

## Certificate in Accounting (IAS)

ASE3902

Level 3

Wednesday 20 November 2013

Time allowed: 3 hours

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### 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 Senior Manager in the Jenas Accounting Partnership has recently received three urgent emails.

Email 1 shown below was from the Treasurer of the King Social Club, which is a client.

"I need help in preparing the Members' Subscription Account for the year ended 31 December 2012. Records are kept on an accruals basis and subscription details are as follows:

- (1) subscriptions for 2011 were \$80 per member, subscriptions for 2012 were \$85 per member and subscriptions for 2013 are \$90 per member
- (2) at 1 January 2012, 11 members had not paid their 2011 subscriptions and 12 members had paid in advance for 2012
- (3) at 31 December 2012, 2 members had still not paid their subscriptions for 2011 and were excluded from membership, 15 members had not paid their 2012 subscription and 14 members had paid in advance for 2013
- (4) in addition to payments made in respect of 2011 and 2013, 820 members paid their subscriptions for 2012 during 2012."

### Required

- (a) Prepare the King Social Club Members' Subscription Account for 2012. (11 marks)

Email 2 shown below was from the Finance Director of Bent, a public company, which is also a client.

"I don't know how to reconcile the balance on the Sales Ledger Control Account with the total of the list of Sales Ledger balances. I need you to show me how corrections to each should be made in respect of the following:

- (1) a sales invoice for \$80 has been completely omitted from the books
- (2) a cash receipt of \$70 has been credited twice in the customer's account, but no entry has been made in the Sales Ledger Control Account
- (3) the Sales Day Book has been under added by \$3,000
- (4) a credit balance of \$60 (arising because goods paid for by the customer have been returned) has been omitted from the list of balances."

### Required

- (b) Show the corrections to the balance on the Sales Ledger Control Account and the corrections to the total of the list of Sales Ledger balances. (6 marks)

Email 3 shown below was from the Senior Manager's son, who is studying to become an accountant.

"What is meant by the materiality concept and the entity concept, and which of these applies, and why, to each of the following:

- recording the purchase of a computer printer, costing \$25, by a company with a \$50,000,000 turnover
- recording a payment of \$100, made by a sole trader for his wife's birthday present, using his business bank account."

### Required

- (c) Provide a response to the son's queries. (8 marks)

**(Total 25 marks)**

## Question 2

On 1 January 2010, Allen, a private company, purchased a new machine, the Defoe. Details of the transaction are as follows.

- (1) List price – \$300,000
- (2) Trade discount given – 10% of list price
- (3) Settlement discount received – 5% of list price, net of trade discount
- (4) Electrical installation – \$38,000
- (5) Staff training in use of the Defoe machine – \$15,000
- (6) Pre-production testing – \$10,000
- (7) Maintenance contract for three years – \$36,000

Allen had wrongly specified the requirements for the electrical installation. The \$8,000 cost of correcting this mistake is included in the \$38,000 above.

### Required

- (a) Calculate the initial amount to be included under non-current assets, in respect of the Defoe machine, at 1 January 2010. Assume it was ready to produce units of output on that day. (6 marks)

The Defoe machine had an estimated residual value of \$10,000 and was expected to produce 3,000 units of output over its useful life.

On 1 January 2012, Allen paid \$200,000 to upgrade the Defoe machine. A trade discount of 10% was received on this sum, but no settlement discount. The Defoe machine was then expected to produce a further 1,000 units of output over its useful life (in addition to the 3,000 units originally expected). The estimated residual value was increased to \$20,000.

The numbers of units of output produced each year by the Defoe machine were as follows:

Year	Units
2010	500
2011	700
2012	700

### Required

- (b) Show, in respect of the Defoe machine, the amounts to be included in:
- (i) Allen's Income Statement for **each** of the years ended 31 December 2010, 2011 and 2012.  
**Note:** Include all relevant expenses and revenues.
  - (ii) Allen's Statements of Financial Position at 31 December for **each** of the years 2010, 2011 and 2012.  
**Note:** Show both the cost and the accumulated depreciation.

(19 marks)

**(Total 25 marks)**

### Question 3

Terry, a public company, is considering whether to undertake a contract to build a railway line. Details of the costs and revenues relating to the contract are as follows.

The revenue from the contract would be \$10,000,000. One quarter of this would be withheld until Year 6. The rest would be receivable evenly over Years 1, 2, 3, 4 and 5.

The contract would require:

- machinery costing \$3,000,000 payable immediately (Year 0). The machinery would have a residual value of \$300,000 receivable in Year 6. It would be depreciated on a straight line basis over 5 years
- working capital of \$500,000 immediately (Year 0), recoverable in Year 6
- materials costing \$200,000 per year for Years 1, 2, 3, 4 and 5, payable a year in arrears
- wages of \$150,000 per year to be paid for Years 1, 2, 3, 4 and 5, payable in the year to which they relate
- overheads of \$300,000 per year for Years 1, 2, 3, 4 and 5, payable a year in arrears.

### Required

Prepare:

- (a) a budgeted **total profit** calculation for the **five year period** during which the railway would be built (5 marks)
- (b) a budgeted **annual** cash flow forecast for **each** of Years 0, 1, 2, 3, 4, 5 and 6 of the contract (7 marks)
- (c) the budgeted accounting rate of return on the contract to the nearest 1% (3 marks)
- (d) the budgeted net present value of the contract, using the following 10% discount factors.

Year	Factor
0	1.000
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621
6	0.565

**Note:** Make the following assumptions:

- (1) all payments and receipts occur at the end of the Year (0, 1, 2, 3, 4, 5 and 6) in which they are paid or received
- (2) all calculations are made to the nearest \$000.

(4 marks)

### Question 3 Continued

The discount factor may be adjusted upwards (e.g. to 12%) to allow for greater risk, or it may be adjusted downwards (e.g. to 8%) to allow for lower risk.

#### Required

- (e) State, giving a reason, whether the discount rate would go **up** or **down**, as a result of **each** of the following:
- (i) the contract is with the Government
  - (ii) the railway line will be built in a low lying area, which floods regularly
  - (iii) the project has the support of local people.

(6 marks)

**(Total 25 marks)**

#### Question 4

Atyeo, a public company, has several branches. All goods sold at the branches are supplied by Atyeo's head office at cost.

Sales at the branches are made at a mark up of 50% on cost, although some customers are allowed a small trade discount for ordering a year's supply of goods in advance.

Payment by branch customers is required within 30 days, but a cash discount is offered for payment within 14 days.

Extracts from the 2011 and 2012 accounts for the Hythe branch of Atyeo are as follows.

	Years ended 31 December	
	2011	2012
	\$000	\$000
Revenue (all on credit)	7,826	8,173
Cost of sales	5,326	5,614
Net profit	1,247	1,126

  

	At 31 December	
	2011	2012
	\$000	\$000
Inventory	921	977
Receivables	712	731

#### Required

Calculate:

- (a) the purchases figure for the year ended 31 December 2012 (2 marks)
- (b) four ratios, for **each** of 2011 and 2012, to enable Atyeo to assess the profitability and efficiency of the Hythe branch. Calculations should be to the nearest 1% or the nearest day. (8 marks)

For 2013, the Dover branch wants to achieve a gross profit to sales of 35% and an average receivables' collection period of 25 days.

#### Required

- (c) Assess whether or not the Dover branch could achieve each of the above ratios. (6 marks)

Cole, a public company, had a profit of \$350,000 (before charging interest) for the year ended 31 December 2012. Its issued share capital consisted of 3,000,000 Ordinary Shares of \$0.10 each and 1,000,000 14% Preferred Shares of \$1 each.

Its loan capital consisted of \$2,000,000 12% Debentures issued on 1 July 2012, secured on the company's property. Cole paid \$30,000 interest on its bank overdraft during 2012.

At 31 December 2012 the market price of Cole's Ordinary Shares was \$0.22 per share.

#### Required

- (d) In respect of 2012, calculate (to two decimal places):
- (i) the earnings per Ordinary Share
  - (ii) the price earnings ratio
  - (iii) the earnings yield. (7 marks)
- (e) State **yes** or **no**, giving a reason, whether Cole's Bank Manager will have been pleased with Cole's issue of debentures on 1 July 2012. (2 marks)

**(Total 25 marks)**

## Question 5

The Statement of Financial Position of Wise, a private company, at 31 December 2012 is as follows:

	\$000	\$000
<b>Non-current assets</b>		372
<b>Current assets</b>		
Inventory	72	
Trade receivables	61	
Bank	<u>27</u>	
<b>Total Assets</b>		<u>160</u> <u>532</u>
<b>Equity and liabilities</b>		
<b>Capital and reserves</b>		
Ordinary share capital (\$0.50 shares)		100
Retained earnings		<u>360</u>
<b>Equity</b>		460
<b>Current liabilities</b>		
Trade payables		<u>72</u>
<b>Total equity and liabilities</b>		<u>532</u>

Marsh, a private company, acquired 160,000 shares in Wise on 1 January 2009 for \$600,000 cash. On that date the retained earnings of Marsh were \$420,000 and the retained earnings of Wise were \$290,000. The retained earnings of Marsh at 31 December 2012 were \$560,000.

Other matters relating to the acquisition were as follows.

- (1) On 1 January 2009, the non-current assets of Wise included land with a book value of \$100,000 and an agreed fair value of \$150,000. Land is not depreciated and remains in Wise's Statement of Financial Position at \$100,000.
- (2) On 1 January 2009, the non-current assets of Wise included machinery with a book value of \$90,000 and an agreed fair value of \$100,000. Wise sold this machinery during 2009, without charging any further depreciation.
- (3) Goodwill arising on consolidation is impaired by 50% at 31 December 2012.

### Required

- (a) Calculate the following amounts for inclusion in the Consolidated Statement of Financial Position of Marsh and Wise at 31 December 2012:
  - (i) goodwill (8 marks)
  - (ii) non-controlling interest (3 marks)
  - (iii) retained earnings. (5 marks)
- (b) Prepare a journal entry in Marsh's accounting records, **with** narrative, recording Marsh's acquisition of the shares in Wise. (3 marks)
- (c) Assess the impact of the following policies on **both** the annual profits of the subsidiary and the retained profits of the subsidiary:
  - (i) 70% of the subsidiary's profits must be paid out in dividends
  - (ii) goodwill was impaired by 70% at 31 December 2012
  - (iii) all goods for resale must be purchased from the holding company at a mark up of 100%. (6 marks)

**(Total 25 marks)**