

Series 3 Examination 2012

CERTIFICATE IN ACCOUNTING

Level 3

Thursday 7 June

Subject Code: 3012

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer **any 4** questions. There are no compulsory questions.
- All questions carry equal marks.
- 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.
- 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.
- Marks may be lost through lack of neatness and poor presentation.

QUESTION 1

Problems in the Accounts Department of Sheen Ltd have meant that, at 31 December 2011:

- the balance on the company's bank statement does not reconcile with the balance on the company's Bank Account
- the balance on the company's Sales Ledger Control Account does not agree with the net total of the balances from the Sales Ledger
- the balance on the company's Purchase Ledger Control Account does not agree with the net total of the balances from the Purchase Ledger.

On investigation the following errors have been discovered:

- (1) Unpresented deposits of £2,104 have been deducted from the balance on the bank statement, as a reconciling item.
- (2) Contras of £80 between the Purchase Ledger and the Sales Ledger have been entered in the individual accounts, but not in either of the respective Control Accounts.
- (3) The Sales Day Book has been under added by £710 and the Purchase Day Book has been over added by £830.
- (4) No entries have been made in the books in respect of the refund of £73 to a debtor who had overpaid. This appeared on the bank statement on 31 December 2011.
- (5) Bank charges of £80 have been deducted from the balance on the bank statement as a reconciling item. No entries have been made for the £80 in the double entry records.
- (6) A Sales Ledger debit balance of £74 had been shown as a credit balance in the list of Sales Ledger balances.
- (7) The total of the list of Purchase Ledger balances should have been £72,137 but was incorrectly added as £72,317.
- (8) No entry has been made, in any of the records, of a bad debt to be written off, of £731.
- (9) Depreciation of £2,100 has been debited to the Bank Account and credited to Accumulated Depreciation Account. This does not appear among the adjustments to the balance on the bank statement.

REQUIRED

Prepare statements, showing the net effect of the adjustments necessary, in respect of the errors (1) to (9) above, to each of the following:

- (i) the balance on the bank statement (for purposes of reconciliation with the balance on the bank account.)
- (ii) the balance on the Bank Account
- (iii) the balance on the Sales Ledger Control Account
- (iv) the total of the list of Sales Ledger balances
- (v) the balance on the Purchase Ledger Control Account
- (vi) the total of the list of Purchase Ledger balances
- (vii) the net profit for the year ended 31 December 2011.

(Total 25 marks)

QUESTION 2

Pen plc paid £280,000, on 31 March 2011, to acquire 70,000 £1 ordinary shares in Mill Ltd. On that date Mill Ltd's retained earnings were £47,000. Extracts from the draft Balance Sheets of the two companies at 31 March 2012 were as follows:

	Pen plc	Mill Ltd
	£	£
Stock in hand	121,000	73,200
Trade debtors	81,200	19,800
Bank	9,000	11,400
Trade creditors	(64,200)	(21,700)
Dividends payable	(21,300)	(10,000)
Ordinary shares of £1 each	(200,000)	(100,000)
Share premium	(40,000)	(30,000)
Revaluation reserve	(30,000)	(Nil)
Retained earnings	(201,400)	(103,000)

The following additional information is available:

- (1) The trade debtors of Pen plc include £20,000 owed by Mill Ltd. The trade creditors of Mill Ltd include £2,000 owed to Pen plc. The difference between inter-company balances is due to:
 - goods invoiced to Mill Ltd for £12,000, and sent on 30 March 2012, which arrived on 2 April 2012. These goods were invoiced to Mill Ltd at the cost to Pen plc plus a mark up of 20%
 - a payment of £6,000 sent by Mill Ltd to Pen plc which was not recorded in Pen plc's books until 3 April 2012.
- (2) The closing stock in hand of Mill Ltd includes goods invoiced at £9,000 by Pen plc. These goods were also invoiced to Mill Ltd at the cost to Pen plc plus a mark up of 20%.
- (3) Pen plc has not accrued its share of the dividend payable by Mill Ltd.
- (4) Goodwill on acquisition is to be amortised at 20% per year.

REQUIRED

- (a) Calculate the following balances, which will appear in the Consolidated Balance Sheet of the Pen plc group at 31 March 2012:
 - (i) goodwill
 - (ii) stock
 - (iii) trade debtors
 - (iv) bank
 - (v) trade creditors
 - (vi) dividends payable
 - (vii) retained earnings
 - (viii) minority interest.

(20 marks)

It is subsequently discovered that a provision for obsolete stock of £8,000 had been omitted from the accounts of Pen plc and accrued electricity of £1,000 had been omitted from the accounts of Mill Ltd.

QUESTION 2 CONTINUED

REQUIRED

(b) Calculate the increase or decrease in each of the following balances, appearing in the Balance Sheet of the Pen plc group, at 31 March 2012:

- (i) retained earnings
- (ii) minority interest.

(5 marks)

(Total 25 marks)

QUESTION 3

The summarised financial statements of Bar for 2011 were as follows:

Profit and Loss Account Year Ended 31 December 2011

	£	£
Sales (all on credit)		164,250
Cost of goods sold:		
Opening stock	34,600	
Purchases (all on credit)	<u>152,100</u>	
	186,700	
Closing stock	<u>(37,200)</u>	<u>149,500</u>
Gross profit		14,750
Expenses		<u>8,100</u>
Net profit		<u><u>6,650</u></u>

Balance Sheet at 31 December 2011

	£	£	£
Fixed assets			40,000
Current assets			
Stock		37,200	
Debtors		11,400	
Prepayments		2,000	
Bank		<u>10,200</u>	
		60,800	
Current liabilities			
Creditors	10,200		
Accruals	<u>900</u>	<u>11,100</u>	
Net Current assets			<u>49,700</u>
			<u><u>89,700</u></u>
			£
Capital Account			
Opening balance			87,000
Net profit			<u>6,650</u>
			93,650
Drawings			<u>3,950</u>
			<u><u>89,700</u></u>

Bar's new bank manager has requested budgeted financial statements for 2012. Bar has provided the following budgeted information for 2012:

- (1) sales in 2011 is 90% of the budgeted sales for 2012 and the debt collection period in 2012 is expected to be 30 days
- (2) creditors are expected to increase by 15% in 2012 and the expected creditors' settlement period for 2012 is 25 days
- (3) the sales to fixed asset ratio at the end of 2012 will be 5 times
- (4) prepayments will increase by 20% in 2012 and accruals will decrease by 5% in 2012
- (5) the gross profit to sales ratio will be 10% and the net profit to sales ratio will be 4%
- (6) drawings will be 40% of net profit.

REQUIRED

- (a) Prepare, in the same format as the question, the summarised budgeted financial statements of Bar for 2012.

NOTE: Assume that there are 365 days in every year.

(17 marks)

Bar, who does not see any benefit from preparing budgeted accounts, has made the following comments:

- (i) "All that matters is having a sizeable bank balance. I've always had that and I prepare a bank reconciliation every month. I have run this business for 20 years and never needed a budget."
- (ii) "I only sell goods in our local market. It snowed for a month last year and I sold very little in that month. Unless you can predict the weather you can't predict my sales."
- (iii) "This new bank manager is a nuisance. The previous bank manager was also my golf partner and left my business alone. It isn't my fault that the bank nearly went out of business during the banking crisis."

REQUIRED

- (b) Discuss **each** of Bar's comments.

(8 marks)

(Total 25 marks)

QUESTION 4

Deep and Dene are in partnership and on 31 December 2011, before appropriating the profit for the year, the following balances were extracted from their books:

	Capital Accounts £	Current Accounts £
Deep	60,000 Cr	8,000 Dr
Dene	20,000 Cr	3,000 Cr

Their partnership agreement includes the following terms:

- (1) Interest is to be charged, at 10%, on any debit balance on a partners' current account, before appropriations, at the end of the financial year
- (2) Interest is to be allowed, at 6%, on the closing balance on partners' capital accounts at the end of the financial year
- (3) Deep and Dene are to be allowed salaries of £500 per month and £200 per month respectively
- (4) Residual profit (loss) is to be shared between Deep and Dene in the ratio 3:1 respectively.

The net profit of the partnership for 2011 was £60,000.

REQUIRED

- (a) Prepare the Appropriation Account of the Deep and Dene partnership for 2011. (7 marks)

After the partnership Profit and Loss Account and Balance Sheet had been prepared, the following errors were discovered:

- A. Machinery, introduced by Deep on 1 July 2011 as additional capital and valued at £8,000, had not been recorded. The partnership depreciates machinery at 10% per year on cost, calculated on a monthly basis.
- B. No provision had been made for obsolete stock of £4,000. Deep's Current Account balance had been miscalculated and should have been £9,800 Dr at 31 December 2011.
- C. Drawings of £2,000 by Deep and £1,000 by Dene had not been recorded in their Current Accounts.

REQUIRED

- (b) Copy the following table into your answer book:

		Deep £	Dene £
Error A	Interest on current account Interest on capital account Residual profit		
Error B	Interest on current account Interest on capital account Residual profit		
Error C	Interest on current account Interest on capital account Residual profit		

Enter, in each case, whether the amount by which the figure calculated in (a) above will be increased (e.g. + 50) decreased (e.g. – 20) or unchanged (write 'nil'). Eighteen entries are required.

(14 marks)

QUESTION 4 CONTINUED

Deep's husband has suggested that his wife should have made a transfer between her Capital Account and her Current Account to save the interest charged to her in the Appropriation Account. Dene has replied that she cannot do this as the capital account balances reflect the profit sharing ratio, although there is no mention of this in the partnership agreement.

REQUIRED

- (c) Discuss whether or not:
- (i) the husband's suggestion is sensible
 - (ii) Dene's objection is valid

(4 marks)

(Total 25 marks)

QUESTION 5

Haw Ltd uses milk, cream and cocoa to manufacture ice cream and chocolate. Both are sold from a shop some distance from the factory. The company employs the following personnel:

- six factory employees, who operate the machines used to produce the ice cream and chocolate
- two shop assistants, who run the company shop
- two van drivers who transport milk, cream and cocoa to the factory, and who also deliver ice cream and chocolate to the company shop.

REQUIRED

(a) State what percentage of each of the following costs (100%, 50% and 0% are the only possible answers) should be included in the production cost of Haw Ltd's ice cream and chocolate, and briefly explain your choice:

- (i) milk, cream and cocoa
- (ii) factory employee's wages
- (iii) shop assistants' wages
- (iv) van drivers' wages.

(9 marks)

Information about Haw Ltd's stock at 31 December 2011 is as follows:

	Number of items	Factory cost per item £	Sales price per item £	Selling costs per item £
Milk chocolate	2,100	0.70	1.40	0.40
Dark chocolate	700	0.80	1.70	0.50
Vanilla ice cream	400	1.20	1.40	0.10
Strawberry ice cream	150	1.10	1.15	0.09
Pineapple ice cream	300	0.30	0.35	0.06

REQUIRED

(b) Calculate (in accordance with SSAP 9) the total value of Haw Ltd's stock at 31 December 2011.

(11 marks)

Haw Ltd had purchased a chocolate making machine on 1 January 2010, for £16,000, and started depreciating it at 10% per year on a straight line basis, assuming a nil scrap value. On 31 December 2011 this machine was revalued at £12,000, with a scrap value of £4,000 after a remaining useful life of only 4 years.

It was decided to use the revalued amount as the net book value at 31 December 2011, when calculating depreciation for 2011, and to calculate depreciation for 2012 on a straight line basis, using all the new information.

REQUIRED

(c) Calculate the depreciation charged on the chocolate making machine for each of 2010 and 2011 and the depreciation to be charged for 2012.

(5 marks)

(Total 25 marks)