

Certificate in Accounting IAS

ASE3902

Level 3

Thursday 4 April 2013

Time allowed: 3 hours

Information

- There are 5 questions in this question paper.
 - Total marks available: 100
 - All questions carry equal marks.
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Instructions

- Do **not** open this paper until you are told to do so by the supervisor.
 - Answer **any 4** questions.
 - Study the “**Required**” section of each question carefully and extract the data required for your answers from the information supplied.
 - Write your answers in blue or black ink/ballpoint. You can only use pencil for graphs, charts, diagrams, etc.
 - Please ensure your answers are written clearly.
 - Begin your answer to each question on a new page.
 - All answers must be correctly numbered but need not be in numerical order.
 - Workings must be shown.
 - You may use a calculator provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.
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QUESTION 1

The Chairman of Cohen Social Club is concerned that sales receipts from the restaurant could have been stolen. The following information has been provided for 2012:

- the restaurant sells food (on which a gross profit on revenue of 20% is expected) and drink (on which a mark up on cost of 30% is expected)
- purchases of food were \$80,000 and purchases of drink were \$50,000
- the closing inventory of food cost \$8,000, which was 25% higher than the cost of the opening inventory of food
- the closing inventory of drink cost \$5,400, which was 10% lower than the cost of the opening inventory of drink
- sales takings (all in cash) were recorded as \$149,000.

The Club's insurance policy has a provision that states only 75% of total cash stolen, can be claimed.

REQUIRED

- (a) Calculate for the year ended 31 December 2012:
- (i) The **actual** gross profit of the restaurant (5 marks)
 - (ii) The **expected** gross profit on food sales in the restaurant (4 marks)
 - (iii) The **expected** gross profit on drink sales in the restaurant (4 marks)
 - (iv) The amount to be claimed from the Club's insurance company. (4 marks)

The Treasurer of Cohen Social Club has suggested that the following could have increased the amount to be claimed in (a) (iv) above:

- (1) expenses may have been paid out of the sales takings before the takings were recorded
- (2) closing inventories may have been under valued
- (3) the expected gross profit of 20%, on food, is too high
- (4) the expected mark up of 30%, on drinks, is too low.

REQUIRED

- (b) State yes or no, and briefly justify your answer, as to whether each of the suggestions from (1) to (4), could have increased the insurance claim in (a) (iv) above. (8 marks)

(Total 25 marks)

QUESTION 2

The following information is available for Hunt , a public company, in respect of 2012:

- (1) the cash generated from operations was \$380,000
- (2) the carrying amount of non-current assets on 1 January was \$700,000 and at 31 December it was \$800,000
- (3) non-current assets, costing \$200,000, were purchased
- (4) non-current assets, costing \$80,000, with accumulated depreciation of \$50,000, were sold for \$20,000
- (5) inventory was valued at \$80,000 on 1 January. Inventory on 31 December was valued at \$90,000, before allowing for a provision for obsolete inventory of 10%
- (6) trade receivables were valued at \$65,000 on 1 January. This figure had decreased by \$5,000 on 31 December, before providing for an allowance for doubtful debts of 5%
- (7) trade payables increased by \$5,000 over the year
- (8) debenture interest at 5% per year had been paid on \$200,000 of debentures, issued on 1 January at a discount of 10%. This discount was written off in the Income Statement
- (9) the final dividend of \$8,000 for 2011 and an interim dividend for 2012 of \$5,000 were paid.
- (10) 50,000 ordinary shares of \$0.50 each were issued at a premium of \$0.20 each.

REQUIRED

Prepare:

- (a) a statement reconciling Hunt's profit for the year for 2012 with the cash generated from operations. (10 marks)
- (b) the Statement of Cash Flows of Hunt for the year ended 31 December 2012, commencing with cash generated from operations. (9 marks)

A shareholder in Hunt has raised the following issues:

- (i) "I was forced to buy further shares as a result of the rights issue of ordinary shares. Why should I have to buy more shares, when the share capital could be increased by the same amount by means of a bonus issue?"
- (ii) "The company treats the debenture holders more favourably than the shareholders. The debenture holders received a discount on their issue, whereas shareholders had to pay a premium."

REQUIRED

- (c) Discuss **each** of the above issues. You should conclude by stating whether or not the shareholder is right, partly right, or wrong. (6 marks)

(Total 25 marks)

QUESTION 3

Ball, a public company, acquired 100% of the ordinary share capital of Banks, a private company, in 2010. The annual accounts for both companies and the group, in respect of 2012, have just been completed. Unfortunately the following items have not been included:

- (1) Sales of \$60,000 by Ball to Banks have been recorded in the books of Ball, but not in the books of Banks or in the group accounts. These goods were sold to Banks at a mark up of 20% on the cost to Ball and only half of them have been resold by Banks (and recorded correctly). The remainder of these goods have not been recorded in the inventories of Ball, Banks or the group.
- (2) A payment of \$15,000, made by Banks to Ball, in respect of another intercompany transaction, has not been recorded in the books of Ball or in the group accounts.
- (3) Administrative charges of \$7,000, made by Ball to Banks, have not been recorded anywhere.
- (4) Goodwill impairment of \$20,000 has not been recorded anywhere. The goodwill arose on the acquisition of Banks.
- (5) Bad debts of \$9,000, relating to the receivables of Banks, have been incorrectly charged in the accounts of Ball and not in the accounts of Banks. They have been charged in the group accounts.
- (6) Obsolete inventory of \$15,000, included in the closing inventory of Ball, had not been written off anywhere.
- (7) Other receivables of \$1,000, relating to Banks, had not been recorded in the accounts of Banks or anywhere else.

REQUIRED

Calculate the increase/(decrease) in profit in respect of **each** of the following, after making the corrections resulting from (1) to (7) above:

- | | |
|---------------------|-----------|
| (a) Ball | (8 marks) |
| (b) Banks | (9 marks) |
| (c) the Ball group. | (8 marks) |

Note: If an item has no effect on profit for (a) or (b) or (c), you should state "no effect".

(Total 25 marks)

QUESTION 4

The Hurst Theatre relies on profit made from their performances over the winter festive season.

In recent years, variable costs have been 15% of the admission fees for the evening shows and 10% of the admission fees for the afternoon shows. These relationships are expected to continue. The Theatre has a capacity of 300 seats and fixed costs (excluding actors' wages) of \$3,000 per week.

The Theatre also has a restaurant which, on average, produces a contribution of \$0.50 for each person attending the show.

The Theatre is considering two options to improve profits for the coming festive season:

Option 1 – Employ local actors in the production, with total wages of \$80,000 for the 6 week period the show would be expected to run. Each week there will be 7 shows in the evening and 2 shows in the afternoon. Attendance is estimated at 90% of capacity in the evenings and 70% of capacity in the afternoons. Admission prices would be \$20 per person.

Option 2 – Employ a famous television actor, along with local actors. This would cost \$250,000 in total wages for the 7 week period the show would be expected to run. Each week there will be 7 shows in the evening and 3 shows in the afternoon. Attendance is estimated at 95% of capacity in the evenings and 65% of capacity in the afternoons. Admission prices would be \$25 per person.

REQUIRED

- (a) Calculate the budgeted profits for the winter festive season, in respect of **Option 1** and in respect of **Option 2**.

Note: All calculations should be rounded up to the nearest \$.

(13 marks)

- (b) For **each** of **Option 1** and **Option 2** calculate the following:

- (i) the expected total attendance for the period of the show
- (ii) the average contribution per person attending the show
- (iii) the total attendance required in order for the show to break even.

Note: Assume that, for each option, the proportion of attendance between evening and afternoon shows remains constant. All calculations should be rounded to the nearest whole number.

(8 marks)

A Supporter of the Theatre is opposed to using a famous television personality. He feels that paying an extra \$170,000 to one performer is unacceptable. He also feels that this option would take jobs away from local actors.

REQUIRED

- (c) Briefly discuss **each** of the Supporter's objections to **Option 2** and conclude whether or not they are valid.

(4 marks)

(Total 25 marks)

QUESTION 5

Doyle, a sole trader, has provided the following information:

- (1) at 31 December 2012:
- there was a bank overdraft of \$4,263
 - closing inventory was \$12,000 (the same as it had been on 1 January 2012)
 - current assets consisted only of the inventory and trade receivables
 - current liabilities consisted only of the bank overdraft and trade payables
 - there were no non-current liabilities.
- (2) relevant ratios:
- | | |
|---|------------|
| - current (working capital) | 2.4 : 1 |
| - acid test (liquidity) | 1.6 : 1 |
| - return on capital employed (based on opening capital) | 40% |
| - net profit to revenue | 6% |
| - depreciation to expenses (other than cost of goods sold) | 25% |
| - drawings to net profit | 60% |
| - receivables' collection period (based on closing receivables) | 1.6 months |
| - payables' settlement period (based on closing payables). | 1.5 months |

REQUIRED

- (a) Prepare, in as much detail as possible, Doyle's Income Statement for the year ended 31 December 2012, and his Statement of Financial Position at that date. (16 marks)

The following information relates to James, a public company, for 2011 and 2012:

	2011	2012
Price earnings ratio	6.5	6.0
Earnings per share	\$0.5	\$0.6
Dividend cover	4 times	5 times

REQUIRED

- (b) Calculate (to 2 decimal places) the following ratios for James in respect of **both 2011 and 2012**:
- (i) earnings yield
 - (ii) dividend yield. (6 marks)
- (c) Briefly explain the significance of the price earnings ratio. (3 marks)

(Total 25 marks)