

Series 3 Examination 2012

CERTIFICATE IN ACCOUNTING IAS

Level 3

Thursday 7 June

Subject Code: 3902

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer **any 4** questions. There are no compulsory questions.
- All questions carry equal marks.
- 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.
- 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.
- Marks may be lost through lack of neatness and poor presentation.

QUESTION 1

Problems in the Accounts Department of Sheen, a private company, have meant that, at 31 December 2011:

- the balance on the company's bank statement does not reconcile with the balance on the company's Bank Account
- the balance on the company's Sales Ledger Control Account does not agree with the net total of the balances from the Sales Ledger
- the balance on the company's Purchase Ledger Control Account does not agree with the net total of the balances from the Purchase Ledger.

On investigation the following errors have been discovered:

- (1) Unpresented deposits of \$2,104 have been deducted from the balance on the bank statement, as a reconciling item.
- (2) Contras of \$80 between the Purchase Ledger and the Sales Ledger have been entered in the individual accounts, but not in either of the respective Control Accounts.
- (3) The Sales Day Book has been under added by \$710 and the Purchase Day Book has been over added by \$830.
- (4) No entries have been made in the books in respect of the refund of \$73 to a receivable who had overpaid. This appeared on the bank statement on 31 December 2011.
- (5) Bank charges of \$80 have been deducted from the balance on the bank statement as a reconciling item. No entries have been made for the \$80 in the double entry records.
- (6) A Sales Ledger debit balance of \$74 had been shown as a credit balance in the list of Sales Ledger balances.
- (7) The total of the list of Purchase Ledger balances should have been \$72,137 but was incorrectly added as \$72,317.
- (8) No entry has been made, in any of the records, of a bad debt to be written off, of \$731.
- (9) Depreciation of \$2,100 has been debited to the Bank Account and credited to Accumulated Depreciation Account. This does not appear among the adjustments to the balance on the bank statement.

REQUIRED

Prepare statements, showing the net effect of the adjustments necessary, in respect of the errors (1) to (9) above, to each of the following:

- (i) the balance on the bank statement (for purposes of reconciliation with the balance on the bank account.)
- (ii) the balance on the Bank Account
- (iii) the balance on the Sales Ledger Control Account
- (iv) the total of the list of Sales Ledger balances
- (v) the balance on the Purchase Ledger Control Account
- (vi) the total of the list of Purchase Ledger balances
- (vii) the net profit for the year ended 31 December 2011.

(Total 25 marks)

QUESTION 2

Pen, a public company, paid \$280,000, on 31 March 2011, to acquire 70,000 \$1 ordinary shares in Mill, a private company. On that date Mill's retained earnings were \$47,000. Extracts from the draft Statement of Financial Position of the two companies, at 31 March 2012, were as follows:

	Pen	Mill
	\$	\$
Inventory in hand	121,000	73,200
Trade receivables	81,200	19,800
Bank	9,000	11,400
Trade payables	(64,200)	(21,700)
Dividends payable (proposed before the year end)	(21,300)	(10,000)
Ordinary shares of \$1 each	(200,000)	(100,000)
Share premium	(40,000)	(30,000)
Revaluation reserve	(30,000)	(Nil)
Retained earnings	(201,400)	(103,000)

The following additional information is available:

- (1) The trade receivables of Pen include \$20,000 owed by Mill. The trade payables of Mill include \$2,000 owed to Pen. The difference between inter-company balances is due to:
 - goods invoiced to Mill for \$12,000, and sent on 30 March 2012, which arrived on 2 April 2012. These goods were invoiced to Mill at the cost to Pen plus a mark up of 20%
 - a payment of \$6,000 sent by Mill to Pen which was not recorded in Pen's books until 3 April 2012.
- (2) The closing inventory of Mill includes goods invoiced at \$9,000 by Pen. These goods were also invoiced to Mill at the cost to Pen plus a mark up of 20%.
- (3) Pen has not accrued its share of the dividend payable by Mill.
- (4) Goodwill on acquisition has been impaired by 20% in the year.

REQUIRED

- (a) Calculate the following balances, which will appear in the Consolidated Statement of Financial Position of the Pen group at 31 March 2012:
 - (i) goodwill
 - (ii) inventory
 - (iii) trade receivables
 - (iv) bank
 - (v) trade payables
 - (vi) dividends payable
 - (vii) retained earnings
 - (viii) non-controlling interest.

(20 marks)

It is subsequently discovered that a provision for obsolete inventory of \$8,000 had been omitted from the accounts of Pen, and another payable for electricity of \$1,000 had been omitted from the accounts of Mill.

QUESTION 2 CONTINUED

REQUIRED

(b) Calculate the increase or decrease in each of the following balances, appearing in the Statement of Financial Position of the Pen group, at 31 March 2012:

- (i) retained earnings
- (ii) non-controlling interest.

(5 marks)

(Total 25 marks)

QUESTION 3

The summarised financial statements of Bar for 2011 were as follows:

		\$	\$
Revenue (all on credit)			164,250
Cost of goods sold:	Opening inventory	34,600	
	Purchases (all on credit)	<u>152,100</u>	
		186,700	
	Closing inventory	<u>(37,200)</u>	<u>149,500</u>
Gross profit			14,750
Expenses			<u>8,100</u>
Net profit			<u><u>6,650</u></u>

Statement of Financial Position at 31 December 2011

	\$	\$
Non-current assests		40,000
Current assests		
Inventory	37,200	
Trade receivables	11,400	
Other receivables	2,000	
Bank	<u>10,200</u>	
		<u>60,800</u>
Total assets		<u><u>100,800</u></u>
Capital	\$	\$
Opening balance		87,000
Net profit		<u>6,650</u>
		93,650
Drawings		<u>3,950</u>
		89,700
Current liabilities		
Trade payables	10,200	
Other payables	<u>900</u>	
		<u>11,100</u>
Total equity and liabilities		<u><u>100,800</u></u>

Bar's new bank manager has requested budgeted financial statements for 2012. Bar has provided the following budgeted information for 2012:

- (1) revenue in 2011 is 90% of the budgeted revenue for 2012 and the trade receivables collection period in 2012 is expected to be 30 days
- (2) trade payables are expected to increase by 15% in 2012 and the expected trade payables' settlement period for 2012 is 25 days
- (3) the revenue to non-current asset ratio at the end of 2012 will be 5 times
- (4) other receivables will increase by 20% in 2012 and other payables will decrease by 5% in 2012
- (5) the gross profit to revenue ratio will be 10% and the net profit to revenue ratio will be 4%
- (6) drawings will be 40% of net profit.

QUESTION 3 CONTINUED

REQUIRED

- (a) Prepare, in the same format as the question, the summarised budgeted financial statements of Bar for 2012.

NOTE: Assume that there are 365 days in every year.

(17 marks)

Bar, who does not see any benefit from preparing budgeted accounts, has made the following comments:

- (i) "All that matters is having a sizeable bank balance. I've always had that and I prepare a bank reconciliation every month. I have run this business for 20 years and never needed a budget."
- (ii) "I only sell goods in our local market. It snowed for a month last year and I sold very little in that month. Unless you can predict the weather you can't predict my sales."
- (iii) "This new bank manager is a nuisance. The previous bank manager was also my golf partner and left my business alone. It isn't my fault that the bank nearly went out of business during the banking crisis."

REQUIRED

- (b) Discuss **each** of Bar's comments.

(8 marks)

(Total 25 marks)

QUESTION 4

Deep and Dene are in partnership and on 31 December 2011, before appropriating the profit for the year, the following balances were extracted from their books:

	Capital Accounts \$	Current Accounts \$
Deep	60,000 Cr	8,000 Dr
Dene	20,000 Cr	3,000 Cr

Their partnership agreement includes the following terms:

- (1) Interest is to be charged, at 10%, on any debit balance on a partners' current account, before appropriations, at the end of the financial year
- (2) Interest is to be allowed, at 6%, on the closing balance on partners' capital accounts at the end of the financial year
- (3) Deep and Dene are to be allowed salaries of \$500 per month and \$200 per month respectively
- (4) Residual profit (loss) is to be shared between Deep and Dene in the ratio 3:1 respectively.

The net profit of the partnership for 2011 was \$60,000.

REQUIRED

- (a) Prepare the Appropriation Account of the Deep and Dene partnership for 2011. (7 marks)

After the partnership Income Statement and Statement of Financial Position had been prepared, the following errors were discovered:

- A. Machinery, introduced by Deep on 1 July 2011 as additional capital and valued at \$8,000, had not been recorded. The partnership depreciates machinery at 10% per year on cost, calculated on a monthly basis.
- B. No provision had been made for obsolete inventory of \$4,000. Deep's Current Account balance had been miscalculated and should have been \$9,800 Dr at 31 December 2011.
- C. Drawings of \$2,000 by Deep and \$1,000 by Dene had not been recorded in their Current Accounts.

REQUIRED

- (b) Copy the following table into your answer book:

	Deep \$	Dene \$
Error A	Interest on current account	
	Interest on capital account	
	Residual profit	
Error B	Interest on current account	
	Interest on capital account	
	Residual profit	
Error C	Interest on current account	
	Interest on capital account	
	Residual profit	

Enter, in each case, whether the amount by which the figure calculated in (a) above will be increased (e.g. + 50) decreased (e.g. – 20) or unchanged (write 'nil'). Eighteen entries are required.

(14 marks)

QUESTION 4 CONTINUED

Deep's husband has suggested that his wife should have made a transfer between her Capital Account and her Current Account to save the interest charged to her in the Appropriation Account. Dene has replied that she cannot do this as the capital account balances reflect the profit sharing ratio, although there is no mention of this in the partnership agreement.

REQUIRED

- (c) Discuss whether or not:
- (i) the husband's suggestion is sensible
 - (ii) Dene's objection is valid

(4 marks)

(Total 25 marks)

QUESTION 5

Haw, a private company, uses milk, cream and cocoa to manufacture ice cream and chocolate. Both are sold from a shop some distance from the factory. The company employs the following personnel:

- six factory employees, who operate the machines used to produce the ice cream and chocolate
- two shop assistants, who run the company shop
- two van drivers who transport milk, cream and cocoa to the factory, and who also deliver ice cream and chocolate to the company shop.

REQUIRED

(a) State what percentage of each of the following costs (100%, 50% and 0% are the only possible answers) should be included in the production cost of Haw's ice cream and chocolate, and briefly explain your choice:

- (i) milk, cream and cocoa
- (ii) factory employee's wages
- (iii) shop assistants' wages
- (iv) van drivers' wages.

(9 marks)

Information about Haw's inventory at 31 December 2011 is as follows:

	Number of items	Factory cost per item \$	Sales price per item \$	Selling costs per item \$
Milk chocolate	2,100	0.70	1.40	0.40
Dark chocolate	700	0.80	1.70	0.50
Vanilla ice cream	400	1.20	1.40	0.10
Strawberry ice cream	150	1.10	1.15	0.09
Pineapple ice cream	300	0.30	0.35	0.06

REQUIRED

(b) Calculate (in accordance with IAS 2) the total value of Haw's inventory at 31 December 2011.

(11 marks)

Haw had purchased a chocolate making machine on 1 January 2010, for \$16,000, and started depreciating it at 10% per year on a straight line basis, assuming a nil scrap value. On 31 December 2011 this machine was revalued at \$12,000, with a scrap value of \$4,000 after a remaining useful life of only 4 years.

It was decided to use the revalued amount as the net book value at 31 December 2011, when calculating depreciation for 2011, and to calculate depreciation for 2012 on a straight line basis, using all the new information.

REQUIRED

(c) Calculate the depreciation charged on the chocolate making machine for each of 2010 and 2011 and the depreciation to be charged for 2012.

(5 marks)

(Total 25 marks)