Pearson LCCI

Certificate in Accounting (IAS)

Level 3

Friday 4 April 2014

Time: 3 hours

Paper Reference

ASE3902

You will need:
An answer book

Instructions

- Do **not** open this examination paper until you are told to do so by the supervisor.
- Use **black/blue** ink or ball-point pen
  - pencil can only be used for graphs, charts, diagrams, etc.
- Ensure your answers are written clearly.
- Begin your answer to each question on a new page.
- Write on both sides of the page.
- All answers must be correctly numbered but need not be in numerical order.
- If you need more space, use the additional sheets provided. Write your name, candidate number and question number on each sheet and attach them to the inside of your answer book. State the number of additional sheets attached on the front of your answer book.
- Answer any **four** questions from the five available.
- Study the **Required** sections of each question carefully and extract the data required for your answers from the information supplied.
- Workings must be shown.

Information

- The total mark for this paper is 100.
- There are five questions in this question paper
  - *each question carries equal marks.*
- The marks for **each** question are shown in brackets
  - *use this as a guide as to how much time to spend on each question.*
- 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.

Advice

- Read each question carefully before you start to answer it.
- Check your answers carefully if you have time at the end.

Turn over ▶

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Answer ANY FOUR questions.

1 Higgs, a private company, purchased a computer system on 1 January 2014 for $50,000. The company expects to use the system for 4,000 hours in 2014, but usage will decline by 20% on the previous year, in each of the years 2015, 2016 and 2017. The residual value on 31 December 2017 (the end of the computer system's useful life) is estimated at $6,480.

The following methods of depreciation are being considered:

(i) Straight line

(ii) Reducing balance (at 40% per year)

(iii) Sum of the years' digits

(iv) Machine hour

Required

(a) Calculate the depreciation to be charged on the computer system for **each** of the years 2014, 2015, 2016 and 2017, using **all** of the methods being considered.

(10)

(b) State which of the above methods you consider to be most appropriate, giving **two** reasons for your choice.

(3)

In 2013, Broad, a private company, built a new warehouse. The following expenditure was incurred:

	$	$
Purchase of land		200,000
Legal fees (75% related to the purchase of the land, 25% related to the dismissal of an employee for refusing to work on the building of the warehouse)		30,000
Clearance of the site prior to starting to build		10,000
Building materials		40,000
Labour – specially hired for building work	25,000	
own labour (including 25% mark up to cover administration costs)	20,000	
compensation paid to employee after dismissal	2,000	47,000
Annual insurance premium (covering the risks of fire and theft of contents in 2013)		3,000
Electrical installation		4,000
Connecting water supply		2,000
Cost of flood damage (caused by heavy rainfall) – redecoration	2,700	
repairs (including $2,500 cost of flood prevention equipment)	6,300	9,000
		345,000

Required

(c) Prepare a schedule, ignoring depreciation, showing how the $345,000 should be divided between:

(i) the cost of the land and buildings appearing in the Statement of Financial Position

AND

(ii) the amounts written off as expenses in the Income Statement.

(10)

(d) State which item(s), included in (c) (i) above, should **not** be depreciated.

(2)

(Total for Question 1 = 25 marks)

2 An inexperienced book-keeper at Lamb, a private company, has prepared the following Cash Budget for the year ending 31 December 2014:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	$	$	$	$
Receipts				
Cash sales	2,000	3,000	3,000	3,500
Trade receivables	180,000	200,000	190,000	220,000
Sale of non-current assets	–	4,000	–	–
	182,000	207,000	193,000	223,500
Payments				
Cash purchases	1,800	2,700	2,250	900
Trade payables	147,000	149,000	180,000	190,000
Wages	30,000	30,000	30,000	30,000
Depreciation	2,000	2,000	1,800	1,800
Sundry expenses	1,500	1,500	1,500	1,500
	182,300	185,200	215,550	224,200
Surplus / (Deficit)	(300)	21,800	(22,550)	(700)
Opening balance	2,000	1,700	23,500	950
Closing balance	1,700	23,500	950	250

On further investigation the following errors were discovered:

(1) Receipts from cash sales had not taken account of the 5% discount given on all cash sales.

(2) The figures for receipts from trade receivables show the credit sales for the previous quarter. Lamb expects 75% of its trade receivables to be paid in the quarter of sale and the remaining 25% to be paid in the quarter following the quarter of sale. Sales in Quarter 4 2014 are expected to be $200,000.

(3) The receipt from the sale of non-current assets relates to an asset (cost $8,000, accumulated depreciation $4,000) sold for $3,000, receivable in Quarter 2.

(4) Payments for cash purchases have been calculated after deducting a discount of 10%. This should be only 8%.

(5) Payments for credit purchases have been overstated by $3,000 in each of the first two quarters, and by $4,000 in each of the last two quarters.

(6) The opening balance for Quarter 1 should have been $2,000 overdrawn.

Required

(a) Prepare a corrected Cash Budget, for the year ending 31 December 2014, using the **same format** as given on page 4.

(17)

(b) State **four** ways in which the company's cash balance can be increased, giving **one** possible disadvantage for each way stated.

(8)

(Total for Question 2 = 25 marks)

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3 Hick, an electrician, completed his first year in business on 31 March 2014. He has no accounting knowledge and has asked an accountant to prepare his annual accounts for a fee of $250.

He has provided the following information:

(1) On 1 April 2013, he paid $16,500 into a business bank account and introduced into the business his car (valued at $3,000 and with an expected life of 10 years).

(2) Other business bank account transactions were:

– receipts from receivables $25,700

– purchase of 10 year lease on warehouse for $10,000 on 1 April 2013

– drawings of $90 per week

– purchase of electrical equipment for $7,000 on 1 April 2013 (expected useful life 5 years)

– electricity $1,047; motor expenses $1,326; general expenses $317

– trade purchases $11,600 (there were no trade payables at 31 March 2014)

– payment for holiday, $700.

(3) Cash transactions consisted of $3,420 cash sales, 70% of which were taken as drawings and the remainder used to pay general expenses.

(4) At 31 March 2014, the accountant had still to be paid, accrued electricity was $323, and inventory costing $420 remained in the warehouse.

(5) Cash and credit sales for the business year totalled $34,800. 10% of the value of receivables at 31 March 2014 are likely to be bad debts.

(6) All non-current assets are to be written off evenly over their expected useful life, assuming a zero residual value.

Required

(a) Prepare, for the year ended 31 March 2014, the:

(i) summarised Bank Account

(ii) Income Statement.

(13)

(b) Prepare the Statement of Financial Position at 31 March 2014.

(8)

(c) Identify **three** advantages and **one** disadvantage of employing a part-time book-keeper.

(4)

(Total for Question 3 = 25 marks)

4 Lloyd, a public company, acquired 80% of the Ordinary Shares of Cork, a private company, on 1 January 2012, for $320,000. On that date Cork had an issued share capital of 100,000 $1 Ordinary Shares and retained earnings (the only reserve) of $150,000. At 31 December 2012, Lloyd had retained earnings of $500,000 and Cork had retained earnings of $220,000. All goods transferred between the two companies had been resold during the year. Goodwill is impaired by 10% at 31 December 2012.

Required

(a) Calculate:

(i) the goodwill arising on the acquisition of Cork at 1 January 2012

(ii) the consolidated retained earnings of Lloyd at 31 December 2012.

(5)

In the year ended 31 December 2013:

(1) Lloyd's revenue was $90,000 on which a gross profit to revenue margin of 25% was earned. These revenues include $20,000 to Cork, half the value of which had yet to be resold by Cork.

(2) Group sales (including intercompany sales) were $170,000 and Cork had a gross profit to revenue margin of 20%.

(3) Lloyd's operating expenses were $7,800 and Cork's net profit to revenue margin was 10%.

(4) An impairment test on 31 December 2013 showed that goodwill should be written down by $12,000.

(5) Dividends paid were: Lloyd $4,000, Cork $2,000.

Required

(b) Prepare the Consolidated Income Statement of Lloyd for the year ended 31 December 2013.

(11)

Prior, a private company, sold goods to its parent company, Finn, a public company, for $60,000 on 1 December 2013. The mark up on cost was 25% and on 31 December 2013 (the Group's year end), one quarter of the value of these goods remained in Finn's inventory. Finn holds 70% of the Ordinary Shares of Prior.

Required

(c) Prepare a memorandum journal entry showing the adjustment necessary in the consolidated accounts in respect of inventory. A narrative is required.

(5)

The going concern concept requires that the preparers of financial statements assume the business will continue to operate for the foreseeable future, unless there is evidence to suggest otherwise. An example of such evidence would be large losses.

Required

(d) State **four** other examples of evidence which could indicate that a business is not a going concern.

(4)

(Total for Question 4 = 25 marks)

Question 5 starts on the next page.

5 The following information has been extracted from (or results from an analysis of) the draft accounts of Capel, a private company, for the year ended 31 December 2013:

Revenue	$800,000
Gross profit to revenue ratio	40%
Net profit to revenue ratio	10%
Current ratio	1.5 : 1
Acid test ratio	1.0 : 1
Inventory at 31 December 2013	$80,000
Purchases of goods for resale	$500,000

Required

(a) Calculate the following amounts:

(i) Net profit for 2013

(ii) Inventory at 1 January 2013

(iii) Current liabilities at 31 December 2013

(7)

A clerk in the finance department of Capel has made the following comments:

(1) "The difference of 30% between the gross and net profit ratios shows that expenses are under control. The higher this difference the better."

(2) "The acid test ratio shows that there is no problem with liquidity. It shows that all liabilities could, if necessary, be settled immediately."

Required

(b) State whether or not **each** of the above comments is correct, giving reasons for your choices.

(6)

After a review of the draft accounts, adjustments are required in respect of each of the following:

(1) Accrued electricity, $300

(2) Writing off obsolete inventory, $800

(3) Discounts allowed, $200

(4) Bad debts, $600

(5) Unrecorded credit sales, $900*

(6) The sale (on credit) of a fully depreciated machine for, $320

(7) Prepaid rent, $80

*The closing inventory, of $80,000 was correct.

Required

(c) Calculate (to two decimal places) the following revised ratios:

(i) Gross profit to revenue

(ii) Net profit to revenue

(iii) Current

(iv) Acid test

(12)

(Total for Question 5 = 25 marks)

TOTAL FOR PAPER = 100 MARKS

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