Pearson LCCI

Certificate in Accounting (IAS)

Level 3

Friday 6 June 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, on the front of your answer book, the number of additional sheets attached.
- 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 Snow, a public company, usually counts its inventory on 31 January (the company's year end). However, in 2014, the year end inventory count was delayed until 5 February. Snow also has an Inventory Account, kept on a perpetual basis.

The Inventory Account showed a balance of $490,200 on 31 January 2014. The cost of the inventory based on the inventory count on 5 February 2014 was $480,317.

The Managing Director suggested that $480,317 be shown as inventory in the year end financial statements. He felt (1) it was prudent to include the lower figure, (2) the dates were only five days apart and (3) doing this would save the expense of further checks and calculations.

The Finance Director insisted that the cost based on the inventory count should be adjusted to take into consideration the transactions taking place in the five days. He also felt that an investigation should take place into any remaining difference between the Inventory Account balance and the valuation based on the inventory count.

The following (summarised) transactions took place between 1 February and 5 February 2014:

	$
Purchases	17,256
Sales (at selling price)	11,520
Purchase returns	384
Sales returns (at selling price)	456

All sales were made at a mark-up on cost of 20%.

Required

(a) State whether the Managing Director's suggestion is acceptable or not and briefly comment on **each** of the three points made by him.

(4)

(b) Calculate the cost of inventory at 31 January 2014, by making the adjustments to the figure of $480,317, resulting from the transactions that took place between 1 February and 5 February 2014.

(7)

As there was still a big difference between the Inventory Account balance and the adjusted cost from (b), further checks were carried out, resulting in the discovery of the following errors:

(1) An inventory count sheet, with a total on it of $7,100, had been entered twice, whilst another inventory count sheet, with a total on it of $350, had been omitted

(2) A purchase of $470 and a sale of $480 (selling price) had not been recorded in the Inventory Account

(3) 500 items, costing $5 per 100 items, had been entered in the inventory count sheets at $5 per item

(4) An item costing $700 had been entered in the Inventory Account at its sales value

(5) Obsolete items costing $500 in total, which should have been thrown away, were included in the Inventory Account at $500 and in the inventory count sheets at $250

(6) A recently purchased non-current asset, stored in the warehouse, had been included in the inventory count sheets at $400

(7) The purchase of an item had been credited in the Inventory Account at its selling price of $300.

Required

(c) Calculate:

(i) the corrected balance on the Inventory Account at 31 January 2014

(7)

(ii) the corrected (adjusted) cost of inventory derived from the inventory count.

(7)

(Total for Question 1 = 25 marks)

2 Cook's actual summarised Statement of Financial Position at 31 December 2013 and his budgeted summarised Statement of Financial Position at 31 December 2014 are as follows:

	2013	**2014**
	$000	**$000**
Non-current assets: cost	380	455
accumulated depreciation	160	198
	220	257
Inventory	37	53
Receivables	51	68
Bank	–	40
	308	418
	$000	**$000**
Capital account: opening balance	172	263
profit for year	91	112
	263	375
Payables: trade	27	32
expenses	9	11
Bank overdraft	9	–
	308	418

No non-current assets are expected to be disposed of in 2014.
Cook's inventory at 31 December 2012 was $33,000.

The following ratios calculated for 2013 are expected to remain the same in 2014:

Gross profit to revenue	25%
Net profit to revenue	7%

Required

(a) Prepare, as accurately as possible, Cook's Income Statement for the year ended 31 December 2013.

(6)

Cook charges depreciation on the cost of non-current assets held at the beginning of the year but not on the cost of assets purchased during the year.

Required

(b) Calculate the budgeted percentage rate of depreciation for 2014.

(2)

(c) Calculate the following items for inclusion in Cook's cash budget for 2014:

(i) Receipts from customers

(4)

(ii) Payments to trade payables

(6)

(iii) Payments for expenses

(5)

(iv) Payments for non-current assets

(2)

(Total for Question 2 = 25 marks)

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3 Trott, a public company, acquired 80% of the 100,000 $1 Ordinary Shares in Smith, a public company, on 31 December 2012. The retained earnings of Smith on that date (the only reserve) were $60,000. A fair value adjustment was made under which non-current assets were increased from $160,000 to $180,000. The goodwill arising on the acquisition was $80,000.

Required

(a) Calculate the amount paid by Trott for the shares in Smith on 31 December 2012.

(5)

Draft consolidated accounts for the year ended 31 December 2013 have been prepared showing consolidated retained earnings of $240,000. Adjustments are required in respect of the following:

(1) A 20% impairment of goodwill arising on the acquisition of Smith

(2) Depreciation at 10% per year on a straight line basis (assuming a zero residual value) on the fair value adjustment to Smith's non-current assets at the time of acquisition

(3) Trott's payables and Smith's receivables include $30,000 in respect of goods sold by Smith to Trott

(4) Smith's payables and Trott's receivables include $20,000 in respect of goods sold by Trott to Smith

(5) Goods, which cost Trott $40,000, were sold to Smith for $80,000. These had been correctly recorded in each company's accounting records. However, half the value of these goods remained unsold on 31 December 2013

(6) Goods, which cost Smith $20,000 were sold to Trott for $35,000. These had been correctly recorded in each company's accounting records. However, one third of the value of these goods remained unsold on 31 December 2013

(7) Interest owing of $12,000, on borrowing by Smith, had not been recorded by Smith and therefore omitted from the draft consolidated accounts.

Note: The non-controlling interest shareholders bear their share of unrealised profit on inventory sold by Smith to Trott.

Required

(b) Prepare memorandum journal entries showing the adjustments necessary to the draft consolidated retained earnings, non–controlling interest, and other items appearing in the Consolidated Statement of Financial Position of Trott at 31 December 2013.
Narratives are **not** required.

(20)

(Total for Question 3 = 25 marks)

4 Gower, Lever and Bell were in partnership sharing profits (and losses) on the basis of the following terms in their partnership agreement:

Interest on fixed capitals of 5% per year

Salaries (per year) – Gower \$3,600; Lever \$2,400; Bell \$1,200

Profit sharing ratio – Gower 2 : Lever 2 : Bell 1

The partners have separate capital and current accounts. The balances on these at 1 January 2013 were as follows:

capital – Gower \$20,000; Lever \$20,000; Bell \$12,000

current – Gower \$3,000 (Cr); Lever \$12,000 (Dr); Bell \$1,000 (Cr)

The partnership year end is 31 December.

On 31 March 2013, Bell left the partnership. It was agreed that goodwill was worth \$60,000 and that the adjustment necessary to recognise Bell's share of this would be made within their fixed capital accounts. The amount owing to Bell on his capital account would be settled by a transfer to him of a partnership vehicle, valued at \$2,000 and a payment by cheque. Bell also received a cheque in respect of his current account balance.

The terms of the partnership agreement between Gower and Lever included the following basis for sharing profits (and losses):

Interest on fixed capitals of 4% per year from 1 April 2013

Salaries (per year) – Gower \$4,000; Lever \$6,000

Profit sharing ratio – Gower 3 : Lever 2

On 1 October 2013, Knott joined the partnership. He introduced \$40,000, which included \$20,000 for his share of the (revalued) goodwill. The adjustment necessary in respect of goodwill was again to be made in their fixed capital accounts.

The terms of the partnership agreement between Gower, Lever and Knott included the following basis for sharing profits (and losses):

Interest on fixed capitals of 8% per year from 1 October 2013

Salaries (per year) – Gower \$3,600; Lever \$2,400; Knott \$1,200

Profit sharing ratio – Gower 2 : Lever 2 : Knott 1

Goodwill is not to be included permanently in the capital accounts at any time.

Required

(a) Prepare, in columnar form, the fixed capital accounts of the partnership for 2013 showing the balances on 1 April (after Bell's departure) and 1 October (after Knott's admission).

(7)

In the year ended 31 December 2013 sales of $300,000 were made, earning a net profit of 20%. Half of all sales were made in the period 1 April to 30 September and a quarter in the periods 1 January to 31 March and 1 October to 31 December.

Required

(b) Prepare, in columnar form, the current accounts of the partnership for 2013 showing the balances at 31 March, 30 September and 31 December.

(12)

A student, looking at the above accounts, made the following observations:

(1) "Drawings have been missed out of the current accounts. This means that all the calculations will have to be reworked. This obvious omission makes me wonder what other mistakes have been made."

(2) "It seems unfair to give interest on fixed capital to Lever when his current account had a debit balance on it. Perhaps interest should be charged on debit balances on current accounts."

Required

(c) Make comments on **each** of the above observations.

(6)

(Total for Question 4 = 25 marks)

5 The balance on Swann's Sales Ledger Control Account does not agree with the total of the balances extracted from the Sales Ledger. Also, the balance on his bank statement, $14,200 overdrawn, does not agree with the balance according to his Cash Book. His Control Accounts are part of his double entry system and his individual Receivables' and Payables' Accounts are regarded as memorandum records.

The following information has been provided:

(1) A page in the Sales Day Book has been under added by $400

(2) Bank charges of $37, appearing in the bank statement, have not been recorded in the Cash Book

(3) Cheques totalling $723 and deposits totalling $214 have yet to appear in the bank statement

(4) Contras of $257 have been entered the wrong way round in the individual Receivables' and Payables' Account and not entered at all in the Sales Ledger Control Account and Purchase Ledger Control Account

(5) A receipt of $74, not relating to Swann, has been wrongly entered on the bank statement

(6) A debit balance of $75 on a receivable's account has been wrongly listed as a credit balance

(7) No entries have been made in respect of a bad debt of $84

(8) An invoice for $756 has been entered in the Sales Day Book as $657

(9) Discount allowed of $27 has been posted to the wrong side of a receivable's account.

Required

(a) Prepare Journal entries to correct the errors in Swann's double entry records. Narratives are **not** required.

(9)

(b) Show the adjustments to the balance on the bank statement, necessary for purposes of reconciling with the corrected balance in the Cash Book.

(3)

(c) Calculate the net change to the total of balances extracted from the Sales Ledger.

(5)

(d) Calculate the net change to Swann's profit for the period.

(4)

One method of making payments through a bank is by standing order.

Required

(e) Explain what is meant by a **standing order** and give **one** example of when it might be used.

(4)

(Total for Question 5 = 25 marks)

TOTAL FOR PAPER = 100 MARKS

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