



DECEMBER 2016

ACCOUNTING II

**Instructions to candidates:**

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- b) Answer any FIVE questions
- c) All questions carry equal marks. Marks for each question are shown in [ ]
- d) Non-programmable calculators are permitted in this examination

1. The following trial balance has been taken from the books of Level Ltd as at 30 November 2016:

	£	£
Turnover		2,045,000
Purchases	1,100,000	
Stock (inventory) (01 12 15)	170,000	
Postage and stationery	22,000	
Rent, rates and insurance	73,000	
Advertising	110,000	
Heating and lighting	86,000	
Auditor's fee	14,000	
Salaries	196,000	
Debenture interest	2,000	
Wages	130,000	
Creditors (amounts payable)		110,000
Provision for doubtful debts		20,000
Equipment at cost	600,000	
Depreciation of equip. (01 12 15)		200,000
Debentures (4%)		100,000
Ordinary share capital (£1)		100,000
Profit and loss a/c bal (01 12 15)		140,000
Debtors (amounts receivable)	220,000	
Bank balance (overdrawn)		8,000
	-----	-----
	2,723,000	2,723,000
	=====	=====

Notes at 30 November 2016:

- Stock is valued at £150,000
- Salaries owing amounted to £14,000
- Insurance prepaid amounted to £8,000
- The provision for doubtful debts is to be decreased to £15,000
- The equipment is to be depreciated by 30% on written down value
- The directors wish to provide £38,000 for corporation tax
- The directors have declared an ordinary dividend of 65p per share

**TASKS**

- a) Prepare the income statement (profit and loss account) for the year ended 30 November 2016. [11]
- b) Prepare the position statement (balance sheet) as at 30 November 2016. [9]

2. The summarised financial statements of Triumph Ltd for 2015 and 2016 were as follows:

Triumph Ltd position statements (balance sheets) as at 30 November:

	2015	£000	2016	£000
	£000	£000	£000	£000
Fixed assets at cost	40,000		57,000	
Depreciation	(26,000)	14,000	(38,000)	19,000
Current assets (non-fixed assets)				
Stock (inventory)	12,000		16,000	
Debtors (amounts receivable)	15,000		12,000	
Bank	1,000		-	
	-----		-----	
	28,000		28,000	
	-----		-----	
Current liabilities				
Overdraft			3,000	
Creditors (amounts payable)	5,000		6,000	
Taxation	6,000		4,000	
Dividends	8,000		5,000	
	-----		-----	
	19,000		18,000	
	-----		-----	
Working capital		9,000		10,000
Long-term loans		-		(5,000)
		-----		-----
		23,000		24,000
		-----		-----
Capital and reserves:				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		13,000		14,000
		-----		-----
		23,000		24,000
		-----		-----

Triumph Ltd income statement (profit and loss account) for the year ended 30 November 2016:

	£000
Operating profit	10,200
Interest paid	(200)
	-----
Profit before tax	10,000
Taxation	(4,000)
	-----
Profit after tax	6,000
Dividend	(5,000)
	-----
Retained profit	1,000
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#### TASKS

- a) Prepare a cash flow statement for Triumph Ltd for the year ended 30 November 2016. [10]
- b) Calculate the following for the year ended 30 November 2016:
- i     EPS
  - ii    Dividend cover [2]
- c) Comment on the financial performance during the year ended 30 November 2016. [8]
3. a) When selecting an accounting policy, its appropriateness should be considered in the context of which FOUR 'objectives'? [8]
- b) Illustrate, from your knowledge of accounting, examples of estimation techniques. [12]

*continued overleaf*

4. Mitchell and Hall are in partnership. Interest is allowed on capital and on the opening current account balances at 5% pa. Mitchell is to be credited with a salary of £25,000 in recognition of extra duties. Interest is charged on drawings (see note). Mitchell and Hall agree to share profits equally. The following trial balance was drawn up on 30 November 2016:

	£	£
Capital accounts – Mitchell		120,000
Hall		120,000
Current accounts – Mitchell		12,000
Hall		16,000
Drawings – Mitchell	40,000	
Hall	30,000	
Purchases	280,000	
Sales		610,000
Postage and stationery	15,000	
Staff wages	140,000	
Rent and insurance	32,000	
General expenses	12,000	
Bad debts written off	8,000	
Stock (inventory) (01 12 15)	36,000	
Equipment at cost	250,000	
Debtors (amounts receivable)	64,000	
Creditors (amounts payable)		30,000
Cash and bank	6,000	
Prov. for doubtful debts		5,000
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	913,000	913,000
	=====	=====

Notes at 30 November 2016:

- Stock (inventory) was valued at £32,000
- Staff wages owing amounted to £9,000
- Insurance prepaid amounted to £4,000
- 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 £1,200 interest on drawings

#### TASKS

- a) Prepare the firm's income statement (trading and profit and loss account), including the appropriation section for the year ended 30 November 2016. [9]
- b) Prepare the partners' current accounts for the year ended 30 November 2016. [4]
- c) Prepare the firm's position statement (balance sheet) as at 30 November 2016. [7]
5. The following details have been obtained from the final accounts of Tyson plc for the last three years:

Year ended 30 November	2014	2015	2016
	£m	£m	£m
Sales all on credit	200	240	300
Cost of sales	120	140	180
Total expenses	70	80	90
Closing debtors	20	30	45
Average stock	16	20	18
Total purchases (all on credit)	120	146	178
Closing creditors	10	18	20

#### TASKS

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

6. The following balances as at 30 November 2016 have been extracted from the accounting records of McEnrow Ltd:

	£
Raw material in stock at 01 12 15	20,000
Raw material purchases	130,000
Carriage inwards	8,000
Direct labour	80,000
Indirect factory labour	85,000
Factory power (indirect)	25,000
Insurance of production equipment	20,000
Depreciation of production equipment	65,000
Other production overheads	35,000
WIP at 01 12 15	45,000
Finished goods stock at 01 12 15	57,000
Sales	832,000
Distribution costs	134,000
Administration expenses	120,000
Raw material in stock at 30 11 16	18,000
WIP at 30 11 16	42,000
Finished goods stock at 30 11 16	49,000

#### TASKS

- a) Prepare the manufacturing account for the year ended 30 November 2016. [7]
- b) Prepare the trading account for the year ended 30 November 2016. [5]
- c) When accounting for clubs and societies, explain how you treat subscriptions in advance and subscriptions in arrears. Illustrate your answers with sample accounts. [8]

7. The following are the records of a business which has not kept a full set of accounts:

Assets and liabilities	01 12 15	30 11 16
	£	£
Fixed assets (book value)	72,000	?
Debtors (amounts receivable)	39,000	42,000
Creditors (amounts payable)	22,000	24,000
Stock (inventory)	25,000	23,000
Wages owing	4,000	5,000
Prepaid insurance	500	700
Balance at bank	3,000	?

Summary of the bank transactions in the year:

	Payments	Receipts
	£	£
Purchase of new fixed assets	22,000	
Wages	84,000	
Insurance	6,000	
Rent and rates	15,000	
Postage and telephones	25,000	
Payments to suppliers	235,000	
Misc. expenses	14,000	
Drawings	42,000	
Receipts from debtors		434,000

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

#### TASKS

- a) Calculate the opening capital. [2]
- b) Calculate the bank balance as at 30 November 2016. [3]
- c) Calculate the total amount of sales for the year. [2]
- d) Calculate the total amount of purchases for the year. [2]
- e) Prepare the income statement (trading and profit and loss account) for the year ended 30 November 2016. [6]
- f) Prepare the position statement (balance sheet) as at 30 November 2016. [5]