



# ICM

SEPTEMBER 2017

BOOKKEEPING

**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

- You work as an accountant to a small business called Superstore. The following trial balance has been compiled on 31 August 2017:

	£dr	£cr
Stationery expenses	4,000	
Accounts receivable	18,000	
Accounts payable		12,000
Cash	1,000	
Bank	6,000	
Rent, rates and insurance	35,000	
Purchases	97,000	
Sales		381,000
Advertising expenses	14,000	
Returns inwards	2,000	
Inventory (01 09 16)	13,000	
Payroll costs	129,000	
Communication expenses	19,000	
Energy costs	28,000	
Interest paid	2,000	
Drawings	26,000	
Premises	200,000	
Equipment at cost	60,000	
Depreciation a/c (01 09 16)		20,000
Long-term loan		40,000
Capital a/c (01 09 16)		201,000
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	654,000	654,000
	=====	=====

**NOTES as at 31 August 2017:**

- Inventory was valued at £11,000
- Advertising expenses prepaid amounted to £1,000
- Payroll costs owing amounted to £3,000
- Equipment is to be depreciated at 20% pa on cost

**TASKS**

- Prepare the income statement (trading and profit and loss account) for the year ended 31 August 2017. [11]
- Prepare the position statement (balance sheet) as at 31 August 2017. [9]

*continued overleaf*

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

- Aug. 01 Put £32,000 into a business bank account.
- Aug. 01 Paid rent £2,500 by cheque.
- Aug. 01 Paid £14,000 for office equipment, paying by cheque.
- Aug. 02 Bought goods for resale £7,000, paying by cheque.
- Aug. 05 Bought stationery for £600, paying by cheque.
- Aug. 06 Sold goods for £4,000, and immediately banked the cheque.
- Aug. 09 Paid wages £1,200 paying by cheque.
- Aug. 10 Bought goods for resale £8,000, paying by cheque.
- Aug. 12 Paid insurance premium £2,000, paying by cheque.
- Aug. 13 Sold goods for £6,000, and immediately banked the cheque.
- Aug. 15 Paid wages £1,200, paying by cheque.
- Aug. 19 Sold goods for £5,000, 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 19 August 2017. [4]
- c) Explain the matching (accruals) concept. [4]

3. G Rene received a bank statement on 31 August 2017 showing a credit balance of £7,288. This did not agree with the debit balance in the cash book of £960 for the following reasons:

- 2 cheques drawn in favour of ABC Ltd £1,880 and C Sure £1,888 had been entered in the cash book but not presented for payment
- Credit transfer from XYZ Ltd was entered on the bank statement but is not yet in the cash book £1,640
- Interest received by G Rene £2,000 has not yet been entered in the cash book
- A direct debit for insurance £840 and bank charges of £200 have not yet been entered in the cash book
- A cheque from MNN Ltd for £1,240 was paid into the bank earlier in the month. The cheque has been dishonoured but no entry has yet been made in the cash book
- On 31 August 2017 G Rene paid £1,200 into the bank, this has not yet been credited by the bank
- The bank statement showed that G Rene had transferred £2,400 from the deposit account into the current account but no entry was made in the cash book

**TASKS**

- a) Update and balance off the cash book of G Rene. [12]
- b) Prepare a bank reconciliation statement as at 31 August 2017. [8]

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

	£
Aug. 1 Total debtors (accounts receivable)	204,000
Total creditors (accounts payable)	91,000
Transactions in August:	
Credit sales	207,000
Cash sales	8,000
Credit purchases	111,000
Cash purchases	4,000
Returns to credit suppliers	1,600
Returns from credit customers	1,800
Contras (set offs)	2,900
Discounts allowed	3,500
Discounts received	1,200
Bad debts written off in August	700
Increase in provision for doubtful debts	600
Receipts from debtors	205,000
Payments to creditors	101,000

**TASKS**

- a) Prepare the sales ledger control account as at 31 August. [8]
- b) Prepare the purchase ledger control account as at 31 August. [7]
- c) Explain the principal purposes of control accounts. [5]

*continued overleaf*

5. The following credit sales took place during August 2017:

Aug. 01 Invoice for goods £400 to Aron  
Aug. 02 Invoice for goods £600 to Bella  
Aug. 04 Invoice for goods £700 to Cele  
Aug. 07 Invoice for goods £400 to Bella  
Aug. 10 Invoice for goods £300 to Aron  
Aug. 14 Invoice for goods £800 to Cele  
Aug. 19 Invoice for goods £700 to Aron  
Aug. 25 Invoice for goods £1,100 to Cele  
Aug. 28 Invoice for goods £900 to Bella  
Aug. 30 Invoice for goods £700 to Aron  
Aug. 28 A cheque, amounting to £600 was received from Aron  
All the above sales invoices need 20% VAT (sales tax) added to the goods values.  
Aron is a new customer.

**TASKS**

- a) Fully record the above transactions in the sales day book. [10]
- b) Write up the ledger account of Aron for the month of August 2017. [5]
- c) Explain the purpose of day books. [5]

6. a) On 1 September 2014 a company purchased a new vehicle for £20,000. They depreciate vehicles at 20% pa using the REDUCING BALANCE method. Their accounting year is 1 September to 31 August.

**TASK**

Prepare the depreciation account for this vehicle for the period 1 September 2014 to 31 August 2017. [6]

- b) On 31 August 2017 a company had total accounts receivable of £82,500. The company has not previously maintained a provision for doubtful debts account. On the advice of the company auditors they now decide to write off a one-off bad debt of £2,500, and to create a provision for doubtful debts account equal to 5% of the closing value of accounts receivable.

**TASK**

Calculate the value of accounts receivable that should be included in the balance sheet as at 31 August 2017. You are advised to show your workings. [6]

- c) Explain the role of a financial accountant. [8]

7. a) Outline the principal sources of finance available to a sole trader. [10]

b) Explain the differences between a bank loan and a bank overdraft. [5]

c) Explain the difference between buying equipment on a hire purchase (HP) basis OR leasing equipment. [5]

8. Write short notes on FOUR of the following:

- a) Share capital
- b) Depreciation of fixed assets
- c) Petty cash systems
- d) Public finance
- e) An accounting package
- f) VAT
- g) A trial balance

[5 each]