LCCI International Qualifications from EDI

Certificate in Accounting IAS

ASE3902

Level 3

Wednesday 7 November

Time allowed: 3 hours

Information

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

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.

QUESTION 1

The Treasurer of the Hill Social Club has, in error, paid an electricity bill for $710, twice. This payment was also entered in the books twice. The bill was in respect of consumption for the three month period ending on 31 May 2012.

The electricity supplier has acknowledged the double payment and it has been agreed that it will be offset against future bills. At 30 June 2012, the club's year end, it was estimated that $300 worth of electricity had been consumed since 31 May 2012.

REQUIRED

(a) Prepare, for the Treasurer of the Hill Social Club, a journal entry enabling the correct charge for electricity to be shown in the Income and Expenditure Account for the year ended 30 June 2012. A narrative is required.

(3 marks)

For several years (including the year ended 30 June 2011) the restaurant of the Social Club had a gross profit to revenue ratio of around 40%. For the year ended 30 June 2012 it was only 28.75%. Extracts from the restaurant Income Statement for that year are as follows

		$	$
Revenue			80,000
Cost of goods sold:	Opening inventory	7,000	
	Purchases	60,000	
		67,000	
	Closing inventory	10,000	57,000
Gross profit			23,000

The Treasurer, who suspects goods may have been stolen, has asked the Restaurant Manager to explain the reduction in gross profit to revenue ratio. The Restaurant Manager has made the following suggestions:

(i) there has been a change in revenue mix: more low margin biscuits have been sold and fewer high margin cakes have been sold.
(ii) the opening inventory may have been over valued as the inventory count was not supervised last year.

REQUIRED

(b) Calculate the cost of the goods which may have been stolen during the year ended 30 June 2012, on the assumption that the gross profit to revenue ratio should have been 40%.

(3 marks)

(c) Calculate the selling price of the goods which may have been stolen during the year ended 30 June 2012, on the assumption that the gross profit to revenue ratio should have been 40%.

(2 marks)

(d) Assess whether or not **each** of the Restaurant Manager's suggestions could provide an explanation for the fall in the gross profit to revenue ratio.

(4 marks)

(e) List **three** possible explanations for the fall in gross profit to revenue ratio, other than theft and the suggestions of the Restaurant Manger.

(3 marks)

QUESTION 1 CONTINUED

Dock, Road and Beach have been in partnership, without a partnership agreement, for two years with fixed capitals of $8,000, $10,000 and $12,000 respectively. A partnership agreement was drawn up for year three, under which annual profits were to be divided as follows:

(1) Dock to receive an annual salary of $3,000
(2) Interest on fixed capitals to be allowed at 5% per year
(3) Residual profit to be divided between Dock, Road and Beach in the ratio of 1:2:2 respectively.

Net profit for Year 3 is expected to be $45,000.

REQUIRED

(f) Calculate the gain or loss to each partner in Year 3, from having no agreement to having an agreement.

(6 marks)

Dock suggests that his salary should be increased to $7,500 per year.

(g) Calculate the gain or loss Dock will make if this suggestion is included in a revised partnership agreement, as compared with **each** of the following:

(i) having no partnership agreement
(ii) accepting the terms of the original partnership agreement.

(4 marks)

(Total 25 marks)

QUESTION 2

Pier, a limited company, has provided the following (correctly calculated) information for its Statement of Cash Flows for the eleven months ended 31 May 2012:

	$000	$000
Operating profit before working capital changes		170
Decrease in inventories		20
Decrease in trade receivables		10
Increase in trade payables		5
Cash generated from operations		205
Debenture interest		(10)
Net cash flow from operating activities		195
Cash flows from investing activities		
Cash paid for non-current assets	(40)	
Net cash used in investing activities		(40)
Cash flows from financing activities		
Issue of debentures	50	
Dividends paid	(20)	
Net cash used in financing activities		30
Net increase in cash and cash equivalents		185

In the month ended 30 June 2012 the following occurred:

(1) Sales of $100,000. Pier achieved a **net operating profit** of 10% of revenue, before taking into consideration any of the matters mentioned in (2) – (7) below.

(2) Non-current assets were purchased for $70,000. Non-current assets, with a carrying amount of $30,000, were disposed of at a loss of $3,000.

(3) Depreciation was provided at 10%, on a reducing balance basis, on all non-current assets held at the end of the year. The net book value of non-current assets at 1 July 2011 was $160,000.

(4) An interim dividend of $10,000 was paid.

(5) An issue of 200,000 $0.50 ordinary shares was made at a premium of 10%. $20,000 of debentures were redeemed at par.

(6) Debenture interest of $10,000 was paid.

(7) Inventory increased by $2,000, before a provision for obsolete inventory of $3,000 was made. Trade receivables decreased by $3,000, before writing off bad debts of $1,000 and making an allowance for doubtful debts of $2,000. Trade payables increased by $1,000.

REQUIRED

(a) Calculate the net operating profit for the year ended 30 June 2012.

(8 marks)

(b) Prepare the Statement of Cash Flows, in accordance with IAS 7, for the year ended 30 June 2012

(17 marks)

(Total 25 marks)

QUESTION 3

On 1 January 2009 Platt, a private company, purchased twenty machines for $9,000 each. Depreciation on them was charged at 15% per year, using the reducing balance method. Platt charges depreciation on a monthly basis.

On 30 June 2010 four of the machines were destroyed in a fire and replaced, on 1 July 2010, with four machines costing $9,900 each. Platt received $27,000 from its insurance company on 1 September 2010.

On 1 January 2011 it was decided to change to the straight line method of depreciation. It was estimated that all machines would have a useful life of ten years from their date of purchase and a scrap value of $450 each. The change in depreciation method was not expected to materially distort future results.

REQUIRED

(a) Prepare the following Accounts for **each** of the three years ended 31 December 2009, 2010 and 2011:

(i) machinery at cost
(ii) accumulated depreciation on machinery
(iii) machinery disposal.

Note: Make all calculations to the nearest $1.

(19 marks)

During the year ended 30 June 2012 Cyres, a baker, purchased the following:

		$
(1)	Land	80,000
(2)	Stationery	1,200
(3)	Goods for resale	91,300
(4)	Second hand car	3,100
(5)	Office building	104,100
(6)	Goodwill	71,100

REQUIRED

(b) Classify **each** of the above items as either capital expenditure or revenue expenditure.

For any item classified as capital expenditure state whether it is tangible or intangible.

(6 marks)

(Total 25 marks)

QUESTION 4

Golf, a public company, acquired 180,000 of the 300,000 $1 ordinary shares of Club, a private company, on 1 January 2008, at a cost of $4,000,000. At that date the credit balance on Club's Retained Earnings Account (the only reserve) was $3,000,000.

REQUIRED

(a) Calculate the goodwill arising on the acquisition of Club.

(3 marks)

During the year ended 31 December 2011, Club sold goods to Golf for $207,000, which included a mark up of 15%. Half of the value of these goods remained in Golf's inventory at 31 December 2011. The values of the inventory in the Statement of Financial Positions of Golf and Club at that date were $370,000 and $210,000 respectively.

REQUIRED

(b) Calculate the value of inventory that would appear in the Consolidated Statement of Financial Position (formally the Balance Sheet) of Golf and Club at 31 December 2011.

(3 marks)

At 31 December 2011 the capital and reserves section of the Statement of Financial Position of each company was as follows:

	Golf	**Club**
	$	**$**
Ordinary share capital	700,000	300,000
Retained earnings	2,100,000	4,800,000

REQUIRED

(c) Calculate the consolidated retained earnings of Golf and Club at 31 December 2011. Assume that goodwill has been impaired by 40% at 31 December 2011 and that the Non Controlling Interest (formally Minority Interest) is to be charged with its share of unrealised profit in inventory.

(4 marks)

Main, a public company, has acquired over 50 subsidiary companies in the last few years. Summarised financial information for three of them in respect of 2011 is given below:

	Soken	**Arden**	**Chase**
	$000	**$000**	**$000**
Revenue	7,000	19,200	253
Cost of sales	2,340	17,640	182
Average inventory	2	300	25
Average trade receivables	583	100	8

Cost of sales (in accordance with group policy) consists of direct labour cost and material cost. Inventory is valued at material cost only.

Direct labour costs for the year were as follows:

	$
Soken	2,336,000
Arden	2,000,000
Chase	30,000

QUESTION 4 CONTINUED

REQUIRED

(d) Calculate, for **each** company the inventory turnover ratio (in days) and **two** other ratios which will assist in the analysis of their performance. All ratios should be calculated to one decimal point.

(6 marks)

Soken, Arden and Chase operate in three different business areas: a small antiques shop, the provision of accounting services and a supermarket chain.

REQUIRED

(e) State, giving **two** reasons in **each** case, which company is in which business.

(9 marks)

(Total 25 marks)

QUESTION 5

The budgeted Cash Account of Guise, a limited company, for the month ending 31 December 2012 is as follows:

	$		$
Opening balance	32,000	Cash purchases	5,000
Cash sales	15,000	Trade payables (one month's credit)	40,000
Trade receivables (one month's credit)	60,000	Trade payables (two month's credit)	22,000
Trade receivables (two month's credit)	45,000	General expenses	11,000
Sale of non-current assets	6,000	Ordinary dividend	5,000
		Purchase of non-current assets	2,000
		Closing balance	73,000
	158,000		158,000

Extracts from Guise's Statement of Financial Position (formerly Balance Sheet) at 30 September 2012 (the company's year end) are as follows:

	$
Non-current assets (net book value)	200,000
Inventory	31,000
Share premium	48,000
Retained earnings	45,000

Further information is given below:

(1) 20% of each month's sales are for cash; 50% of each month's sales are expected to be received in the month after sale; the remaining sales are expected to be received in the second month after sale.

(2) The non-current assets budgeted to be sold in December originally cost $20,000 and had been depreciated by $12,000. No depreciation is charged in the quarter in which a non current asset is sold.

(3) 10% of each month's purchases are for cash; 50% of each month's purchases are expected to be paid in the month after purchase; the remaining purchases are expected to be paid in the second month after purchase.

(4) General expenses, which are always paid in cash, are expected to be 10% higher in December than in November, and were 25% higher in November than in October.

(5) The non-current assets budgeted to be purchased in December are to be paid for in twelve equal monthly instalments.

(6) The dividend to be paid on 15 December is at the rate of $0.05 per $1 share and is the only dividend to be paid in the October to December quarter.

(7) A bonus (capitalisation) issue, of one new ordinary share for every two held will be made on 22 December 2012. This will make the maximum use of the non-distributable reserve.

(8) Inventory at 31 December 2012 is budgeted to be $40,000.

(9) No non-current assets are budgeted to be purchased or sold in October and November 2012. Depreciation is to be provided at 5% per quarter on the net book value of non-current assets held at 31 December 2012. A full quarter's depreciation is charged in the quarter in which an asset is purchased.

REQUIRED

Prepare the budgeted Income Statement for the three months (quarter) ending 31 December 2012 and the budgeted Statement of Financial Position at that date.

(Total 25 marks)

