EDUCATION DEVELOPMENT INTERNATIONAL PLC
SAMPLE PAPER ANSWERS 2008
CERTIFICATE IN ACCOUNTING (IAS) ASE3902
LEVEL 3

QUESTION 1

(a)

Calculation of profit from operations		**$**	**$000**
Accumulated profits (415 - 380)			35
Add:			
Interim dividend			13
Proposed dividend			65
Debenture interest:			
1 Jan - 30 June	60,000 x 6% x 50%	1,800	
1 July - 31 Dec	40,000 x 6% x 50%	1,200	
			3
Less:			116
Investment income			4
Profit from operations			112

(4 marks)

(b)

Reconciliation of profit from operations to cash generated by operations

	$000	**$000**
Profit from operations		112
Adjustment for:		
Depreciation ([50+146+68] - [45+90+45] + 20	104	
Profit on asset sale	(2)	102
		214
Operating cash flow before:		
Movements in working capital		
Decrease in receivables (220-198)	22	
Increase in inventory (229-219)	(10)	
Decrease in payables (200-180)	(20)	
Cash generated by operations		8
		206

(6 marks)

QUESTION 1 CONTINUED

(c)

Oriental Trading
Cash Flow Statement for year ended 31 December 2007

	$000	$000
Cash generated by operations		206
Interest paid		(3)
Net cash from operating activities		203
Investing activities		
Investment income	4	
Sale of assets (30 - 20 + 2)	12	
Purchase of assets (50 + 90 + 30)	(170)	
Sale of investments (70 – 50)	20	
Net cash from investing activities		(134)
		69
Financing Activities		
Dividends paid (40 + 13)	(53)	
Issue of ordinary shares (650 + 20 – 600)	70	
Redemption of debentures (60 – 40)	(20)	
Net cash used in financing activities		3
Net increase in cash		66
Cash at beginning of year		71
Cash at end of year		137

(15 marks)

(Total 25 marks)

QUESTION 2

Walsham Profit Allocation

		3 months to 31 August 2006 (Pre-incorporation)	**$**		**9 months to 31 May 2007 (Post incorporation)**	**$**
Gross profit		20%	25,120		80%	100,480
Expenses:						
Time apportioned (1:3)						
Wages and sundry expenses		2,814			8,442	
Rent and insurance		1,500			4,500	
Depreciation **[W1]**		3,200			13,340	
Apportioned according to sales						
Bad debts	(5,600 - 4,121)	1,479		(412,100 x 1%)	4,121	
Commission (1:4)		5,494			21,976	
Specific allocation						
Partnership salaries		9,000				
Interest on purchase price					1,500	
Bank overdraft interest					500	
Directors' fees and expenses					12,750	
Audit fees					1,750	
			23,487			68,879
Net Profit			1,633			31,601

[W1]

01-Jun-06					
Vehicles	30,000				
Residual	3,000				
	27,000 x 40% x	25%	2,700	75%	8,100
Equipment	10,000 x 20% x	25%	500	75%	1,500
01-Sep-06					
Vehicle	12,000				
Residual	1,200				
	10,800 x 40% x 75%				3,240
01-Dec-06					
Equipment	5,000 x 20% x 50%				500
			3,200		13,340

(Total 25 marks)

QUESTION 3

(a)		2006		2007
(i)	$\frac{750{,}650 - 30{,}000}{2{,}000{,}000}$	\$0.36	$\frac{910{,}300 - 30{,}000}{2{,}000{,}000}$	\$0.44
(ii)	$\frac{200}{36}$	5.56 times	$\frac{300}{44}$	6.82 times
(iii)	$\frac{15 \times 100}{200}$	7.50%	$\frac{20 \times 100}{300}$	6.67%
(iv)	$\frac{750{,}650 - 30{,}000}{300{,}000}$	2.40 times	$\frac{910{,}300 - 30{,}000}{400{,}000}$	2.20 times
(v)	$\frac{800{,}650 \times 100}{4{,}600{,}400}$	17.40%	$\frac{960{,}300 \times 100}{5{,}080{,}700}$	18.90%

(20 marks)

(b)

[1] In a highly geared company ordinary shareholders could be left with little or no dividend payments because of the prior interest charges and preferred dividends accounting for the majority of the profit. This would be especially true during an economic downturn.

[2] Ordinary shareholders would also be more at risk in the event of a company insolvency as secured loans and preferred shares are always a prior charge when it comes to the liquidation of a company

(5 marks)

(Total 25 marks)

QUESTION 4

(a)

	$000		$000
Cost of investment			24,000
Share capital	30,000		
General reserve	500		
Accumulated profits	1,500		
	32,000	x 70%	22,400
Goodwill			1,600

(2 marks)

(b)

White
Consolidated Income Statement for the year ended 31 October 2007

	$000	$000
Revenue (245,000 + 95,000 - [12,000 x 1.4])		323,200
Cost of sales (140,000 + 52,000 - [12,000 x 1.4] + 1,440 - note 1)		176,640
Gross Profit		146,560
Distribution costs (12,000 + 10,000)	22,000	
Administrative expenses (55,000 + 13,000)	68,000	
Goodwill amortisation (1,600 x 10%)	160	
		90,160
Profit on ordinary activities		56,400
Minority interest (20,000 x 30%)		6,000
		50,400
Dividends		20,000
Retained profit for the year		30,400

(8 marks)

Note 1
* Unrealised profit in inventory (12,000 x 1.4 x 0.30 x 0.40/1.4) = 1,440

QUESTION 4 CONTINUED

(c)

White
Consolidated Balance Sheet at 31 October 2007

	$000	$000
Non current assets		
Tangible - net book value (110,000 + 40,000)		150,000
Intangible - unamortised goodwill (1,600 - [160 x 5])		800
		150,800
Current Assets		
Inventory (13,360 + 3,890 - 1,440)	15,810	
Receivables (14,640 + 6,280 - 7,000 **(note 2)** - 1,200)	12,720	
Bank (3,500 + 2,570)	6,070	
		34,600
		185,400
Capitals and Reserves		
Ordinary shares of $1 each		100,000
General reserves (4,400 + [1,000 - 500 x 70%])		4,750
Accumulated profits **(note 3)**		35,306
Minority interest (40,280 x 30%)		12,084
		152,140
Current liabilities		
Payables	10,260	
Dividends payable to minority interests (10,000 x 30%)	3,000	
Dividends	20,000	
		33,260
		185,400

(15 marks)

Note 2

Exclusion of inter group dividend (10,000 x 70%) = 7,000

Note 3

White			32,100
Less: unrealised profit			1,440
			30,660
Add:			
Power	9,280		
Pre-acquisition	1,500		
	7,780	x 70%	5,446
			36,106
Less: amortised goodwill (160 x 5)			800
			35,306

(Total 25 marks)

QUESTION 5

(a)

Breakeven

Fixed costs (500,000 units x 0.60)	300,000	= 187,500 barrels
Contribution (5.00 - [1.20 + 1.50 + 0.70])	1.60	

(3 marks)

(b)

Fixed costs (450,000 + required profit 700,000)	1,150,000	= 718,750 barrels
Contribution (5.00 - [1.20 + 1.50 + 0.70])	1.60	

(3 marks)

(c)

			Project A $	
Investment			60,000	
Net annual cash inflows				
	Year 1	15,000		
	Year 2	15,000		
	Year 3	15,000		
			45,000	
			15,000	
	Year 4	20,000 x 75% =	15,000	(75% of a year is 9 months)
			nil	

			Project B $	
Investment			60,000	
Net annual cash inflows				
	Year 1	15,000		
	Year 2	15,000		
	Year 3	20,000		
			50,000	
			10,000	
	Year 4	20,000 x 50%	10,000	(50% of a year is 6 months)
			nil	

Payback therefore Project A is 3 years 9 months
Project B is 3 years 6 months

(6 marks)

QUESTION 5 (continued)

(d)

		Project A			Project B		
		$	**$**	**$**	**$**	**$**	**$**
Investment				60,000			60,000
Factor		**Inflow**			**Inflow**		
Year 1	0.909	15,000	13,635		15,000	13,635	
Year 2	0.826	15,000	12,390		15,000	12,390	
Year 3	0.751	15,000	11,265		20,000	15,020	
Year 4	0.683	20,000	13,660		20,000	13,660	
Year 5	0.621	10,000	6,210		5,000	3,105	
Year 5 (scrap)	0.621	5,000	3,105		10,000	6,210	
				60,265			64,020
		Net present value		265	**Net present value**		4,020

(8 marks)

(e)

The payback period of Project A is three months longer than that of Project B

The present value of cash inflows exceeds the present value of cash outflows by $265 in the case of Project A and $4,020 in the case of Project B

In both cases, therefore, Project B is a better financial prospect than Project A

Recommendation: Adopt Project B

(5 marks)

(Total 25 marks)

