



ICM

MARCH 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 Alexandra Ltd as at 29 February 2016:

	£	£
Turnover		2,050,000
Purchases	1,025,000	
Stock (inventory) (01 03 15)	165,000	
Postage and stationery	20,000	
Rent, rates and insurance	66,000	
Advertising	125,000	
Heating and lighting	90,000	
Auditor's fee	14,000	
Salaries	202,000	
Debenture interest	5,000	
Wages	141,000	
Creditors (amounts payable)		124,000
Provision for doubtful debts		20,000
Equipment at cost	710,000	
Depreciation of equip. (01 03 15)		110,000
Debentures (5%)		200,000
Ordinary share capital (£1)		100,000
Profit and loss a/c bal. (01 03 15)		160,000
Debtors (amounts receivable)	206,000	
Bank balance (overdrawn)		5,000
	-----	-----
	2,769,000	2,769,000
	=====	=====

Notes at 29 February 2016:

- Stock (inventory) is valued at £140,000
- Salaries owing amounted to £17,000
- Insurance prepaid amounted to £5,000
- The provision for doubtful debts is to be reduced to £15,000
- The equipment is to be depreciated by 40% on written down value
- The directors wish to provide £30,000 for corporation tax
- The directors have declared an ordinary dividend of 50p per share

TASKS

- Prepare the income statement (profit and loss account) for the year ended 29 February 2016. [11]
- Prepare the position statement (balance sheet) as at 29 February 2016. [9]

continued overleaf

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

Lewis Ltd position statements (balance sheets) as at 28/29 February:

	2015		2016	
	£000	£000	£000	£000
Fixed assets at cost	25,000		40,000	
Depreciation	(15,000)	10,000	(26,000)	14,000
 Current assets (non-fixed assets)				
Stock (inventory)	15,000		14,000	
Debtors (amounts receivable)	12,000		13,000	
Bank	1,000		3,000	
	-----		-----	
	28,000		30,000	
	-----		-----	
 Current liabilities				
Creditors (amounts payable)	5,000		4,000	
Taxation	6,000		5,000	
Dividends	4,000		9,000	
	-----		-----	
	15,000		18,000	
	-----		-----	
Working capital		13,000		12,000
Long-term loans		(5,000)		
		-----		-----
		18,000		26,000
		-----		-----
 Capital and reserves:				
Ordinary shares (£1)		10,000		10,000
Profit and loss account		10,000		16,000
		-----		-----
		20,000		26,000
		-----		-----

Lewis Ltd income statement (profit and loss account) for the year ended 29 February 2016:

	£000
Operating profit	20,200
Interest paid	(200)

Profit before tax	20,000
Taxation	(5,000)

Profit after tax	15,000
Dividend	(9,000)

Retained profit	6,000

TASKS

- a) Prepare a cash flow statement for Lewis Ltd for the year ended 29 February 2016. [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]
- 3.
- a) Explain what is meant by **objectivity** and **subjectivity**. [4]
 - b) Explain the term **materiality** as it is used in accounting. [6]
 - c) Traditional financial accounting, using historical cost convention, makes the going concern concept unnecessary. Discuss. [10]

4. Cannon and Ball are in partnership. Interest is allowed on capital and on the opening current account balances at 5% pa. Cannon is to be credited with a salary of £25,000 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 29 February 2016:

	£	£
Capital accounts – Cannon		100,000
Ball		100,000
Current accounts – Cannon		13,000
Ball		7,000
Drawings – Cannon	42,000	
Ball	44,000	
Purchases	312,000	
Sales		650,000
Postage and stationery	16,000	
Staff wages	124,000	
Rent and insurance	29,000	
General expenses	16,000	
Bad debts written off	8,000	
Stock (inventory) (01 03 15)	43,000	
Equipment at cost	200,000	
Debtors (amounts receivable)	74,000	
Creditors (amounts payable)		41,000
Cash and bank	7,000	
Prov. for doubtful debts		4,000
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	915,000	915,000
	=====	=====

Notes at 29 February 2016:

- Stock (inventory) was valued at £37,000
- Staff wages owing amounted to £7,000
- 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 £7,000
- BOTH partners are to be charged £1,500 each, 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 29 February 2016. [9]
- b) Prepare the partners' current accounts for the year ended 29 February 2016. [4]
- c) Prepare the firm's position statement (balance sheet) as at 29 February 2016. [7]

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

Year ended 28/29 February	2014	2015	2016
	£m	£m	£m
Sales (all on credit)	280	300	320
Cost of sales	140	140	160
Total expenses	80	85	90
Closing debtors	40	30	30
Average stock	20	24	21
Total purchases (all on credit)	130	146	158
Closing creditors	10	12	16

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 (to 1 decimal place)
 - ii The net profit percentage (to 1 decimal place)
 - iii The expenses to sales percentage (to 1 decimal place)
 - 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 29 February 2016 have been extracted from the accounting records of Golden Hen Ltd:

	£
Raw material in stock at 01 03 15	10,000
Raw material purchases	125,000
Carriage inwards	5,000
Direct labour	150,000
Indirect factory labour	80,000
Factory power (indirect)	30,000
Insurance of production equipment	10,000
Depreciation of production equipment	50,000
Other production overheads	40,000
WIP at 01 03 15	30,000
Finished goods stock at 01 03 15	50,000
Sales	760,000
Distribution costs	160,000
Administration expenses	140,000
Raw material in stock at 29 02 16	15,000
WIP at 29 02 16	35,000
Finished goods stock at 29 02 16	45,000

TASKS

- a) Prepare the manufacturing account for the year ended 29 February 2016. [7]
 b) Describe FIVE methods of providing for depreciation, illustrate with working examples. [10]
 c) Explain **apportionment of expenses**. [3]

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

Assets and liabilities	01 03 15	29 02 16
	£	£
Fixed assets (book value)	150,000	?
Debtors (amounts receivable)	45,000	40,000
Creditors (amounts payable)	25,000	30,000
Stock (inventory)	30,000	25,000
Wages owing	5,000	7,000
Prepaid insurance	500	700
Balance at bank	5,000	?

Summary of the bank transactions in the year:

	Payments	Receipts
	£	£
Purchase of new fixed assets	40,000	
Wages	95,000	
Insurance	9,000	
Rent and rates	15,000	
Postage and telephones	20,000	
Payments to suppliers	200,000	
Misc. expenses	15,000	
Drawings	40,000	
Receipts from debtors	430,000	

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

TASKS

- a) Calculate the opening capital. [2]
 b) Calculate the bank balance as at 29 February 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 29 February 2016. [6]
 f) Prepare the position statement (balance sheet) as at 29 February 2016. [5]