Pearson LCCI

Certificate in Accounting (IAS)

Level 3

Wednesday 19 November 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 ▶

PEARSON

Answer ANY FOUR questions.

1 The following information has been extracted from the draft year end financial statements of Root, a private company:

	$
Sales revenue (all on credit)	360,000
Closing inventory (equal to opening inventory)	8,000
Capital employed	400,000
Current liabilities (Trade payables only)	70,000
Trade receivables	45,000
Current (Working capital) ratio	1.20 : 1
Payables' settlement period	90 days
Return on capital employed	5%

Required

(a) Calculate the following:

(i) Net profit for the year **(1)**

(ii) Net profit as a percentage of sales revenue **(1)**

(iii) Trade receivables' collection period (in days) **(1)**

(iv) Credit purchases **(2)**

(v) Current assets **(2)**

(vi) Liquidity (Acid test) ratio. **(2)**

Note: Calculations should be correct to two decimal places or to the nearest $, as appropriate.

A clerk in the Accounting Department has commented that the credit purchases are lower than expected, when compared with the sales figure. He has been given the following possible explanations:

(i) the company has made larger than usual cash purchases
(ii) the trade payables' settlement period was more than 90 days
(iii) the company is a manufacturing business and direct wages have been omitted from the comparison with sales.

Required

(b) State (yes or no), giving a reason, whether **each** of the **three** possible explanations is valid.

(6)

Close, a private company, values its inventory on a **FIFO** basis and provides the following (incomplete) information from one of its inventory cards:

	Units	**Cost per unit**	**Total cost**
		$	**$**
Opening balance	2,400	**A**	6,000
Purchase	700	**B**	**C**
	3,100		7,960
Issue	800	**D**	**E**
	2,300		**F**
Purchase	**G**	2.90	1,160
	H		**I**
Purchase	500	**J**	1,500
	K		**L**

Required

(c) Calculate the missing figures indicated by the letters **A** to **L** above.

(10)

(Total for Question 1 = 25 marks)

2 Reeve, a public company, is a goods transporter considering entering into a five-year contract to operate freight trains between a seaport and a city. The railway line is 10 miles long.

Investment required, at the beginning of the contract, would consist of the following:

(1) a fee, payable to the railway company that owns the line, of $3,000,000

(2) the purchase of four railway engines, for $500,000 each, with a disposal value, after five years, of $80,000 each

(3) the purchase of 40 wagons, for $100,000 each. Disposing of these at the end of the contract would cost Reeve $5,000 for each wagon

(4) working capital of $80,000, recoverable at the end of the contract.

Revenue for the contract has been estimated using the following information:

- the freight trains will each run for 360 days per year
- a freight train will consist of one railway engine and 10 wagons
- each freight train will make two return journeys each day
- on average, eight wagons per train will be loaded from the seaport to the city and only two wagons per train will be loaded from the city to the seaport
- Reeve will receive $10 per mile for each loaded wagon.

Variable running costs are expected to be $5 per mile travelled by each railway engine. Extra track maintenance will cost the railway company that owns the line $500,000 per year.

Required

(a) Calculate the budgeted **total** profit for the five-year period of the contract. The profits of individual years are **not** required.

(13)

(b) Calculate the net present value of the contract, assuming that the revenue from the contract is the same each year and that the variable running costs are the same each year.

Note: Discount factors to be used are:

Annuity Years 1–5 (cumulative)	3.790
Lump Sum Year 5	0.621

(8)

The following suggestions have been made to improve the profitability of the contract:

(i) reduce the amount charged per mile between the city and the seaport to increase the number of loaded wagons travelling in that direction
(ii) reduce the number of wagons in each freight train from ten to eight.

Required

(c) Briefly discuss the validity or otherwise of **each** suggestion.

(4)

(Total for Question 2 = 25 marks)

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3 The receivables of Gooch, a private company, at 31 December 2012 were \$460,000. Bad debts written off during 2012 were \$4,500 and an allowance for doubtful debts of 3% of the year end receivables was set up.

During the year ended 31 December 2013:

(1) credit sales (before discount allowed of 2%) were \$3,200,000

(2) receipts from current receivables were \$3,169,400, and a further \$875 was received in respect of a debt written off as bad in 2007

(3) bad debts written off were \$8,600

(4) the allowance for doubtful debts was increased to 4% of the debtors at 31 December 2013.

Required

(a) Prepare the Sales Ledger Control Account and the Allowance for Doubtful Debts Account for the year ended 31 December 2013.

(7)

(b) Calculate the bad debts expense for the year ended 31 December 2013.

(3)

(c) Explain the difference between bad debts written off and an allowance for doubtful debts.

(3)

(d) Calculate the amount to be shown, in Gooch's calculation of net cash flow from operating activities for the year ended 31 December 2013, in respect of receivables. Gooch uses the indirect method of calculation.

(4)

(e) Explain your treatment of the \$875 received in respect of the bad debt written off.

(3)

Gooch's non-current assets at 1 January 2013 were shown in the accounts as \$4,100,000 (cost) and \$970,000 (accumulated depreciation). During the year ended 31 December 2013 non-current assets, costing \$470,000, were purchased for cash and non-current assets (cost \$170,000; book value \$50,000) were disposed of at a loss of \$30,000. Depreciation is charged each year at 10% of the cost of the non-current assets held at the end of the year.

Required

(f) Calculate the amounts in Gooch's Statement of Cash Flows, for the year ended 31 December 2013, for **depreciation**, **loss on disposal**, **purchases** and **sales** in respect of non-current assets.

(5)

(Total for Question 3 = 25 marks)

4 Extracts from the accounts of Old, a public company, published in respect of the year ended 31 December 2012 are as follows:

		$000
Debenture interest		50
Dividends:	preferred	6
	ordinary	30
Retained earnings for the year		45
Ordinary shares ($1.00 each)		400
Preferred shares ($0.50 each)		60
Share premium		90
Revaluation reserve		40
Retained earnings (including the $45,000 above)		180
Debentures		500

There were no changes in the share capital and the amount of debentures in 2012. The market price of an ordinary share at 31 December 2012 was $2.50.

Required

(a) Calculate the following:

(i) Rate of interest on the debentures

(1)

(ii) Dividend payable on each preferred share

(1)

(iii) Ordinary dividend yield

(2)

(iv) Ordinary dividend cover

(2)

(v) Price earnings ratio

(2)

(vi) Ordinary shareholders' funds.

(2)

On 1 January 2013, half the debentures were redeemed at par, 40,000 preferred shares were redeemed at par and 100,000 ordinary shares were issued at $1.25 each for cash. The retained earnings for the year ended 31 December 2013 were $60,000, after charging debenture interest and dividends. The market price of an ordinary share at 31 December 2013 was $2.60 and the ordinary dividend per share for 2013 was $0.06.

Required

(b) Provide, in respect of the year ended 31 December 2013, the same extracts from the published accounts as were provided in respect of the year ended 31 December 2012.

(9)

(c) Calculate the price earnings ratio at 31 December 2013.

(2)

(d) Outline **two** differences between ordinary shares and preferred shares.

(4)

(Total for Question 4 = 25 marks)

5 Moxon and White were in partnership sharing profits and losses in the ratio 3 : 2 respectively, after allowing for a salary of $6,000 per year to Moxon.

At 1 January 2013, the credit balances on their Capital Accounts were Moxon $40,000 and White $30,000. Separate Current Accounts are not maintained.

On 1 July 2013, the partnership business was taken over by Such, a private company formed for this purpose. The consideration, shared between the partners in their profit sharing ratio, consisted of 50,000 $1 ordinary shares (issued at a premium of $0.50) and 50,000 $0.50 10% preferred shares (issued at par). The partnership's assets and liabilities were taken over at their book values, with the addition of $40,000 for unrecorded goodwill.

Extracts from the partnership Trial Balance at 30 June 2013 are as follows:

	Dr	**Cr**
	$	**$**
Sales revenue		250,000
Inventory (at 1 January 2013)	15,000	
Purchases	120,000	
Rent	12,000	
Wages	45,500	
Postage and stationery	18,000	
Drawings: Moxon	6,000	
White	4,000	
Motor expenses	19,500	

Inventory at 30 June 2013 was valued at $28,000

Required

(a) Prepare (in columnar form) the partners' Capital Accounts for the period from 1 January 2013 to 1 July 2013, showing the final amounts paid to the partners on dissolution of the partnership.

(11)

Such prepared its first accounts on 31 March 2014, after operating for nine months. Goodwill was to be impaired by 15% at 31 March 2014. An ordinary dividend of $0.10 per share and a preferred dividend for the period were paid on 31 March 2014.

Such had achieved a gross profit of 60% on sales revenue of $370,000. The monthly rental was the same as that paid by the partnership.

Compared to the Trial Balance extracts for the partnership (on page 10):

- wages increased by 20%
- postage and stationery increased by $500 per month
- motor expenses fell by $500 per month.

Required

(b) Calculate the retained profit of Such at 31 March 2014.

(11)

(c) Describe the difference between the way salaries to partners are treated in partnership accounts and the way in which salaries to directors are treated in company accounts.

(3)

(Total for Question 5 = 25 marks)

TOTAL FOR PAPER = 100 MARKS

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