



ICM

SEPTEMBER 2015

BOOKKEEPING

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. You work as an accountant to a small business called Smarties. The following trial balance has been compiled on 31 August 2015:

	£dr	£cr
Accounts receivable (debtors)	22,000	
Accounts payable (creditors)		19,000
Cash	2,000	
Bank	5,000	
Rent, rates and insurance	26,000	
Purchases	86,000	
Sales		332,000
Advertising expenses	15,000	
Returns inwards	3,000	
Inventory (stock) (01 09 14)	22,000	
Payroll costs	115,000	
Communication expenses	18,000	
Energy costs	29,000	
Interest paid	2,000	
Drawings	24,000	
Land and buildings	240,000	
Equipment at cost	60,000	
Depreciation a/c (01 09 14)		22,000
Long-term loan		40,000
Capital a/c (01 09 14)		256,000
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	669,000	669,000
	=====	=====

NOTES as at 31 August 2015:

- Inventory (stock) was valued at £24,000
- Rates prepaid amounted to £2,000
- Payroll costs owing amounted to £5,000
- Equipment is to be depreciated at 20% pa on cost

TASKS

- Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2015. [11]
- Prepare the position statement (balance sheet) as at 31 August 2015. [9]

continued overleaf

2. The following are the first 12 transactions of a new business:
- Aug. 01 Put £32,000 into a business bank account
 - Aug. 01 Paid rent £1,300 by cheque
 - Aug. 02 Paid £11,000 for office equipment, paying by cheque
 - Aug. 03 Bought goods for resale £8,000, paying by cheque
 - Aug. 06 Bought stationery for £900, paying by cheque
 - Aug. 06 Sold goods for £5,000, and immediately banked the cheque
 - Aug. 08 Paid wages £1,200, paying by cheque
 - Aug. 10 Bought goods for resale £9,000, paying by cheque
 - Aug. 13 Paid insurance premiums £1,900, paying by cheque
 - Aug. 15 Sold goods for £6,000, and immediately banked the cheque
 - Aug. 15 Paid wages £1,200, paying by cheque
 - Aug. 19 Sold goods for £3,000, and immediately banked the cheque

TASKS

- a) Record the above transactions in the relevant ledger account, and balance the accounts off. [12]
- b) Prepare the trial balance as at the end of 19 August 2015. [4]
- c) Explain the purposes of a trial balance. [4]

3. The following fixed asset transactions took place during the period 1 January 2011 to 31 December 2014:

- 01 01 2011 Machine X purchased for £16,000
- 01 01 2012 Machine Y purchased for £20,000
- 16 05 2014 Machine Z purchased for £24,000
- 14 06 2014 Machine X was sold for £3,800

NOTES

- Machines are depreciated at 25% per year using the straight line method
- In the year of purchase a full year of depreciation is to be provided
- In the year of disposal no depreciation is to be provided

TASKS

- a) Write up the machines at cost account for the period ended 31 December 2014. [4]
- b) Write up the provision for machine depreciation account for the period ended 31 December 2014. [8]
- c) Write up the machine disposal account. [4]
- d) Explain the matching (accruals) concept. [4]

4. You have the following details regarding the sales and purchase ledgers of a business:

		£
August 1	Total debtors (accounts receivable)	176,000
	Total creditors (accounts payable)	89,000
Transactions in August:		
	Credit sales	185,000
	Cash sales	4,300
	Credit purchases	101,000
	Cash purchases	2,400
	Returns to credit suppliers	1,500
	Returns from credit customers	2,700
	Contras (set offs)	2,200
	Discounts allowed	3,800
	Discounts received	1,100
	Bad debts written off in August	600
	Increase in provision for doubtful debts	800
	Receipts from debtors	183,000
	Payments to creditors	96,000

TASKS

- a) Prepare the sales ledger control account as at 31 August. [8]
- b) Prepare the purchase ledger control account as at 31 August. [7]
- c) Explain the term **internal control**. [5]

5. a) Explain the differences between a bank loan and a bank overdraft. [8]
- b) Explain how VAT (sales tax) is recorded in a double entry bookkeeping system. [6]
- c) Explain the principal elements of a petty cash voucher. [6]

6. a) Explain THREE 'interested parties', i.e. three 'users' of financial statements/information. [6]
 b) Explain the accounting treatment of bad debts. [4]
 c) The following were the balances on the total debtors control account:
 31 Dec. 2011 £30,000
 31 Dec. 2012 £33,000
 31 Dec. 2013 £32,000
 31 Dec. 2014 £38,000
 The policy is to make a provision for doubtful debts of 5% of closing debtors.
 The balance on the provision for doubtful debts account on 1 Jan. 2011 was £1,350.
- TASK
 Prepare the provision for doubtful debts account for the period 1 Jan. 2011 to 31 Dec. 2014. [10]
7. The following credit sales took place during August 2015:
 Aug. 01 Invoice for goods £700 to Alice
 Aug. 02 Invoice for goods £600 to Beatrice
 Aug. 05 Invoice for goods £800 to Chipiliro
 Aug. 07 Invoice for goods £500 to Beatrice
 Aug. 10 Invoice for goods £400 to Alice
 Aug. 14 Invoice for goods £900 to Chipiliro
 Aug. 19 Invoice for goods £600 to Alice
 Aug. 20 Invoice for goods £800 to Chipiliro
 Aug. 25 Invoice for goods £900 to Beatrice
 Aug. 29 Invoice for goods £800 to Alice
 Aug. 31 A cheque, amounting to £840 was RECEIVED from Alice
 All the above sales invoices need 20% VAT (sales tax) added to the goods values.
 Alice is a new customer.
- TASKS
 a) Fully record the above transactions in the sales day book. [10]
 b) Explain the term **books of original entry**. [6]
 c) Write up the ledger account of Alice for the month of August 2015. [4]
8. Write short notes on FOUR of the following:
 a) Equity (ordinary) share capital
 b) The sources of finance available to a sole trader
 c) An imprest system
 d) VAT (sales tax)
 e) An auditor
 f) Accounting concepts
 g) A suspense account [5 each]