Series 3 Examination 2012

CERTIFICATE IN BOOK-KEEPING AND ACCOUNTS

Level 2

Friday 8 June

Subject code: 2007

Time allowed: **3 hours**

INSTRUCTIONS FOR CANDIDATES

- Answer **any 4** questions.
- All questions carry equal marks.
- Study the "**REQUIRED**" section of each question carefully. Then 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

The following details were extracted from the books of Petro Ltd at 31 December 2011:

	£
Net profit for the year ended 31 December 2011 (after deducting debenture interest of £4,000)	500,200
8% debentures (repayable 2012)	100,000
Interim ordinary dividend paid	50,000
Interim preference dividend paid	7,500
5% loan from Brank's Bank (repayable 2018)	25,000
Share premium	50,000
Issued and fully paid share capital:	
500,000 £1 ordinary shares	500,000
300,000 5% £1 preference shares	300,000
General reserve	20,000
Retained profits at 31 December 2010	175,000

Additional information:

Following the calculation of the net profit it was discovered that:
(1) The stock at 31 December 2011 had been undervalued by £5,200
(2) A full year's interest on the loan from Brank's Bank remained unpaid at 31 December 2011 and no entries had been made in the accounts
(3) No allowance had been made for accrued directors' fees of £35,000
(4) The directors propose:
- a final dividend of £0.20 per ordinary share
- payment of the final preference share dividend
- to transfer £30,000 to the general reserve

REQUIRED

(a) Commencing with £500,200, prepare a statement to show the adjusted net profit of Petro Ltd for the year ended 31 December 2011.

(5 marks)

(b) Commencing with the adjusted net profit, prepare the Profit & Loss Appropriation Account for the year ended 31 December 2011.

(8 marks)

(c) Prepare a Balance Sheet extract at 31 December 2011, from the information available.

(12 marks)

(Total 25 marks)

QUESTION 2

Garcia and Martino are in partnership sharing profits and losses in the ratio 2:1. At 30 June 2011, their Balance Sheet was as follows:

	£	£
Fixed Assets		
Goodwill		40,000
Premises		70,000
Office equipment		25,000
Fixtures and fittings		20,000
		155,000
Current Assets		
Stock	12,000	
Debtors	18,000	
Bank	8,000	
	38,000	
Creditors: amounts falling due within one year		
Creditors	13,000	
Net Current Assets		25,000
		180,000
Capital		
Garcia		120,000
Martino		60,000
		180,000

Zarita was admitted into the partnership on 1 July 2011 and it was agreed that all future profits and losses would be shared equally. Zarita introduced into the partnership, stock valued at £40,000, debtors of £5,000 and sufficient cash to cover his share of goodwill.

At the same time, some assets and liabilities of the old partnership were revalued as follows:

	£
Goodwill	60,000
Premises	120,000
Office equipment	15,000
Stock	12,600
Creditors	13,900

REQUIRED

(a) The Revaluation Account of Garcia and Martino.
(7 marks)

(b) The Capital Accounts of Garcia, Martino and Zarita, following the revaluation of assets and liabilities and the admission of Zarita. It was decided that goodwill would **not** be retained in the books of the new partnership.
(9 marks)

(c) The opening Balance Sheet of Garcia, Martino and Zarita.
(6 marks)

(d) State **three** items to be found in a partnership agreement other than profit sharing ratios.
(3 marks)

(Total 25 marks)

QUESTION 3

The following information relates to Lucy Ling's Debtors Account:

(1) The Balance Sheet at 31 January 2010 included the following entry:

	£
Debtors	40,500
Less Provision for doubtful debts	1,215
	39,285

(2) The debtors' figures **before** the deduction of provision for doubtful debts were:

	£
At 31 January 2011	44,400
At 31 January 2012	39,150

(3) The bad debts figures were:

	£
For the year ended 31 January 2011	1,800
For the year ended 31 January 2012	2,100

The bad debts had been written off throughout the year.

(4) At the end of financial years 2011 and 2012, Lucy Ling made provision for doubtful debts of 4% of her debtors.

REQUIRED

(a) Prepare the following accounts for the year's ended 31 January 2011 and 31 January 2012:

(i) Bad Debts

(4 marks)

(ii) Provision for Doubtful Debts.

(9 marks)

(b) Prepare the entries for Lucy Ling's debtors in her Balance Sheet at 31 January 2012.

(2 marks)

(c) State **two** reasons why a provision for doubtful debts is made at the financial year end.

(4 marks)

(d) In February 2012, the bad debts incurred in 2011 are recovered. Prepare the Journal entries that need to be made in Lucy Ling's books, including the year end transfer. Narratives are **not** required.

(6 marks)

(Total 25 marks)

QUESTION 4

The following financial statements relate to Sorby Ltd:

Trading and Profit & Loss Account for the year ended 30 September 2011

	£000
Sales	800
Less: Cost of sales	300
Gross profit	500
Less: expenses (including debenture interest)	383
Net profit	117

Balance Sheet at 30 September 2011

	£000	**£000**
Fixed Assets		450
Current Assets:		
Stock	70	
Trade debtors	200	
Bank	180	
	450	
Creditors falling due within one year:		
Trade creditors	(200)	
Net Current Assets		250
		700
Creditors falling due after more than one year:		
6% debentures - issued 2008		(150)
		550
Capital and Reserves:		
350,000 Ordinary shares of £1 each		350
Retained profits		200
		550

Additional information:
Stock at 1 October 2010 was £80,000

REQUIRED

(a) Calculate the following ratios for Sorby Ltd for the year ended 30 September 2011. All calculations should be to **one** decimal place. Show the formula for each ratio.

(i) Gross profit as a % of sales (margin)
(3 marks)

(ii) Rate of stock-turnover (number of times per year)
(2 marks)

(iii) Current/working capital ratio
(2 marks)

(iv) Liquidity/acid test ratio
(3 marks)

(v) Return on **total** capital employed. Use net profit **before** interest.
(3 marks)

When preparing their financial plans for the year ending 30 September 2012, the directors of Sorby Ltd made the following assumptions:

(1) Sales would increase by 20% if selling prices were reduced by 5%.
(2) Cost of sales would increase in line with sales but purchase prices would reduce by 3%.
(3) Expenses, before debenture interest, would increase by 4%.

REQUIRED

(b) Prepare a planned Trading and Profit & Loss Account for the year ending 30 September 2012. **All workings must be shown.**
(12 marks)

(Total 25 marks)

QUESTION 5

Growwell Ltd, a garden centre business, carried out an annual stock check.

At 30 September 2011, the stock was valued at £47,900.

Subsequently, the following were discovered:

(i) 30 bird baths were included in the stock list at £35 each. The actual cost had been £53 each.

(ii) 6 trees costing a total of £300 had been badly wind damaged. It was decided to destroy these items.

(iii) A patio table with a selling price of £90 had been omitted from the stock sheets. The mark up on this item was 20%.

(iv) 5 bird tables costing £15 were damaged. It was decided to sell these items at a reduced profit of 40% on cost price.

(v) 12 seasonal shrubs, costing £15 each, were outdated and would need to be sold at £120 in total.

(vi) On 1 June 2011, goods costing £1,560 were sent on a sale or return basis to a customer. On 3 October 2011, the customer returned all the goods to Growmore Ltd.

(vii) 12 specimen plants had been included at their selling price of £250 each. The mark up on these was 25%.

(viii) A delivery of garden sheds, costing £1,200, was made on 29 September 2011. The invoice was received and entered in the Purchases Day Book on the same date, but it remained unpaid on 30 September 2011.

(ix) One stock sheet total had been incorrectly added to £3,500. The correct total should have been entered as £4,300.

REQUIRED

Calculate the:

(a) Adjusted stock value of each item. In a table, show whether there is an increase or decrease and where there is no effect state ‘no effect’

(16 marks)

(b) Net adjustment to the original stock value

(2 marks)

(c) Corrected total value of the stock at 30 September 2011.

(2 marks)

REQUIRED

Maggie Ng owns a shop. She had a theft on her year-end date of 31 December 2011 and the remaining stock was £30,000. She has provided the following information:

	£
Sales for the year	190,000
Purchases for the year	124,000
Opening stock	16,000

The gross margin is 45% on sales.

(d) Prepare Maggie Ng’s Trading Account, showing the stock loss, for the year ended 31 December 2011.

(5 marks)

(Total 25 marks)