



ICM

JUNE 2016

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 books of Vale Ltd as at 31 May 2016:

	£	£
Turnover		2,560,000
Purchases	1,410,000	
Stock (inventory) (01 06 15)	150,000	
Postage and stationery	41,000	
Rent, rates and insurance	77,000	
Advertising	125,000	
Heating and lighting	59,000	
Auditor's fee	12,000	
Salaries	214,000	
Debenture interest	3,000	
Wages	296,000	
Creditors (amounts payable)		150,000
Provision for doubtful debts		8,000
Equipment at cost	510,000	
Depreciation of equip. (01 06 15)		71,000
Debentures (6%)		100,000
Ordinary share capital (£1)		150,000
Profit and loss a/c bal (01 06 15)		115,000
Debtors (amounts receivable)	263,000	
Bank balance (overdrawn)		6,000
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	3,160,000	3,160,000
	=====	=====

Notes at 31 May 2016:

- Stock is valued at £132,000
- Salaries owing amounted to £12,000
- Insurance prepaid amounted to £7,000
- The provision for doubtful debts is to be increased to £14,000
- The equipment is to be depreciated by 20% pa on cost
- The directors wish to provide £35,000 for corporation tax
- The directors have declared an ordinary dividend of 30p per share

TASKS

- Prepare the income statement (profit and loss account) for the year ended 31 May 2016. [11]
- Prepare the position statement (balance sheet) as at 31 May 2016. [9]

continued overleaf

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

Madeira Ltd position statements (balance sheets) as at 31 May:

	2015		2016	
	£000	£000	£000	£000
Fixed assets at cost	20,000		31,000	
Depreciation	(8,000)	12,000	(14,000)	17,000
 Current assets (non-fixed assets)				
Stock (inventory)	10,000		13,000	
Debtors (amounts receivable)	12,000		10,000	
Bank	-		-	
	-----		-----	
	22,000		23,000	
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 Current liabilities				
Overdraft	3,000		1,000	
Creditors (amounts payable)	5,000		6,000	
Taxation	4,000		3,000	
Dividends	5,000		4,000	
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	17,000		14,000	
	-----		-----	
Working capital		5,000		9,000
Long-term loans		-		(6,000)
		-----		-----
		17,000		20,000
		-----		-----
 Capital and reserves:				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		7,000		10,000
		-----		-----
		17,000		20,000
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Madeira Ltd income statement (profit and loss account) for the year ended 31 May 2016:

	£000
Operating profit	10,200
Interest paid	(200)

Profit before tax	10,000
Taxation	(3,000)

Profit after tax	7,000
Dividend	(4,000)

Retained profit	3,000

TASKS

- a) Prepare a cash flow statement for Madeira Ltd for the year ended 31 May 2016. [10]
- b) Calculate the following for the year ended 31 May 2016:
- i EPS
 - ii Dividend cover [2 each]
- c) Comment on the financial performance during the year ended 31 May 2016. [6]

3. The following are the records of Parkstone Social Club which has not kept a full set of accounts:

Assets and liabilities	01 June 2015	31 May 2016
	£	£
Fixed assets (book value)	120,000	?
Investments (long term)	20,000	20,000
Debtors (accounts receivable – bar)	3,000	2,500
Creditors (bar purchases)	6,200	7,100
Bar stock	4,800	4,600
Wages (bar staff) owing	800	900
Prepaid insurance	3,000	5,000
Balance at bank	5,200	?
Subscriptions outstanding	900	1,200

Summary of the bank transactions in the year:

	Payments	Receipts
	£	£
Purchase of fixed assets	25,000	
Wages (bar staff)	36,000	
Insurance	13,000	
Rent and rates	12,000	
Postage and stationery	3,500	
Payments to suppliers (bar)	87,000	
Sundry expenses	2,700	
Bar sales		195,000
Subscriptions received		18,000
Investment income		600

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

TASKS

- Calculate the accumulated fund as at 01 June 2015. [2]
- Calculate the bank balance as at 31 May 2016. [2]
- Prepare the bar trading account for the year ended 31 May 2016. [4]
- Prepare the income and expenditure account for the year ended 31 May 2016. [6]
- Prepare the balance sheet (position statement) as at 31 May 2016. [6]

4. The following details have been obtained from the final accounts of Richmond plc for the last three years:

Year ended 31 May	2014	2015	2016
	£m	£m	£m
Sales all on credit	210	270	320
Cost of sales	105	170	170
Total expenses	70	75	95
Closing debtors	21	25	27
Average stock	15	18	18
Total purchases (all on credit)	110	174	166
Closing creditors	15	18	18

TASKS

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

- Explain why there may be a need for revaluation of assets in a partnership. [4]
 - Detail the necessary entries to the ledger accounts when assets are revalued. [8]
 - Explain, with illustrations, the **Garner v Murray rule**. [8]

6. The following balances as at 31 May 2016 have been extracted from the accounting records of Danecourt Ltd:

	£
Raw material in stock at 01 06 15	15,000
Raw material purchases	120,000
Carriage inwards	5,000
Direct labour	90,000
Indirect factory labour	75,000
Factory power (indirect)	30,000
Insurance of production equipment	28,000
Depreciation of production equipment	62,000
Other production overheads	41,000
WIP at 01 06 15	34,000
Finished goods stock at 01 06 15	61,000
Sales	846,000
Distribution costs	152,000
Administration expenses	97,000
Raw material in stock at 31 05 16	17,000
WIP at 31 05 16	37,000
Finished goods stock at 31 05 16	49,000

TASKS

- a) Prepare the manufacturing account for the year ended 31 May 2016. [7]
- b) Describe the role of management accountants in the budgetary process. [5]
- c) Explain the main differences between the financial statements of non-profit orientated organisations and those of profit orientated organisations. [8]
7. a) Explain the following:
- i The realisation concept [4]
 - ii What is meant by 'substance over form'? [4]
 - iii The role of the Journal [4]
- b) List the main parts of the accounting cycle. [8]