



# ICM

MARCH 2017

BOOKKEEPING

**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. You work as an accountant to a small business called Mercy Mwende's. The following trial balance has been compiled on 28 February 2017:

	£dr	£cr
Accounts receivable	19,000	
Accounts payable		10,000
Cash	1,000	
Bank	5,000	
Rent, rates and insurance	28,000	
Purchases	83,000	
Sales		341,000
Advertising expenses	11,000	
Misc. expenses	2,000	
Inventory (01 03 16)	25,000	
Payroll costs	107,000	
Communication expenses	16,000	
Energy costs	24,000	
Interest paid	2,000	
Drawings	29,000	
Premises	240,000	
Equipment at cost	70,000	
Depreciation a/c (01 03 16)		25,000
Long-term loan		45,000
Capital a/c (01 03 16)		241,000
	-----	-----
	662,000	662,000
	=====	=====

NOTES as at 28 February 2017:

- Inventory was valued at £26,000
- Insurance prepaid amounted to £1,000
- Payroll costs owing amounted to £2,000
- Equipment is to be depreciated at 20% pa on cost

TASKS

- a) Prepare the income statement (trading and profit and loss account) for the year ended 28 February 2017.
- b) Prepare the position statement (balance sheet) as at 28 February 2017.

[11]  
[9]

*continued overleaf*

2. The following are the first 12 transactions of a new business:

- Feb. 01 Put £30,000 into a business bank account
- Feb. 01 Paid rent £1,600 by cheque
- Feb. 01 Paid £12,000 for office equipment, paying by cheque
- Feb. 03 Bought goods for resale £6,000, paying by cheque
- Feb. 05 Bought stationery for £850, paying by cheque
- Feb. 06 Sold goods for £4,500, and immediately banked the cheque
- Feb. 08 Paid wages £750, paying by cheque
- Feb. 10 Bought goods for resale £6,000, paying by cheque
- Feb. 13 Paid insurance premium £2,100, paying by cheque
- Feb. 14 Sold goods for £3,500, and immediately banked the cheque
- Feb. 15 Paid wages £750, paying by cheque
- Feb. 17 Sold goods for £2,000, 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 17 February 2017. [4]
- c) Explain why a larger business might use a computerised accounting package. [4]

3. The following fixed asset transactions took place during the period 1 January 2014 to 31 December 2016:

- 01 01 14 Machine A purchased for £20,000
- 01 01 14 Machine B purchased for £22,000
- 30 11 15 Machine C purchased for £24,000
- 08 12 15 Machine A was sold for £9,000

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 Dec. 2016. [4]
- b) Write up the provision for machine depreciation account for the period ended 31 Dec. 2016. [8]
- c) Write up the machine disposal account. [4]
- d) Outline the principles of VAT. [4]

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

		£
Feb. 1	Total debtors (accounts receivable)	195,000
	Total creditors (accounts payable)	96,000
Transactions in February:		
	Credit sales	216,000
	Cash sales	4,700
	Credit purchases	108,000
	Cash purchases	1,900
	Returns to credit suppliers	1,700
	Returns from credit customers	1,200
	Contras (set offs)	2,800
	Discounts allowed	3,200
	Discounts received	1,400
	Bad debts written off in February	900
	Increase in provision for doubtful debts	550
	Receipts from debtors	208,000
	Payments to creditors	102,000

TASKS

- a) Prepare the sales ledger control account as at 28 February. [8]
- b) Prepare the purchase ledger control account as at 28 February. [7]
- c) Explain the principal purposes of control accounts. [5]

5. a) Explain the major sources of finance available to a new business. [10]  
 b) Explain the advantages of operating a petty cash book. [5]  
 c) Distinguish between capital and revenue expenditure. [5]

6. a) Explain THREE '**interested parties**', i.e. three 'users' of financial statements/information. [6]  
 b) Explain the accounting treatment of provision for doubtful debts. [4]  
 c) The following were the balances on the total debtors control account:
- |              |         |
|--------------|---------|
| 31 Dec. 2013 | £44,000 |
| 31 Dec. 2014 | £42,000 |
| 31 Dec. 2015 | £46,000 |
| 31 Dec. 2016 | £48,000 |
- 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 31 Dec. 2012 was £1,800.
- TASK**  
 Prepare the provision for doubtful debts account for the period 1 January 2013 to 31 December 2016. [10]
7. The following credit sales took place during February 2017:
- |         |   |
|---------|---|
| Feb. 01 | Invoice for goods £500 to Akua                      |
| Feb. 02 | Invoice for goods £600 to Ofori                     |
| Feb. 04 | Invoice for goods £700 to Mwangi                    |
| Feb. 05 | Invoice for goods £500 to Ofori                     |
| Feb. 10 | Invoice for goods £300 to Akua                      |
| Feb. 14 | Invoice for goods £800 to Mwangi                    |
| Feb. 18 | Invoice for goods £700 to Akua                      |
| Feb. 21 | Invoice for goods £1,100 to Mwangi                  |
| Feb. 24 | Invoice for goods £900 to Ofori                     |
| Feb. 25 | Invoice for goods £800 to Akua                      |
| Feb. 27 | A cheque, amounting to £600 was received from Akua. |
- All the above sales invoices need 20% VAT (sales tax) added to the goods values.  
 Akua is a new customer.
- TASKS**
- |  |      |
|--|------|
| a) Fully record the above transactions in the sales day book.          | [10] |
| b) State the amount to be credited to the sales account.               | [2]  |
| c) Explain the purpose of day books.                                   | [4]  |
| d) Write up the ledger account of Akua for the month of February 2017. | [4]  |
8. Write short notes on FOUR of the following:
- |                                    |          |
|------------------------------------|----------|
| a) Share capital                   |          |
| b) Suspense accounts               |          |
| c) A bank reconciliation statement |          |
| d) Public finance                  |          |
| e) The consistency concept         |          |
| f) The functions of an invoice     |          |
| g) Banking services                | [5 each] |