31 August

	2014	£000	2015	£000
	£000	£000	£000	£000
Fixed assets at cost	30,000		44,000	
Depreciation	(14,000)	16,000	(22,000)	22,000
<b>Current assets (non-fixed assets)</b>				
Stock (inventory)	10,000		12,000	
Debtors (amounts receivable)	15,000		12,000	
Bank	5,000			
	-----		-----	
	30,000		24,000	
	-----		-----	
<b>Current liabilities</b>				
Creditors (amounts payable)	6,000		8,000	
Taxation	5,000		3,000	
Dividends	3,000		4,000	
Bank			1,000	
	-----		-----	
	14,000		16,000	
	-----		-----	
<b>Working capital</b>		16,000		8,000
<b>Long-term loans</b>		(10,000)		
		-----		-----
		22,000		30,000
		-----		-----
<b>Capital and reserves:</b>				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		12,000		20,000
		-----		-----
		22,000		30,000
		-----		-----

B & M Ltd income statement (profit and loss account) for the year ended 31 August 2015:

	£000
Operating profit	15,500
Interest paid	(500)
	-----
Profit before tax	15,000
Taxation	(3,000)
	-----
Profit after tax	12,000
Dividend	(4,000)
	-----
Retained profit	8,000
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**TASKS**

- a) Prepare a cash flow statement for B & M Ltd for the year ended 31 August 2015. [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. Write detailed notes on the following:

- a) The objectives of accounting. [10]
- b) The accounting equation. [4]
- c) Depreciation. [6]

6. Oberon's summarised receipts and payment for the year ended 31 August 2015 was as follows:

	£
Receipts from cash customers	58,000
Receipts from debtors (accounts receivable)	554,000
Cash purchases	27,000
Payments to creditors (accounts payable)	330,000
Wages paid	66,000
Rent and rates paid	20,400
Purchase of equipment	66,000
Sundry payments	9,800
Drawings	53,000
Insurance paid	10,700

Oberon's assets and liabilities were:

	On 01 09 14	On 31 08 15
	£	£
Balance at bank	3,000	?
Creditors (amounts payable)	38,000	32,000
Debtors (amounts receivable)	51,000	58,000
Wages owing	2,400	2,100
Insurance prepaid	2,500	2,400
Equipment	94,000	?
Stock (inventory)	34,000	31,000

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

**TASKS**

- a) Prepare the cash book for the year ended 31 08 15. [4]
- b) Compute the sales and purchases for the year ended 31 08 15. [4]
- c) Prepare Oberon's income statement (profit and loss account) for the year ended 31 08 15. [6]
- d) State Oberon's current assets and current liabilities as they would appear in the position statement (balance sheet) as at 31 08 15. [6]

7. You have obtained the following information in respect of Cliveden Ltd:

	£000
Sales (all credit)	2,100
Cost of sales	900
Administration expenses	380
Distribution costs	270
Interest paid	20
Provision for taxation	100
Proposed dividend	90
Closing value of fixed assets	900
Closing stock	80
Opening stock	90
Closing debtors	220
Closing cash/bank balance	20
Closing creditors	95
Issued ordinary share capital (£1)	500

**TASKS**

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