LCCI International Qualifications from EDI

Certificate in Accounting

ASE3012

Level 3

Wednesday 5 June 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

After preparing his draft Balance Sheet at 31 December 2012, Moore calculated the following ratios:

Bank to creditors	2.3	:	1.0
Stock plus debtors to creditors	1.4	:	1.0
Stock to debtors	1.0	:	3.0
Machinery to bank	17.0	:	1.0

According to Moore's Cash Book his bank balance, at 31 December 2012, was £117,300. This figure appeared in his draft Balance Sheet.

Required

(a) Calculate the book value of the following amounts which appear in Moore's draft Balance Sheet at 31 December 2012:

(i) machinery
(ii) creditors
(iii) stock
(iv) debtors.

(5 marks)

Moore's draft net profit, for the year ended 31 December 2012, was £517,430. The following errors were subsequently discovered.

(1) The purchase of machinery, costing £80,000, on 31 December 2012, had not been recorded. Payment for this was due on 31 March 2013. No depreciation needed to be provided.

(2) Machinery, with a net book value of £600, had been recorded at £60 in Moore's Trial Balance. The resultant difference on the Trial Balance of £540 had been written off to the Profit and Loss Account.

(3) No depreciation had been charged on Moore's machinery for 2012. All machinery, except the machinery referred to in (1) above, had been purchased on 1 January 2008. It is being depreciated on a straight line basis over 10 years, assuming a zero residual value.

(4) Obsolete stock, recorded at £800, had not been written off.

(5) Bank charges, of £730, deducted by the bank on 20 December 2012, had not been recorded in the Cash Book.

(6) A receipt from a debtor, of £4,100 and a payment to a creditor, of £710, had not been recorded.

(7) A decision to set up a provision for bad debts, equal to 10% of debtors, had not been implemented.

(8) Rent for October, November and December, totalling £3,000, had been paid by direct debit on 15 December 2012. This had neither been entered in the Cash Book nor treated as an accrual.

Required

(b) Correct the net book values, calculated in (a) above, for the following:

(i) machinery
(ii) creditors
(iii) stock
(iv) debtors.

(13 marks)

(c) Calculate Moore's revised net profit for 2012, after adjusting for the errors identified above.

(7 marks)

(Total 25 marks)

QUESTION 2

Hart Ltd started a business on 1 January 2013 buying and selling alarms. Details of purchases and sales during January 2013, are as follows:

Date	Transaction	Number of Alarms	Purchase Price £	Selling Price £
3	Purchase	70	60.00	
9	Purchase	40	61.00	
12	Sale	80		120.00
14	Purchase	50	61.50	
17	Purchase	60	62.00	
20	Sale	20		125.00

Required

(a) Calculate the value of closing stock at 31 January 2013, using **each** of the following methods:

(i) first in first out
(ii) periodic weighted average cost (rounded to the nearest £)
(iii) replacement cost (assuming that the purchase price had risen to £63 per alarm by 31 January 2013)
(iv) standard cost (set at £61 per alarm).

(11 marks)

(b) Calculate both the gross profit and the gross profit to sales percentage (correct to two decimal places) for January 2013, using **each** of the following stock valuation methods:

(i) first in first out
(ii) replacement cost.

(6 marks)

(c) Explain the differences between your answers to (b) (i) and (b) (ii).

(3 marks)

(d) Explain **replacement cost** and **standard cost** in relation to stock valuation.

(4 marks)

(e) State which, replacement cost or standard cost, is normally acceptable for stock valuation under SSAP9.

(1 mark)

(Total 25 marks)

QUESTION 3

Lee and Bell set up in partnership as dentists on 1 January 2010. Under the initial partnership agreement they shared profits equally, and agreed not to keep separate capital and current accounts.

Lee and Bell each introduced £200,000, in cash, as Capital on 1 January 2010. Bell introduced a car, at an agreed value of £5,000, to the partnership, on 1 January 2011.

Results for the partnership's first three years were as follows:

Year Ended 31 December	Fee Income	Gross Profit Percentage	Net Profit Percentage
	£	%	%
2010	400,000	90	20
2011	550,000	89	21
2012	500,000	89	20

Drawings equal to 20% of their share of the net profit were made by each partner in each of the three years.

On 1 January 2012, it was agreed that future profits would be shared between Lee and Bell in the ratio 3:2 respectively. Also on that date, an adjustment was made in respect of goodwill, which was valued at £300,000. No goodwill was to be shown in the partnership's Balance Sheet.

Required

(a) Prepare (in columnar form) the Capital Accounts of Lee and Bell for **each** of the years 2010, 2011 and 2012, showing the balances carried down at the end of each year.

(11 marks)

The following suggestions have been made as to why Lee and Bell changed their profit sharing ratio:

(i) Bell works longer hours than Lee, and is prepared to see patients in the evenings
(ii) Lee is popular with patients, and they recommend him to their friends
(iii) Lee appears regularly on a television programme, and this publicity attracts new patients. His fees for this television work are not treated as part of the partnership's income.

Required

(b) State yes or no, and give a brief reason, as to whether **each** of the suggestions, (i) to (iii) above, are valid reasons for the change in the partnership profit sharing arrangements.

(6 marks)

On 1 January 2013, Barry joined the partnership. Barry introduced £200,000 in cash and a car, at an agreed value of £8,000, as his capital. Goodwill, valued at £400,000 at that date, was to be adjusted for, but not appear in the partnership Balance Sheet. Future profits were to be shared between Lee, Bell and Barry in the ratio to 2:1:1 respectively.

Required

(c) Prepare Journal entries (without narratives) to record the admission of Barry to the partnership.

(5 marks)

(d) Briefly explain why dentists, doctors, accountants and lawyers, operating as partnerships, are likely to have high gross profit to fee income.

(3 marks)

(Total 25 marks)

QUESTION 4

Dixon Ltd produces one product and sells it for £100 per unit. This gives a gross profit to sales of 20%, before deducting fixed production costs. Dixon Ltd expects to produce and sell 6,250 units in 2014. Variable production costs will be in the following proportions:

	%
Raw materials	40
Direct labour	30
Variable overheads	30
	100

Required

(a) Calculate the budgeted gross profit for 2014, before deducting fixed production costs, showing the revenue **less** the cost of raw materials, the cost of direct labour and the cost of variable overheads.

(5 marks)

Dixon Ltd has a large bank overdraft, and is charged 10% interest per year. The directors are concerned about the amount of money tied up in stock plus debtors less creditors. The following information is provided:

		Weeks
Stock turnover:	raw materials	4
	work in progress	4
	finished goods	3
Debtors' collection period		6
Creditors' (for raw materials) settlement period		5

Note: All purchases and sales are on credit, and stocks are valued on the basis of their variable production cost.

Both production and sales are expected to be spread evenly over 2014. All raw materials are introduced at the beginning of the production process. On average, work in progress is 40% completed as far as direct labour and variable production overheads are concerned. As such, the work in progress valuation includes 100% of raw materials, 40% of the direct labour and 40% of the variable production overheads of finished goods.

Required

(b) Assuming a 52 week year, calculate to the nearest £, the amount of money tied up in stock plus debtors less creditors.

(8 marks)

(c) Assuming Dixon Ltd continues to have a bank overdraft, calculate the annual interest cost of money tied up in stock plus debtors less creditors.

(2 marks)

The Managing Director suggests that offering a 1% discount to customers for payment within four weeks (which he believes all customers would accept) could improve the situation.

Required

(d) Calculate, to the nearest £, the net saving (or net cost) for 2014 of the Managing Director's suggestion.

(4 marks)

(e) Suggest **three** other ways in which Dixon Ltd might reduce the amount of cash tied up in stock plus debtors less creditors.

(6 marks)

(Total 25 marks)

QUESTION 5

On 31 December 2012, Bould Plc paid £200,000 to acquire 90% of the ordinary share capital of Smith Ltd. Extracts from Smith Ltd's Balance Sheet at that date were as follows:

	£
Share capital	100,000
Share premium	20,000
Retained earnings	60,000

At 31 December 2012, the fair value of Smith Ltd's fixed assets was £30,000 higher than their net book value.

Required

(a) Calculate the goodwill arising on the acquisition of the shares in Smith Ltd by Bould Plc.
(4 marks)

It has been suggested that adjusting for fair values:

(i) increases the value of goodwill in the consolidated Balance Sheet
(ii) ensures that group fixed assets are reported at more realistic values.

Required

(b) Discuss whether or not the suggestions in (i) and (ii) above are correct.
(4 marks)

Adams Plc acquired 80% of the ordinary shares of Keown Ltd many years ago. At 31 December 2012, no entries had been made in either the books of Adams Plc or the books of Keown Ltd to record the following transactions which took place in November 2012.

(1) Adams Plc sold goods, which had cost them £20,000 in October 2012, to Keown Ltd for £60,000. At 31 December 2012, half of these goods remained unsold by Keown Ltd, but had not been included in Keown Ltd's closing stock.

(2) Keown Ltd sold goods which had cost them £20,000 in September 2012 to Adams Plc, at a mark up of 20% on cost. At 31 December 2012, a quarter of these goods remained unsold by Adams Plc, but had not been included in Adams Plc's closing stock.

Required

(c) Prepare Journal entries (without narratives) to record the above transactions (including the stocks) in the books of:
(i) Adams Plc
(ii) Keown Ltd.
(8 marks)

The accountant for the Adams Plc group simply adds together the stock figures of Adams Plc and Keown Ltd (after the adjustments from (c) above) to arrive at the closing stock figure in the Consolidated Balance Sheet.

Required

(d) Calculate, from a group perspective, the unrealised profit in the closing stock of:
(i) Adams Plc
(ii) Keown Ltd.
(4 marks)

(e) Prepare consolidation Journal entries (without narratives) to record the treatment of the unrealised profit in the closing stock. Separate Journal entries should be made in respect of the stock held by Adams Plc, and in respect of the stock held by Keown Ltd.
(5 marks)

(Total 25 marks)

