



ACCOUNTING II

March 2022

Time allowed

Three hours

Instructions

- Ensure that you pay particular attention to words in **bold**.
- Write the question number next to each answer in your answer booklet.
- You are **not** required to rewrite the question in your answer booklet.

Information

- Different questions may carry a different number of marks.
- Marks for each question are shown in [].

Advice

- Read each question carefully before you start to answer it.
- Use the full time permitted and check all your answers.

Materials

- Notes or books are **not** permitted.
- Non-programmable calculators are permitted.

ANSWER ANY FIVE QUESTIONS FROM THE FOLLOWING SEVEN QUESTIONS

1. The following trial balance has been taken from the accounts of a limited company as at 31st January 2022:

Trial Balance	£	£
Turnover		7,500,000
Purchases	4,800,000	
Stock (inventory) (1 st February 2021)	1,100,000	
General expenses	32,000	
Advertising	250,000	
Professional fees	5,000	
Salaries and wages	1,600,000	
Interest paid	25,000	
Insurance	4,000	
Light, heat and water	78,000	
Provision for doubtful debts		26,000
Accounts payable		845,000
Accounts receivable	636,000	
Premises	2,268,000	
Equipment	780,000	
Depreciation of equipment		468,000
Ordinary share capital £1		150,000
Profit and loss a/c bal. (1 st February 2021)		2,646,000
Long-term loan payable		500,000
Dividend paid	400,000	
Bank	157,000	
	<u>12,135,000</u>	<u>12,135,000</u>

Notes at 31st January 2022:

- Stock (inventory) is valued at £1,350,000
- The directors wish to provide £140,000 for corporation tax
- The equipment is to be depreciated by 20% pa on cost
- Salaries and wages owing amounted to £120,000
- Professional fees of £2,000 are to be accrued
- Advertising costs of £25,000 have been prepaid

- (a) Prepare the income statement (profit and loss account) for the year ended 31st January 2022.

[11 marks]

- (b) Prepare the position statement (balance sheet) as at 31st January 2022.

[9 marks]

2. Describe each of the following:

- (a) Company directors
(b) Loan notes
(c) Share capital

[6 marks]

[8 marks]

[6 marks]

3. The following are the receipts and payments of a company for the year ended 31st December 2021:

Receipts and payments	£
Receipts from debtors (accounts receivable)	686,000
Receipts from cash customers	26,000
Payments to creditors (accounts payable)	480,000
Cash purchases	14,000
Rent paid	22,000
Rates paid	1,500
Wages paid	72,500
Payment for equipment	18,000
Insurance paid	11,900
Sundry payments	12,800
Drawings	51,000

Assets and liabilities	1 st January 2021	31 st December 2021
Balance at bank	12,000	X
Debtors (amounts receivable)	42,000	52,000
Creditors (amounts payable)	25,000	32,000
Wages owing	5,500	6,000
Insurance prepaid	1,500	2,000
Equipment (original cost £160,000)	80,000	X
Inventory (stock)	31,500	36,000

Note:

Equipment is to be depreciated at 25% on cost

- (a) Prepare the cash book for the year ended 31st December 2021. [4 marks]
- (b) Calculate the sales and purchases for the year ended 31st December 2021. [4 marks]
- (c) Prepare the income statement (profit and loss account) for the year ended 31st December 2021. [6 marks]
- (d) State the current assets and liabilities as they would appear in the position statement (balance sheet) as at 31st December 2021. [6 marks]

4. William and Harry are in partnership. Interest is allowed on capital and on the opening current account balances at 10% pa. William is to be credited with a salary of £42,500 in recognition of extra duties. William and Harry agree to share profits equally. The following trial balance was drawn up on 31st December 2021:

Trial balance		£	£
Capital accounts:	William		100,000
	Harry		100,000
Current accounts:	William		30,000
	Harry		20,000
Drawings:	William	72,000	
	Harry	51,000	
Purchases		425,000	
Sales			965,000
Postage and stationery		17,000	
Staff wages		212,000	
Rent and insurance		28,000	
General expenses		22,000	
Bad debts written off		5,000	
Inventory (stock) (1 st January 2021)		55,000	
Equipment at cost		325,000	
Debtors (amounts receivable)		148,000	
Creditors (amounts payable)			118,000
Bank overdraft			27,000
		<u>1,360,000</u>	<u>1,360,000</u>

Notes at 31st December 2021:

- Inventory (stock) was valued at £52,000
- Insurance prepaid amounted to £5,000
- Staff wages owing amounted to £7,000
- Equipment is to be depreciated at 30% on cost
- A £12,000 provision for doubtful debts is to be provided for
- Both partners are to be charged £2,500 interest in drawings

- (a) Prepare the company's income statement (trading profit and loss account), including the appropriation section, for the year ended 31st December 2021.
- (b) Prepare the partners' current accounts for the year ended 31st December 2021.
- (c) Prepare the company's position statement (balance sheet) as at 31st December 2021.

[9 marks]

[4 marks]

[7 marks]

5. The following information relates to a limited company:

Annual accounting information			
	£000		£000
Sales (all credit)	3,500	Cost of sales	2,200
Administration expenses	490	Distribution costs	300
Interest paid	82	Provision for taxation	90
Proposed dividend	240	Value of fixed assets	1,100
Closing stock	120	Opening stock	100
Closing debtors	300	Closing bank balance	50
Closing creditors	190	Issued ordinary share capital (£1)	100

- (a) Prepare a summarised income statement (profit and loss account) for the year. [4 marks]
- (b) Calculate each of the following ratios:
- (i) Gross profit to sales percentage [2 marks]
 - (ii) Operating profit (PBIT) as a percentage of sales [2 marks]
 - (iii) Dividend cover [2 marks]
 - (iv) The accounts payable (creditors) period in days [2 marks]
 - (v) The accounts receivable (debtor) collection period in days [2 marks]
 - (vi) Inventory (stock) turnover [2 marks]
 - (vii) The total expenses as a percentage of sales [2 marks]
 - (viii) The current ratio [2 marks]

6. (a) Define what is meant by capital expenditure. Use **three** examples to support your definition. [5 marks]
- (b) Define what is meant by revenue expenditure. Use **three** examples to support your definition. [5 marks]
- (c) State **five** methods of depreciation. [5 marks]

- (d) A limited company started in business on 1st October 2020. Depreciation is at the rate of 20% per annum on cost and is charged for each full month of ownership.

1 st October 2020	Bought equipment for £12,000
1 st April 2021	Bought equipment for £24,000
1 st June 2021	Bought equipment for £9,000

Prepare the Equipment Account and Provision for Depreciation Account for the year ended 30th September 2021.

[5 marks]

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

Assets and liabilities	1 st October 2020	30 th September 2021
	£	£
Fixed assets (book value)	180,000	X
Debtors (amounts receivable)	28,000	35,000
Creditors (amounts payable)	29,000	42,000
Stock (inventory)	35,000	39,000
Wages owing	4,500	5,000
Prepaid insurance	500	700
Bank	15,000	X

Summary of the bank transactions in the year	Payments	Receipts
	£	£
Purchase of fixed assets	45,000	
Wages	54,000	
Insurance	8,000	
Rent and rates	12,000	
Postage	2,000	
Payments to suppliers	226,000	
Misc. expenses	14,000	
Drawings	42,000	
Receipts from debtors		421,000

Note:

It has been decided to depreciate fixed assets by 25%.

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|---|-----------|
| (a) Calculate the opening capital. | [2 marks] |
| (b) Calculate the bank balance as at 30 th September 2021. | [3 marks] |
| (c) Calculate the amount of sales for the year. | [2 marks] |
| (d) Calculate the total amount of purchases for the year. | [2 marks] |
| (e) Prepare the income statement for the year ended 30 th September 2021. | [6 marks] |
| (f) Prepare the position statement (balance sheet) as at 30 th September 2021. | [5 marks] |

END OF QUESTIONS