

Certificate in Accounting

ASE3012

Level 3

Thursday 4 April 2013

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 Chairman of Cohen Social Club is concerned that sales receipts from the restaurant could have been stolen. The following information has been provided for 2012:

- the restaurant sells food (on which a gross profit on sales of 20% is expected) and drink (on which a mark up on cost of 30% is expected)
- purchases of food were £80,000 and purchases of drink were £50,000
- the closing stock of food cost £8,000, which was 25% higher than the cost of the opening stock of food
- the closing stock of drink cost £5,400, which was 10% lower than the cost of the opening stock of drink
- sales takings (all in cash) were recorded as £149,000.

The Club's insurance policy has a provision that states only 75% of total cash stolen, can be claimed.

REQUIRED

- (a) Calculate for the year ended 31 December 2012:
- (i) The **actual** gross profit of the restaurant (5 marks)
 - (ii) The **expected** gross profit on food sales in the restaurant (4 marks)
 - (iii) The **expected** gross profit on drink sales in the restaurant (4 marks)
 - (iv) The amount to be claimed from the Club's insurance company. (4 marks)

The Treasurer of Cohen Social Club has suggested that the following could have increased the amount to be claimed in (a) (iv) above:

- (1) expenses may have been paid out of the sales takings before the takings were recorded
- (2) closing stocks may have been under valued
- (3) the expected gross profit of 20%, on food, is too high
- (4) the expected mark up of 30%, on drinks, is too low.

REQUIRED

- (b) State yes or no, and briefly justify your answer, as to whether each of the suggestions from (1) to (4), could have increased the insurance claim in (a) (iv) above. (8 marks)

(Total 25 marks)

QUESTION 2

The following information is available for Hunt Plc in respect of 2012:

- (1) the net cash inflow from operations was £380,000
- (2) the net book value of fixed assets on 1 January was £700,000 and at 31 December it was £800,000
- (3) fixed assets, costing £200,000, were purchased
- (4) fixed assets, costing £80,000, with accumulated depreciation of £50,000, were sold for £20,000
- (5) stock was valued at £80,000 on 1 January. Stock on 31 December was valued at £90,000, before allowing for a provision for obsolete stock of 10%
- (6) debtors were valued at £65,000 on 1 January. This figure had decreased by £5,000 on 31 December, before allowing for a bad debts provision of 5%
- (7) creditors increased by £5,000 over the year
- (8) debenture interest at 5% per year had been paid on £200,000 of debentures, issued on 1 January at a discount of 10%. This discount was written off in the Profit and Loss Account
- (9) the final dividend of £8,000 for 2011 and an interim dividend for 2012 of £5,000 were paid. A final dividend of £9,000 was proposed for 2012
- (10) 50,000 ordinary shares of £0.50 each were issued at a premium of £0.20 each.

REQUIRED

Prepare:

- (a) a statement reconciling Hunt Plc's operating profit for 2012 with the net cash inflow from operations. (10 marks)
- (b) the Cash Flow Statement of Hunt Plc for the year ended 31 December 2012 in accordance with FRS 1 (Revised). (9 marks)

A shareholder in Hunt Plc has raised the following issues:

- (i) "I was forced to buy further shares as a result of the rights issue of ordinary shares. Why should I have to buy more shares, when the share capital could be increased by the same amount by means of a bonus issue?"
- (ii) "The company treats the debenture holders more favourably than the shareholders. The debenture holders received a discount on their issue, whereas shareholders had to pay a premium."

REQUIRED

- (c) Discuss **each** of the above issues. You should conclude by stating whether or not the shareholder is right, partly right, or wrong. (6 marks)

(Total 25 marks)

QUESTION 3

Ball Plc acquired 100% of the ordinary share capital of Banks Ltd in 2010. The annual accounts for both companies and the group, in respect of 2012, have just been completed. Unfortunately the following items have not been included:

- (1) Sales of £60,000 by Ball Plc to Banks Ltd have been recorded in the books of Ball Plc, but not in the books of Banks Ltd or in the group accounts. These goods were sold to Banks Ltd at a mark up of 20% on the cost to Ball Plc and only half of them have been resold by Banks Ltd (and recorded correctly). The remainder of these goods have not been recorded in the stocks of Ball Plc, Banks Ltd or the group.
- (2) A payment of £15,000, made by Banks Ltd to Ball Plc, in respect of another intercompany transaction, has not been recorded in the books of Ball Plc or in the group accounts.
- (3) Administrative charges of £7,000, made by Ball Plc to Banks Ltd, have not been recorded anywhere.
- (4) Goodwill amortisation of £20,000 has not been recorded anywhere. The goodwill arose on the acquisition of Banks Ltd.
- (5) Bad debts of £9,000, relating to the debtors of Banks Ltd, have been incorrectly charged in the accounts of Ball Plc and not in the accounts of Banks Ltd. They have been charged in the group accounts.
- (6) Obsolete stock of £15,000, included in the closing stock of Ball Plc, had not been written off anywhere.
- (7) Prepaid expenses of £1,000, relating to Banks Ltd, had not been recorded in the accounts of Banks Ltd or anywhere else.

REQUIRED

Calculate the increase/(decrease) in profit in respect of **each** of the following, after making the corrections resulting from (1) to (7) above:

- | | |
|-------------------------|-----------|
| (a) Ball Plc | (8 marks) |
| (b) Banks Ltd | (9 marks) |
| (c) the Ball Plc group. | (8 marks) |

Note: If an item has no effect on profit for (a) or (b) or (c), you should state “no effect”.

(Total 25 marks)

QUESTION 4

The Hurst Theatre relies on profit made from their performances over the winter festive season.

In recent years, variable costs have been 15% of the admission fees for the evening shows and 10% of the admission fees for the afternoon shows. These relationships are expected to continue. The Theatre has a capacity of 300 seats and fixed costs (excluding actors' wages) of £3,000 per week.

The Theatre also has a restaurant which, on average, produces a contribution of £0.50 for each person attending the show.

The Theatre is considering two options to improve profits for the coming festive season:

Option 1 – Employ local actors in the production, with total wages of £80,000 for the 6 week period the show would be expected to run. Each week there will be 7 shows in the evening and 2 shows in the afternoon. Attendance is estimated at 90% of capacity in the evenings and 70% of capacity in the afternoons. Admission prices would be £20 per person.

Option 2 – Employ a famous television actor, along with local actors. This would cost £250,000 in total wages for the 7 week period the show would be expected to run. Each week there will be 7 shows in the evening and 3 shows in the afternoon. Attendance is estimated at 95% of capacity in the evenings and 65% of capacity in the afternoons. Admission prices would be £25 per person.

REQUIRED

- (a) Calculate the budgeted profits for the winter festive season, in respect of **Option 1** and in respect of **Option 2**.

Note: All calculations should be rounded up to the nearest £.

(13 marks)

- (b) For **each** of **Option 1** and **Option 2** calculate the following:

- (i) the expected total attendance for the period of the show
- (ii) the average contribution per person attending the show
- (iii) the total attendance required in order for the show to break even.

Note: Assume that, for each option, the proportion of attendance between evening and afternoon shows remains constant. All calculations should be rounded to the nearest whole number.

(8 marks)

A Supporter of the Theatre is opposed to using a famous television personality. He feels that paying an extra £170,000 to one performer is unacceptable. He also feels that this option would take jobs away from local actors.

REQUIRED

- (c) Briefly discuss **each** of the Supporter's objections to **Option 2** and conclude whether or not they are valid.

(4 marks)

(Total 25 marks)

QUESTION 5

Doyle, a sole trader, has provided the following information:

- (1) at 31 December 2012:
- there was a bank overdraft of £4,263
 - closing stock was £12,000 (the same as it had been on 1 January 2012)
 - current assets consisted only of the stock and trade debtors
 - current liabilities consisted only of the bank overdraft and trade creditors
 - there were no long-term liabilities.
- (2) relevant ratios:
- | | |
|--|------------|
| - current (working capital) | 2.4 : 1 |
| - acid test (liquidity) | 1.6 : 1 |
| - return on capital employed (based on opening capital) | 40% |
| - net profit to sales | 6% |
| - depreciation to expenses (other than cost of goods sold) | 25% |
| - drawings to net profit | 60% |
| - debtors' collection period (based on closing debtors) | 1.6 months |
| - creditors' settlement period (based on closing creditors). | 1.5 months |

REQUIRED

- (a) Prepare, in as much detail as possible, Doyle's Trading and Profit and Loss Account for the year ended 31 December 2012, and his Balance Sheet at that date. (16 marks)

The following information relates to James Plc for 2011 and 2012:

	2011	2012
Price earnings ratio	6.5	6.0
Earnings per share	£0.5	£0.6
Dividend cover	4 times	5 times

REQUIRED

- (b) Calculate (to 2 decimal places) the following ratios for James Plc in respect of **both 2011 and 2012**:
- (i) earnings yield
 - (ii) dividend yield. (6 marks)
- (c) Briefly explain the significance of the price earnings ratio. (3 marks)

(Total 25 marks)