

Certificate in Accounting

ASE3012

Level 3

Wednesday 7 November

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 Treasurer of the Hill Social Club has, in error, paid an electricity bill for £710, twice. This payment was also entered in the books twice. The bill was in respect of consumption for the three month period ending on 31 May 2012.

The electricity supplier has acknowledged the double payment and it has been agreed that it will be offset against future bills. At 30 June 2012, the club's year end, it was estimated that £300 worth of electricity had been consumed since 31 May 2012.

REQUIRED

- (a) Prepare, for the Treasurer of the Hill Social Club, a journal entry enabling the correct charge for electricity to be shown in the Income and Expenditure Account for the year ended 30 June 2012. A narrative is required.

(3 marks)

For several years (including the year ended 30 June 2011) the restaurant of the Social Club had a gross profit to sales ratio of around 40%. For the year ended 30 June 2012 it was only 28.75%. The restaurant Trading Account for that year is as follows:

	£	£
Sales		80,000
Cost of goods sold:		
Opening stock	7,000	
Purchases	<u>60,000</u>	
	67,000	
Closing stock	<u>10,000</u>	<u>57,000</u>
Gross profit		<u>23,000</u>

The Treasurer, who suspects goods may have been stolen, and has asked the Restaurant Manager to explain the reduction in gross profit to sales ratio. The Restaurant Manager has made the following suggestions:

- (i) there has been a change in sales mix: more low margin biscuits have been sold and fewer high margin cakes have been sold.
(ii) the opening stock may have been over valued as the stocktaking was not supervised last year.

REQUIRED

- (b) Calculate the cost of the goods which may have been stolen during the year ended 30 June 2012, on the assumption that the gross profit to sales ratio should have been 40%.
(3 marks)
- (c) Calculate the sales value of the goods which may have been stolen during the year ended 30 June 2012, on the assumption that the gross profit to sales ratio should have been 40%.
(2 marks)
- (d) Assess whether or not **each** of the Restaurant Manager's suggestions could provide an explanation for the fall in the gross profit to sales ratio.
(4 marks)
- (e) Briefly give **three** possible explanations, for the fall in gross profit to sales ratio, other than theft and the suggestions of the Restaurant Manager.
(3 marks)

QUESTION 1 CONTINUED

Dock, Road and Beach have been in partnership, without a partnership agreement, for two years with fixed capitals of £8,000, £10,000 and £12,000 respectively. A partnership agreement was drawn up for year three, under which annual profits were to be divided as follows:

- (1) Dock to receive an annual salary of £3,000
- (2) Interest on fixed capitals to be allowed at 5% per year
- (3) Residual profit to be divided between Dock, Road and Beach in the ratio of 1:2:2 respectively.

Net profit for Year 3 is expected to be £45,000.

REQUIRED

- (f) Calculate the gain or loss to each partner in Year 3, from having no agreement to having an agreement.

(6 marks)

Dock suggests that his salary should be increased to £7,500 per year.

- (g) Calculate the gain or loss Dock will make if this suggestion is included in a revised partnership agreement, as compared with **each** of the following:

- (i) having no partnership agreement
- (ii) accepting the terms of the original partnership agreement.

(4 marks)

(Total 25 marks)

QUESTION 2

Pier Ltd has provided the following (correctly calculated) information for its Cash Flow Statement for the eleven months ended 31 May 2012:

Reconciliation of operating profit to net cash inflow from operations

	£000
Operating profit	170
Decrease in stock	20
Decrease in debtors	10
Increase in creditors	<u>5</u>
	<u>205</u>

Cash flow statement for the eleven months ended 31 May 2012

	£000
Net cash inflow from operating activities	205
Returns on investment and servicing of finance	
Debenture interest	(10)
Capital expenditure and financial investment	
Purchase of fixed assets	(40)
Equity dividends paid	<u>(20)</u>
Net cash flow before financing	135
Financing	
Issue of debentures	<u>50</u>
Increase in cash and cash equivalents	<u>185</u>

In the month ended 30 June 2012 the following occurred:

- (1) Sales of £100,000. Pier Ltd achieved a **net operating profit** of 10% of sales, before taking into consideration any of the matters (2) – (7) below.
- (2) Fixed assets were purchased for £70,000. Fixed assets, with a net book value of £30,000, were disposed of at a loss of £3,000.
- (3) Depreciation was provided at 10%, on a reducing balance basis, on all fixed assets held at the end of the year. The net book value of fixed assets at 1 July 2011 was £160,000.
- (4) An interim dividend of £10,000 was paid.
- (5) An issue of 200,000 £0.50 ordinary shares was made at a premium of 10%. £20,000 of debentures were redeemed at par.
- (6) Debenture interest of £10,000 was paid.
- (7) Stock increased by £2,000, before a provision for obsolete stock of £3,000 was made. Debtors decreased by £3,000, before writing off bad debts of £1,000 and making a provision for bad debts of £2,000. Creditors increased by £1,000.

QUESTION 2 CONTINUED

REQUIRED

- (a) Calculate the operating profit for the year ended 30 June 2012. (8 marks)
- (b) Reconcile the operating profit to the net cash flow from operating activities for the year ended 30 June 2012. (7 marks)
- (c) Prepare the Cash Flow Statement, in accordance with FRS1 (revised), for the year ended 30 June 2012. (10 marks)

(Total 25 marks)

QUESTION 3

On 1 January 2009 Platt Ltd purchased twenty machines for £9,000 each. Depreciation on them was charged at 15% per year, using the reducing balance method. For parts of years the annual amount was calculated, then reduced proportionately.

On 30 June 2010 four of the machines were destroyed in a fire and replaced, on 1 July 2010, with four machines costing £9,900 each. Platt Ltd received £27,000 from its insurance company on 1 September 2010.

On 1 January 2011 it was decided to change to the straight line method of depreciation. It was estimated that all machines would have a useful life of ten years from their date of purchase and a scrap value of £450 each. The effect of the change in depreciation method was not expected to distort future results to any material degree.

REQUIRED

- (a) Prepare the following Accounts for **each** of the three years ended 31 December 2009, 2010 and 2011:
- (i) machinery at cost
 - (ii) accumulated depreciation on machinery
 - (iii) machinery disposal.

Note: Make all calculations to the nearest £1.

(19 marks)

During the year ended 30 June 2012 Cyres, a baker, purchased the following:

	£
(1) Land	80,000
(2) Stationery	1,200
(3) Goods for resale	91,300
(4) Second hand car	3,100
(5) Office building	104,100
(6) Goodwill	71,100

REQUIRED

- (b) Classify **each** of the above items as either capital expenditure or revenue expenditure.

For any item classified as capital expenditure state whether it is tangible or intangible.

(6 marks)

(Total 25 marks)

QUESTION 4

Golf plc acquired 180,000 of the 300,000 £1 ordinary shares of Club Ltd on 1 January 2008, at a cost of £4,000,000. At that date the credit balance on Club Ltd's Retained Earnings Account (the only reserve) was £3,000,000.

REQUIRED

- (a) Calculate the goodwill on consolidation arising on the acquisition of Club Ltd.

(3 marks)

During the year ended 31 December 2011, Club Ltd sold goods to Golf plc for £207,000, which included a mark up of 15%. Half of the value of these goods remained in Golf plc's stock at 31 December 2011. The values of the stock in the Balance Sheets of Golf plc and Club Ltd at that date were £370,000 and £210,000 respectively.

REQUIRED

- (b) Calculate the value of stock that would appear in the Consolidated Balance Sheet of Golf plc and Club Ltd at 31 December 2011.

(3 marks)

At 31 December 2011 the capital and reserves section of the Balance Sheet of each company was as follows:

	Golf Plc	Club Ltd
	£	£
Ordinary share capital	700,000	300,000
Retained earnings	2,100,000	4,800,000

REQUIRED

- (c) Calculate the consolidated retained earnings of Golf plc and Club Ltd at 31 December 2011. Assume that goodwill is being written off evenly over ten years and that the minority interest is to be charged with its share of unrealised profit in stock.

(4 marks)

Main plc has acquired over 50 subsidiary companies in the last few years. Summarised financial information for three of them in respect of 2011 is given below:

	Soken Ltd	Arden Ltd	Chase Ltd
	£000	£000	£000
Sales	7,000	19,200	253
Cost of sales	2,340	17,640	182
Average stock	2	300	25
Average debtors	583	100	8

Cost of sales (in accordance with group policy) consists of direct labour cost and material cost. Stocks are valued at material cost only.

Direct labour costs for the year were as follows:

	£
Soken Ltd	2,336,000
Arden Ltd	2,000,000
Chase Ltd	30,000

QUESTION 4 CONTINUED

REQUIRED

- (d) Calculate, for **each** company the stock turnover ratio (in days) and **two** other ratios which will assist in the analysis of their performance. All ratios should be calculated to one decimal point.
(6 marks)

Soken Ltd, Arden Ltd and Chase Ltd operate in three different business areas : a small antiques shop, the provision of accounting services and a supermarket chain.

REQUIRED

- (e) State, giving **two** reasons in **each** case, which company is in which business.
(9 marks)

(Total 25 marks)

QUESTION 5

The budgeted Cash Account of Guise Ltd for the month ending 31 December 2012 is as follows:

	£		£
Opening balance	32,000	Cash purchases	5,000
Cash sales	15,000	Creditors (one month's credit)	40,000
Debtors (one month's credit)	60,000	Creditors (two month's credit)	22,000
Debtors (two month's credit)	45,000	General expenses	11,000
Sale of fixed assets	6,000	Ordinary dividend	5,000
		Purchase of fixed assets	2,000
		Closing balance	<u>73,000</u>
	<u>158,000</u>		<u>158,000</u>

Extracts from Guise Ltd's Balance Sheet at 30 September 2012 (the company's year end) are as follows:

	£
Fixed assets (net book value)	200,000
Stock	31,000
Share premium	48,000
Retained earnings	45,000

Further information is given below:

- (1) 20% of each month's sales are for cash; 50% of each month's sales are expected to be received in the month after sale; the remaining sales are expected to be received in the second month after sale.
- (2) The fixed assets budgeted to be sold in December originally cost £20,000 and had been depreciated by £12,000. No depreciation is charged in the quarter in which a fixed asset is sold.
- (3) 10% of each month's purchases are for cash; 50% of each month's purchases are expected to be paid in the month after purchase; the remaining purchases are expected to be paid in the second month after purchase.
- (4) General expenses, which are always paid in cash, are expected to be 10% higher in December than in November, and were 25% higher in November's than in October.
- (5) The fixed assets budgeted to be purchased in December are to be paid for in twelve equal monthly instalments.
- (6) The dividend to be paid on 15 December is at the rate of £0.05 per £1 share and is the only dividend to be paid in the October to December quarter.
- (7) A bonus (capitalisation) issue, of one new ordinary share for every two held will be made on 22 December 2012. This will make the maximum use of the non-distributable reserve.
- (8) Stock at 31 December 2012 is budgeted to be £40,000.
- (9) No fixed assets are budgeted to be purchased or sold in October and November 2012. Depreciation is to be provided at 5% per quarter on the net book value of fixed assets held at 31 December 2012. A full quarters depreciation is charged in the quarter in which an asset is purchased.

REQUIRED

Prepare the budgeted Profit and Loss, and Appropriation Account for the three months (quarter) ending 31 December 2012 and the budgeted Balance Sheet at that date.

(Total 25 marks)