THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 2 EXAMINATION 2003
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

MAGNUM AND ITS SUBSIDIARY
Consolidated Balance Sheet at 31 December 2002

		Cost		Provision for Depreciation	Net
Non-current Assets		$'000		$'000	$'000
Land and buildings	$(250 + 150)	400	$(30 + 50)	80	320
Machinery	$(1 650 + 550)	2 200	$(540 + 180)	720	1 480
Vehicles	$(170 + 20)	190	$(95 + 5)	100	90
		2 790		900	1 890
Current Assets					
Inventory	$(165 + 94)			259	
Trade receivable	$(252 + 82 – 32)			302	
Bank				45	606
					2 496
Financed by					
Capital and Reserves					$'000
Capital					1 200
Retained profits (working 2)					383.85
					1 583.85
Capital reserve on consolidation (working 1)					13.15
Non-current Liabilities					
12% Debenture stock					600
Current Liabilities					
Trade payable $(282 – 32 +17)				267	
Bank overdraft				32	299
					2 496

ANSWER 2 (Continued)

Notes

1. Average inventory

		$'000
1999	($12 + $15)/2	=13.5
2000	($15 + $32)/2	=23.5
2001	($32 + $28)/2	=30.0
2002	($28 + $35)/2	=31.5

2. Cost of sales

		$'000
1999	($212 - $53)	=159
2000	($240 - $60)	=180
2001	($265 - $65)	=200
2002	($280 - $70)	=210

(b) A report on the company's progress in terms of :

(i) Liquidity

The liquid funds of the company has declined for 4 years from 3.6 in 1999 to 1.6 in 2002. Although the ratio still maintain the minimum acceptable level of 1.5:1, improvements on inventory turnover, to receivable collection period need to be made before financial position is getting worse.

(ii) Profitability

Sales were steadily increased from $212 000 in 1999 to $280 000 in 2002. It shows that the trading activities has been managing well. However, the profit has declined from 1999 (8.5%) to 2002 (6.8%). Therefore, cost control in administration, selling and distribution expenses are required for the company to improve the dividend distributions. Otherwise, investors may not have interest to commit their investment in the company.

ANSWER 3

JOE, BILL AND MARY

(a) Calculation of the total drawings for each partner own the four year period

	Joe	Bill	Mary	Total
	$	$	$	$
Share of profit for the 1st year - 4 800 x 1/3	1 600	1 600	1 600	4 800
Share of profit for the 2nd year - 25 500 x 1/3	8 500	8 500	8 500	25 500
Share of profit for the 3rd year - 49 500 x 1/3	16 500	16 500	16 500	49 500
Balance of current account at the 4th year (Dr)	4 700	3 700	5 100	13 500
	31 300	30 300	31 700	93 300
Less Transfer to capital account at end of second year	(2 500)	-	-	(2 500)
Transfer to capital account at end of third year	(4 000)	(3 000)	-	(7 000)
Total drawings	24 800	27 300	31 700	83 800

(b) Calculation of the balance on partners current accounts after the appropriation of Year 4

	Joe	Bill	Mary
	$	$	$
Year 4 Interest on capital (working 1)	2 120	2 240	2 400
Salary	2 500	-	-
Share of remaining profit (4:7:9) (working 2)	8 648	15 134	19 458
	13 268	17 374	21 858
Balance b/f (Dr)	(4 700)	(3 700)	(5 100)
Balance c/f	8 568	13 674	16 758

Workings

1. **Interest on capital**

Joe	($20 000 + 2 500 + 4 000) x 8%	=$2 120
Bill	($25 000 + 3 000) x 8%	=$2 240
Mary	($30 000 x 8%)	=$2 400
		$6 760

2. **Share of remaining profit**

($52 500 – 6 760 – 2 500)		=$43 240
Joe	$43 240 x 4/20	=$8 648
Bill	$43 240 x 7/20	=$15 134
Mary	$43 240 x 9/20	=$19 458

ANSWER 4

SHIRE SPORTS CLUB

(a) Bar Trading Account for the year ended 31 March 2002

	$	$
Bar sales		8 240
Less Cost of sales		
Inventory at 1 April 2001	3 750	
Add Purchases $(6 140 + 1 995 – 1 150)	6 985	
	10 735	
Less Inventory at 31 March 2002	4 100	
	6 635	
Bar stewards wages	1 400	8 035
Profit on bar trading		205

(b) Income and Expenditure Account for the year ended 31 March 2002

	$	$	$
Income			
Subscriptions received ($105 x 80)		8 400	
Fund raising receipts	740		
Less Costs of fund raising	175	565	
Profit on bar trading		205	9 170
Expenditure			
Postage and administration expenses		845	
Club house expenses – repairs and rates		1 240	
Match costs		1 500	
Travel costs		830	
Secretary's wages		2 000	
Depreciation on equipment $(17 450 + 1 740) x 10%		1 919	8 334
Surplus for the year			836

ANSWER 4 (Continued)

SHIRE SPORTS CLUB

(c) Balance Sheet at 31 March 2002

	$	$
Non-current Assets		
Club house owned freehold at cost		35 000
Equipment at cost $(17 450 + 1 740)	19 190	
Less Depreciation $(8 400 + 1 919)	10 319	8 871
		43 871
Current Assets		
Inventory at bar	4 100	
Subscriptions in arrear ($105 x 2)	210	
Bank	1 640	5 950
		49 821
Financed by		
Accumulated Fund		$
At start		46 990
Add Surplus		836
		47 826
Current Liabilities		
Trade payable for bar supplies		1 995
		49 821

ANSWER 5

BERGONS

(a)	Journal	Dr	Cr
2002		$'000	$'000
1 April	(1) Revaluation reserve	75	
	Retained earnings ($100 000 - $75 000)	25	
	Ordinary share capital (1 000 000 x 1/5) x $0.50		100
	(2) Bank [800 000 x ($0.50 + $0.25)]	600	
	Ordinary share capital (800 000 x $0.50)		400
	Share premium (800 000 x $0.25)		200
	(3) Bank (20 000 x $1)	20	
	8% Preference share capital (20 000 x $1)		20
	(4) 10% Debenture stock	150	
	Share premium ($150 000 x 6%)	9	
	Debenture redemption		159
	Debenture redemption	159	
	Bank ($150 000 x 106%)		159

(b) Calculation of the balance at bank

		$	$
Opening balance at bank			30 000
Add	Cash received from issue of ordinary shares	600 000	
	Cash received from issue of preference shares	20 000	620 000
			650 000
Less	Cash paid for redemption of 10% debentures		159 000
Balance at bank			491 000

(c) Balance Sheet after the above transactions have taken place

	$
Capital and Reserves	
Capital Issued	
2 000 000 $0.50 Ordinary share capital	1 000 000
100 000 $1 8% Preference share capital	100 000
Reserves	
Share premium $(200 000 - 9 000)	191 000
Retained earnings $(105 000 - 25 000)	80 000
	1 371 000

ANSWER 6

JONES AND SING

(a) Memorandum Joint Venture Account for the 6 months ended 30 November 2002

		£		£
Purchases		30 127	Sales	
$(25 000 + 37 400 + 42 600 + 38 425 + 52 400) / 6.5			£(6 500 + 9 300 + 13 450 + 11 240 + 9 250)	49 740
Storage $(3 250 / 6.5)		500	Inventory taken over by Jones	
Shipping and insurance costs $(5 025 + 6 230 + 7 025 + 6 350 + 8 150) / 6.5		5 043	[($52 400 + 8 150) x 30% / 6.5 + 622 x 30%]	2 982
Import charges £(850 + 940 + 1 050 + 850 + 622)		4 312		
Storage – rent of warehouse		2 400		
Profit on joint venture				
Sing (£10 152 x 1/2)	5 170			
Jones (£10 152 x 1/2)	5 170	10 340		
		52 722		52 722

Notes: £1 = $6.5dollars

(b) In the books of Jones

Joint Venture with Sing Account for the 6 months ended 30 November 2002

2002			£	2002			£
1	Jul	Bank – Import charges	850	8	Jul	Bank – Sales	6 500
3	Jul	Bank – Storage – rent of warehouse	2 400	5	Aug	Bank – Sales	9 300
31	Jul	Sent to Sing	14 000	3	Oct	Bank – Sales	13 450
1	Aug	Bank – Import costs	940	12	Nov	Bank – Sales	11 240
25	Sep	Bank – Import costs	1 050	28	Nov	Bank – Sales	9 250
30	Sep	Sent to Sing	15 000	30	Nov	Inventory taken over [($52 400 + 8 150) x 30% / 6.5 + 622 x 30%]	2 982
5	Nov	Bank – Import costs	850				
22	Nov	Bank – Import costs	622				
30	Nov	Profit on joint venture	5 170				
30	Nov	Balance c/d	11 840				
			52 722				52 722
				1	Dec	Balance b/d	11 840

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 3 EXAMINATION 2003
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

(a) Income Statement for the year to 31 March 2003

		$	$	$
Sales of services				125 000
Less	Operating expenses			
	General expenses		14 350	
	Salaries		22 650	
	Light, heat and power		3 500	
	Advertising		1 450	
	Travel		2 650	
	Interest on Alan's loan $(10 400 x 10% x 6/12)		520	
	Depreciation on:-			
	Freehold premises $(85 000 x 2%)	1 700		
	Equipment, fixtures and fittings $(80 000 x 10%)	8 000		
	Vehicles $(37 500 – 15 500) x 25%	5 500	15 200	60 320
Profit for the year				64 680

(b) Appropriation Account for the six month period up to 30 September 2002

	$	$
Profit before salary and interest $(64 680 + 10 000* + 520**)/2		37 600
Less : Derek's salary		10 000
		27 600
Appropriation		
Interest on capital		
Alan ($35 000 x 12% x 6/12)	2 100	
Barry ($40 000 x 12% x 6/12)	2 400	
Charles ($35 000 x 12% x 6/12)	2 100	6 600
		21 000
Share of residual profit		
Alan ($21 000 x 1/3)	7 000	
Barry ($21 000 x 1/3)	7 000	
Charles ($21 000 x 1/3)	7 000	21 000

* Derek's Salary from April 2002 to September 2002
** Interest on loan from October 2002 to 31 March 2003

ANSWER 5 (CONTINUED)

(b) **Holdings Ltd and its subsidiary**
Consolidated Balance Sheet at 31 March 2003

		Cost		Depreciation	Net
		$		$	$
Non-Current Assets					
Land and Buildings	$(924 + 200)	1 124	$ (85 + 30)	115	1 009
Machinery	$(2 145 + 1 568)	3 713	$(452 + 920)	1 372	2 341
Vehicles	$(327 + 45)	372	$(57 + 18)	75	297
		5 209		1 562	3 647
Goodwill on consolidation $(60 – 24)					36
Current assets					
Inventory $(124 + 86 – 6)				204	
Trade receivables $(76 + 57 – 15)				118	
Bank				24	346
					4 029

			$
Financed by			
Capital and Reserves			
Ordinary shares of $1			3 000
Accumulated profits			582
			3 582
Minority interest			195
Current liabilities			
Trade payable $(143 + 37 –15)		165	
Bank overdraft		87	252
			4 029

ANSWER 6

(a) (i) **Calculation of the operating profit of Pelagir**

		$'000	$'000
Accumulated profits at 31 March 2003			450
Add	Premium on redemption of debentures ($200 x 5%)		10
	Profit for bonus issues -		
	Bonus issue ($900 – 600)	300	
	Surplus on revaluation of buildings ($350 – 184)	(166)	134
			594
Less	Accumulated profits at 31 March 2002		480
Operating profit			114

(ii) **The cash generated from operations**

	$'000
Operating profit	114
Depreciation [$530 – (351 – 26 – 46)]	251
Profit on sale of machine ($10 – 8)	(2)
Increase in inventory ($317 – 257)	(60)
Decrease in trade receivables ($348 – 312)	36
Decrease in trade payables ($419 – 389)	(30)
Cash generated from operations	309

(b) **Cash Flow Statement of Pelagir for the year ended 31 March 2003**

	$'000	$'000
Net cash inflow from operating activities		309
Investing activities		
Proceeds from sale of machinery	10	
Acquisition of machinery	(299)	(289)
Net cash inflow before financing		20
Financing activities		
Redemption of debentures ($200 x 105%)		(210)
Decrease in cash and cash equivalent ($105 + 85)		190

THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 4 EXAMINATION 2003
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

(a) Calculation showing the number of shares issued to George and Susan and the amount of the loan from Mary

			George	Mary	Susan
2002			**$**	**$**	**$**
1	Apr	Capital brought forward	31 500	27 000	21 750
31	Dec	Salary ($8 000 x 9/12)			6 000
		Share of profit			
		George ($48 000 x 9/12 – 6 000) x 2/5	12 000		
		Mary ($48 000 x 9/12 – 6 000) x 2/5		12 000	
		Susan ($48 000 – 6 000) x 2/5 x 1/5			6 000
		Share of profit			
		George ($48 000 x 3/12 x 1/2)	6 000		
		Susan ($48 000 x 3/12 x 1/2)			6 000
		Share of goodwill ($18 750) 2:2:1	7 500	7 500	3 750
			57 000	46 500	43 500
2003					
31	Mar	Adjustment for goodwill written off			
		George ($18 750 x 2/3)	(12 500)		
		Susan ($18 750 x 1/3)			(6 250)
		Drawings	(9 500)	(10 500)	(8 500)
		Balance of capital	35 000	36 000	28 750
1	Apr	Cash		(8 500)	
		Loan account		27 500	
		Value of shares to be allotted	35 000		28 750

Number of shares issued to:

George ($35 000 / $0.50)	= 70 000
Susan ($28 750 / $0.50)	= 57 500
Amount of the loan from Mary	= 28 100

ANSWER 1 (Continued)

Note : Value of goodwill

= $7 500 / 40%

= $18 750

SURGE

(b) Balance sheet at 1 April 2003

Capital and Reserves	$
147 500 Ordinary shares at $0.50 each, fully paid	73 750
Share premium (20 000 shares x $0.10)	2 000
	75 750

Note:

New issue of ordinary shares on 1 April 2003 ($12 000 / $0.60)	20 000	shares
Ordinary shares issued to:		
George	70 000	shares
Susan	57 500	shares
	147 500	shares

Bank balance at 1 April 2003

	$
Bank overdraft at start	(1 200)
Shares issued	12 000
Payment to Mary	(8 500)
Balance at 1 April 2003	2 300

ANSWER 2

(a) **Machinery**

2000			$	2001			$
1	Apr	Balance b/f	450 000	1	Feb	Machinery disposal	22 000
1	July	Bank	40 000	31	Mar	Balance c/d	523 000
2001							
1	Feb	Bank $(55 000 – 6 500)	48 500				
1	Feb	Machinery disposal - Trade in	6 500				
			545 000				545 000
2001				2002			
1	Apr	Balance b/d	523 000	1	May	Machinery disposal	16 000
				2002			
				31	Mar	Balance c/f	507 000
			523 000				523 000

(b) **Provision for depreciation of machinery**

2001			$	2000			$
1	Feb	Machinery disposal (w1)	12 719	1	Apr	Balance b/d	145 600
2001				2001			
31	Mar	Balance c/d	230 411	31	Mar	Income statement [523 000 – (145 600 – 12 719)] x 25%	97 530
			243 130				243 130
2001				2001			
1	May	Machinery disposal (w2)	13 153	1	Apr	Balance b/d	230 411
2002				2002			
31	Mar	Balance c/f	289 694	31	Mar	Income statement [507 000 – (230 411 – 13 153)] x 25%	72 436
			302 847				302 847

ANSWER 2 (Continued)

(c) **Machinery disposal**

			$				$
2001				2001			
1	Feb	Machinery	22 000	1	Feb	Provision for depreciation of machinery [22 000 – 22 000 x $(1 - 0.25)^3$]	12 719
						Machinery – trade in	6 500
				31	Mar	Profit disposal of machinery	2 781
			22 000				22 000
2001				2001			
1	May	Machinery	16 000	1	May	Provision for depreciation of machinery [16 000 – 16 000 x $(1 - 0.25)^6$]	13 152
						Bank – scrap value	2 848
			16 000				16 000

Workings

Provision for depreciation of machinery

(1) Disposal of machine on 1 February 2001

				Total Depreciation
			$	$
1997				
1	Aug	Cost of old machine	22 000	
1998				
31	Mar	Depreciation (22 000 x 25%)	5 500	5 500
		Balance	16 500	
1999				
31	Mar	Depreciation (16 500 x 25%)	4 125	4 125
		Balance	12 375	
2000				
31	Mar	Depreciation (12 375 x 25%)	3 094	3 094
		Balance	9 281	12 719

Workings

(2) Machine scrapped on 1 May 2001

			$	$
1996				
1	Jan	Cost of old machine	16 000	
1996				
31	Mar	Depreciation ($16 000 x 25%)	4 000	4 000
		Balance	12 000	
1997				
31	Mar	Depreciation ($12 000 x 25%)	3 000	3 000
		Balance	9 000	
1998				
31	Mar	Depreciation ($9 000 x 25%)	2 250	2 250
		Balance	6 750	
1999				
31	Mar	Depreciation ($6 750 x 25%)	1 688	
		Balance	5 062	1 688
2000				
31	Mar	Depreciation ($5 062 x 25%)	1 266	
		Balance	3 796	1 266
2001				
31	Mar	Depreciation ($3 796 x 25%)	949	949
		Balance	2 847	13 153

ANSWER 3

PUBLISH AND ITS SUBSIDIARIES

(a) Consolidated Balance Sheet at 31 March 2003

	Cost		Depreciation	Net
Non-current assets	$'000		$'000	$'000
Freehold office	850		85	765
Land and buildings $(210 + 320)	530	(45 + 60)	105	425
Machinery $(950 + 870)	1 820	(360 + 600)	960	860
	3 200		1 150	2 050
Goodwill on consolidation (working 1)				44
Current assets				
Inventory $(85 + 90)			175	
Trade receivables - others $(45 + 80 + 60 – 8)			177	
Bank			12	364
				2 458
Financed by				$'000
Capital and reserves				
$1 Ordinary shares				1 000
Accumulated profits (working 3)				806
				1 806
Minority interest (working 2)				495
Current liabilities				
Trade payables $(45 – 25 + 40)			60	
Bank overdraft $(32 + 45)			77	
Bank overdraft – others			20	157
				2 458

Note

Investments in:

Books $\frac{360\ 000}{600\ 000} \times 100\% = \underline{60\%}$

Mags $\frac{450\ 000}{600\ 000} \times 100\% = \underline{75\%}$

ANSWER 3 (Continued)

Workings

1. Goodwill on consolidation

		Books			Mags		Total
		$'000	$'000		$'000	$'000	$'000
Investment			450			380	
Less	Share capital ($600 000 x 60%)	360		($600 000 x 75%)	450		
	Pre-acquisition profit ($100 000 x 60%)	60	420				
	Pre-acquisition losses			($120 000 x 75%)	(90)	360	
			30			20	
Less	Amortization of goodwill (30 x 1/5 x 10/12)		5	(20 x 1/5 x 3/12)		1	
			25			19	44

2. Minority interest

	Books		Mags	Total
	$'000		$'000	$'000
Share capital ($600 000 x 40%)	240	($600 000 x 25%)	150	
Accumulated profit ($230 000 x 40%)	92	($52 000 x 14%)	13	
	332		163	495

3. Accumulated profits

		$'000
Publish		605
Add	Post-acquisition profits	
	Books ($230 000 – $100 000) x 60%	78
	Mags ($120 000 + $52 000) x 75%	129
		812
Less	Amortization of goodwill (5 + 1)	6
		806

ANSWER 4

MARGREAVES

(a)		Journal	Dr	Cr
2003			$	$
1 Apr	(1)	Bank (12 000 000 x 1/3 x $0.625)	2 500 000	
		Ordinary share capital (12 000 000 x 1/3 x $0.50)		2 000 000
		Share premium (12 000 000 x 1/3 x $0.125)		500 000
	(2)	Share premium	800 000	
		(12 000 000 + 4 000 0000) x 1/10 x $0.50		
		Ordinary share capital		800 000
	(3)	Bank (120 000 x $1 x 40%)	48 000	
		Application and allotment		48 000
		Application and allotment	100 000	
		Preference share capital (100 000 x $1)		100 000
		Bank (100 000 x $1 x 60%) – (20 000 x $1 x 40%)	52 000	
		Application and allotment		52 000
		Share premium - share issued costs	85 000	
		Bank		85 000
	(4)	12% Debentures	800 000	
		Debenture redemption		800 000
		Share premium ($800 000 x 10%)	80 000	
		Debenture redemption		80 000
		Debenture redemption	880 000	
		Bank		880 000

(b) **Balance Sheet at 31 March 2003**

	$
Capital and reserves	$
Authorized share capital	
20 000 000 Ordinary shares of $0.50	10 000 000
400 000 9% Preference shares of $1	400 000
	10 400 000
Issued share capital	
17 600 000 $0.50 Ordinary shares	8 800 000
400 000 $1 9% Preference shares	400 000
	9 200 000
Share premium ($500 000 + $500 000 – $800 000 – $80 000 – $85 000)	35 000
Accumulated profits	750 000
	9 985 000

ANSWER 5

(a) Effect on annual gross profit for each alternative

Alternative 1		$'000
Credit sales	($5 400 x 110%)	5 940
Production cost	($4 320 x 110%)	4 752
Gross profit	($4 752 x 25%)	1 188

Annual gross profit will be increased by **$108** (i.e. $1 188 – 1 080).

Workings

Present situation		$'000
Credit sales	($450 x 12)	5 400
Production cost	($5 400 / 125%)	4 320
Gross profit	($4 320 x 25%)	1 080

Alternative 2	$'000
Credit sales	5 400
Production cost including depreciation on machinery ($5 400 / 130%)	4 154
Gross profit ($4 154 x 30%)	1 246

Annual gross profit will be increased by **$166** (i.e. $1 246 – 1 080).

(b) Revised bank balance

Alternative 1		$'000	$'000
Current assets			
Inventory	($325 x 110%)	358	
Trade receivables	($5 940 / 12 x 2)	990	1 348
Current liabilities			
Trade payables	($375 x 110%)	413	
Bank overdraft (balancing figure) ($828 – 413)		415	828
Working capital			520

ANSWER 5 (Continued)

(b) Revised bank balance

		$'000	$'000
Alternative 2			
Current assets			
Inventory	[$325 – ($325 x 5%)]	309	
Trade receivables	(5400/12)	450	
Bank (balancing figure) $(876 – 309 – 450)		117	876
Current liabilities			
Trade payables [$375 – ($375 x 5%)]			356
Working capital			520

Note

Savings in production cost

= 30% – 25%

= 5%

(c) Net profit after implementation for

	Alternative 1	Alternative 2
	$	$
Increase in Gross profit (1 188 000 - 1 080 000)	108 000	166 000
Less Overdraft interest (1 246 000 - 1 080 000)	(62 250)	-
Loan interest (415 000 x 15%)	-	(50 000)
Increase in net profit	45 750	116 000

As alternative 2 requires to purchase an additional cost saving machine in order to increase the company's production capacity, XYZ will have to incur loan interest for $50 000. However, I would advise XYZ to adopt **alternative 2** because it could have a better net profit earning as shown above.

Note: Deprecation is reflected as a production cost as in (a) above. Therefore no deduction would be effected in the profit calculation.

ANSWER 6

(a) Bar Trading Account for the year ended 31 March 2003

	$'000	**$'000**
Bar takings		15 170
Less Cost of sales		
Inventory at 1 April 2002	3 150	
Purchase $(11 120 + 1 980 – 2 250)	10 850	
	14 000	
Inventory at 31 March 2003	3 240	10 760
Bar gross profit		4 410
Bar steward's wages		3 250
Bar net profit		1 160

(b) Income and Expenditure Account for the year ended 31 March 2003

	$'000	$'000
Income		
Subscription $(6 870 – 240 + 170)		6 800
Bar trading profit		1 160
Fund raising	3 040	
Costs of fund raising	835	2 205
		10 165
Expenditure		
Repairs to club premises	1 650	
Secretarial expenses	2 140	
Travel to matches	640	
Loan interest ($15 000 x 15%)	2 250	
Light, heat and power	870	
Loss on disposal of equipment	91	
Depreciation on equipment		
[$(18 500 – 1 200 + 2 400) – $(7 200 – 807) x 20%]	2 642	10 283
Deficit		(118)

ANSWER 6 (Continued)

Workings

Profit on sale of equipment			$'000
Sale of equipment			400
Less Net book value			
Cost		1 200	
Less Depreciation			
1 April 1998 – 31 March 1999 ($1 200 x 20%)	240		
1 April 1999 – 31 March 2000 $(1 200 – 240) x 20%	192		
	432		
1 April 2000 – 31 March 2001 $(1 200 – 432) x 20%	154		
	586		
1 April 2001 – 31 March 2002 $(1 200 – 586) x 20%	123		
	709		
		709	491
Loss on sale of equipment			91

(c) Balance Sheet at 31 March 2003

	$	$	$
Non-current assets			
Premises at cost			35 000
Equipment at cost		19 700	
Less Depreciation to date (7200 – 709 + 2642)		9 133	10 567
			45 567
Current assets			
Bar inventory	3 240		
Cash at bank	675	3 915	
Less Current liabilities			
Bar payables		1 980	1 935
			47 502
Less Bank loan at 15%			(15 000)
			32 502
Representing			
Accumulated fund			$
At start			32 620
Less deficit			(118)
			32 502

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 2 EXAMINATION 2004
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

ALEX, BERT AND CHARLES

(a) Income Statement for the year ended 31 March 2004

		$ 000	$ 000
Sales			1 250
Less	**Cost of sales**		
	Inventory at 1 April 2003	60	
	Add Purchases	780	
		840	
	Less Inventory at 31 March 2004	33	807
Gross profit			443
Add	Discounts received		15
			458
Less	**Operating expenses**		
	Discounts allowed	25	
	General expenses	130	
	Sales expenses	105	
	Depreciation on:		
	- Machinery ($745 x 20%)	149	
	- Vehicles ($75 x 12%)	9	418
Net profit for the year			40
Share of net profit			
- Alex	(4/10)	16	
- Bert	(3/10)	12	
- Charles	(3/10)	12	40

ANSWER 1 (Continued)

(b) Calculation of the amount of cash received by Alex, and the number of Ordinary shares issued to Bert and Charles respectively

		Alex	Bert	Charles
2004		$ 000	$ 000	$ 000
31 Mar	Balance brought forward	120	80	70
	Transfer form current account	20	(12)	(8)
	Share of profit	16	12	12
	Share of goodwill (40 x 2) 4:3:3	32	24	24
		188	104	98
	Less Goodwill written off (80 x 1/2)	-	(40)	(40)
		188	64	58
1 Apr	Cash – settlement to Alex	188	-	-
	Value of ordinary shares allotted to Bert and Charles	-	64	58

BC COMPANY

(c) **Balance sheet at 1 April 2004**

	Cost on Valuation	Accumulated Depreciation	Net
Non-current assets	$ 000	$ 000	$ 000
Buildings at valuation	355	-	355
Machinery at cost	745	694	51
Vehicles at cost	75	69	6
	1 175	763	412
Current assets			
Inventory		33	
Trade receivables		105	138
			550
Financed by			$ 000
Capital and reserves			
Share capital			
300 000 $1 Ordinary shares			300
Current liabilities			
Bank overdraft $(178 – 188 – 175)		185	
Trade payables		65	250
			550

ANSWER 1 (Continued)

Note: Cash received from ordinary shares sold to friends at par
= \$300 000 – \$64 000 – \$58 000
= \$178 000

ANSWER 2

BARCHESTER PRODUCTS

(a) Calculation of operating profit for the year ended 31 March 2004 and reconciliation with the net cash inflow from operating activities

		$ 000
Retained profits at 31 March 2004		705
Add	Proposed dividends	150
		855
Add	Capitalisation issue \$(1 800 – 1 500 – 90)	210
		1 065
Less	Retained profits at 31 March 2003	898
Operating profit		167
Depreciation \$[(828 – 810) + (730 – 440) + (220 – 190)]		338
Increase in inventory		(65)
Increase in trade receivables \$(340 – 285)		(55)
Increase in trade payables \$(370 – 360)		10
Net cash inflow from operating activities		395

(b) Cash flow statement for the year ended 31 March 2004

	$ 000	$ 000
Net cash inflow from operating activities		395
Cash flows from investing activities		
Purchases of fixed assets \$(200 + 220)	(420)	
Net cash used by investing activities		(420)
		(25)
Cash flows from financing activities		
Dividend paid	(150)	
Issue of ordinary shares	90	
Net cash used by financing activities		(60)
Decrease in cash and cash equivalents		(85)
Cash and cash equivalents at 31 March 2003		35
Cash and cash equivalents at 31 March 2004		(50)

ANSWER 3

HOLDINGS AND PARTS AND BITS
Consolidated Balance Sheet at 31 March 2004

	Cost	Accumulated Depreciation	Net
Non-current assets	$ 000	$ 000	$ 000
Land and buildings	500	35	465
Machinery	685	375	310
Office equipment	125	45	80
	1 310	455	855
Goodwill on consolidation $(6 – 4) (working 1)			2
			857
Current assets			
Inventory $(50 + 70)		120	
Trade receivables $(45 + 25 + 55)		125	
Bank		30	275
			1 132
Financed by			$ 000
Capital and reserves			
Ordinary shares capital ($1 shares)			600
Retained profits (working 2)			168
Minority interest (working 3)			165
			933
Current liabilities			
Trade payables $(35 + 60 + 38)		133	
Bank overdraft $(32 + 34)		66	199
			1 132

ANSWER 3 (Continued)

Workings

1. Goodwill

	Parts			Bits		
	$ 000		$ 000	$ 000		$ 000
Investment - in Parts			150			
- in Bits						140
Less Ordinary share capital	180	($300 x 60%)		120	($150 x 80%)	
Pre-acquisition profit or loss	(36)	($60 x 60%)	144	24	[$(25 + 10 x 1/2) x 80%]	144
Goodwill			6			(4)

2. Consolidated income statement

	$ 000	$ 000
Retained profits b/f		116
Post - acquisition profit		
- Parts [$(20 + 60) x 60%]	48	
- Bits ($10 x 1/2 x 80%)	4	52
Retained profits c/f		168

3. Minority interest

	$ 000
Parts [$(300 + 20) x 40%]	128
Bits [$(150 + 35) x 20%]	37
Minority interest	165

ANSWER 4

(a) Calculation of four appropriate ratios for each of the three years

Profitability ratios	**2002**	**2003**	**2004**
1. Gross profit ratios			
$= \dfrac{\text{Gross profit}}{\text{Sales}} \times 100\%$	$\dfrac{250}{740} \times 100\%$	$\dfrac{300}{900} \times 100\%$	$\dfrac{350}{1\ 200} \times 100\%$
	= 33.78%	= 33.33%	= 29.17%
2. Return on capital employed			
$= \dfrac{\text{Net profit}}{\text{Capital employed}} \times 100\%$	$\dfrac{30}{300} \times 100\%$	$\dfrac{50}{400} \times 100\%$	$\dfrac{40}{620} \times 100\%$
	= 10.00%	= 12.50%	= 6.45%

Liquidity ratios			
1. Current ratio			
$= \dfrac{\text{Current assets}}{\text{Current liabilities}}$	$\dfrac{50 + 60 + 30}{40}$	$\dfrac{55 + 90 + 5}{50}$	$\dfrac{75 + 150}{75 + 80}$
	= 3.5 :1	= 3:1	= 1.45:1
2. Acid test ratio			
$= \dfrac{\text{Current assets – Inventory}}{\text{Current liabilities}}$	$\dfrac{60 + 30}{40}$	$\dfrac{90 + 5}{50}$	$\dfrac{150}{75 + 80}$
	= 2.25 :1	= 1.90:1	= 0.97:1

(b) Profitability

It seems that the company had lowered its selling price to boost sales as the gross profit percentage dropped from 33.78% in 2002 to 29.17% in 2004. However, the net profit ratio was decreased slightly from 4.05% in 2002 to 3.33% in 2004 because of the cost control and the increase in the overall operating expenses. Therefore, cost control in administration, selling and distribution expenses are required for the company to maintain stable growth of profit.

Liquidity

The liquidity of the company deteriorated as the current ratio dropped from 3.5 to 1.45 in 2004. The quick assets ratio also dropped from 2.25 to 0.97 in 2004. Both ratios cannot reach the minimum acceptable level of 1.5:1 and 1:1 respectively.

Therefore, improvements on inventory turnover, trade receivable collection period are required to maintain a healthy financial position for the company.

ANSWER 5

INNAS

(a) **Suspense**

	$		$
(4) Creditors	460	Original difference in trial balance	280
		(1) Postal expenses $(84 – 48)	36
		(2) Returns inwards	72
		(2) Sales	72
	460		460

(b) Table showing the correction to gross profit, net profit, current assets and liabilities due within the year

	Gross Profit	**Net Profit**	**Current assets**	**Liabilities due within the year**
	$	$	$	$
Balance before adjustment	43 450	17 230	3 250	2 420
Add Item (3)				360
Item (4)				460
Less Item (1)		(36)		
Item (2)	(144)	(144)		
Item (3)			(360)	
Balance after adjustment	43 306	17 050	2 890	3 240

ANSWER 6

(a) Calculation showing the additional funds Ralph Pearson would require to start his business (including working capital)

	Strategy A		**Strategy B**
	$		$
Premises at cost	75 000		75 000
Office machinery at cost	5 400		5 400
Overheads ($65 000/12)	5 417		5 417
Inventory ($1 000 x $12 x 95%)	11 400	($900 x $12)	10 800
	97 217		96 617
Less Initial capital	50 000		50 000
Additional funds required	47 217		46 617

Note : Average purchase per month	12 000 units / 12	10 800 units / 12
	= 1 000 units	= 900 units

ANSWER 6 (Continued)

(b) Budgeted net profit for his first year of business

	Strategy A			Strategy B	
	$	$		$	$
Sales (12 000 units x $20)		240 000	(10 800 units x $20)		216 000
Less Cost of sales					
Purchases					
[(12 000 units + 1 000 units) x $12 x 95%]	148 200		[(10 800 units + 900 units) x $12]	140 400	
Less Closing inventory					
(1 000 units x $12 x 95%)	11 400	136 800	(900 units x $12)	10 800	129 600
Gross profit		103 200			86 400
Less Operating expenses					
Overheads	65 000			65 000	
Bad debts ($240 000 x 1%)	2 400			-	
Amortization on lease ($75 000/20)	3 750			3 750	
Depreciation on office machinery ($5 400/5)	1 080		($5 400 – 2 000)/2	1 700	
Interest on loan ($47 217 x 15%)	7 083	79 313	($46 617 x 15%)	6 993	77 443
Budgeted net profit		23 887			8 957

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ANSWER 5

INNAS

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		(1) Postal expenses $(84 – 48)	36
		(2) Returns inwards	72
		(2) Sales	72
	460		460

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	Gross Profit	Net Profit	Current assets	Liabilities due within the year
	$	$	$	$
Balance before adjustment	43 450	17 230	3 250	2 420
Add Item (3)			20	
Item (4)				460
Less Item (1)		(36)		(280)
Item (2)	(144)	(144)		
Item (3)			(360)	(340)
Balance after adjustment	43 306	17 050	2 910	2 260

ANSWER 6

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ANSWER 6 (Continued)

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Less Cost of sales					
Purchases					
[(12 000 units + 1 000 units) x $12 x 95%]	148 200		[(10 800 units + 900 units) x $12]	140 400	
Less Closing inventory					
(1 000 units x $12 x 95%)	11 400	136 800	(900 units x $12)	10 800	129 600
Gross profit		103 200			86 400
Less Operating expenses					
Overheads	65 000			65 000	
Bad debts ($240 000 x 1%)	2 400			-	
Amortization on lease					
($75 000/20)	3 750			3 750	
Depreciation on office					
machinery ($5 400/5)	1 080		($5 400 – 2 000)/2	1 700	
Interest on loan					
($47 217 x 15%)	7 083	79 313	($46 617 x 15%)	6 993	77 443
Budgeted net profit		23 887			8 957

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ANSWER 1 (Continued)

(c) **Captial**

	George	Arthur	Elizabeth	Alan		George	Arthur	Elizabeth	Alan
	$	$	$	$		$	$	$	$
Current (Working)	925	3,925	7,605	9,155	Balance b/f	45,000	30,000	10,000	6,000
Vehicles taken over	8,200	4,300	-	-	Bank			1,655	7,205
Loss on dissolution	4,050	4,050	4,050	4,050					
Bank	31,825	17,725							
	45,000	30,000	11,655	13,205		45,000	30,000	11,655	13,205

(d) **Bank**

	$		$
Dissolution		Balance b/f	600
- Rent prepaid	1,450	Dissolution expenses	750
- Machinery	14,300	Payables	3,250
- Furniture	6,250	Electricity accrued	2,400
- Remaining vehicles	7,300	Capital - George	31,825
- Receivable $(18,450 - 60)	18,390	- Arthur	17,725
Capital - Elizabeth	1,655		
- Alan	7,205		
	56,550		56,550

Working:

Current

	George	Arthur	Elizabeth	Alan		George	Arthur	Elizabeth	Alan
	$	$	$	$		$	$	$	$
Balance b/f			830	1,980	Balance b/f	2,350	850		
Share of loss	7,775	7,775	7,775	7,775	Interest on capital	4,500	3,000	1,000	600
					Capital	925	3,925	7,605	9,155
	7,775	7,775	8,605	9,755		7,775	7,775	8,605	9,755

ANSWER 2

	Company A		Company B	
(a) Calculation of ratios	**2003** $' 000	**2004** $' 000	**2003** $' 000	**2004** $' 000
(i) Current				
$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{180 + 135 + 50}{190}$	$\frac{195 + 255}{48 + 215}$	$\frac{95 + 120 + 60}{55}$	$\frac{90 + 110 + 105}{40}$
	= 1.92 : 1	= 1.71 : 1	= 5 : 1	= 7.6 : 1
(ii) Gross profit to sales				
$\frac{\text{Gross profit}}{\text{Sales}} \times 100\%$	$\frac{820}{2,450} \times 100\%$	$\frac{850}{2,750} \times 100\%$	$\frac{460}{1,825} \times 100\%$	$\frac{475}{1,875} \times 100\%$
	= 33.47%	= 30.91%	= 25.21%	= 25.33%
(iii) Net profit to sales				
$\frac{\text{Net profit}}{\text{Sales}} \times 100\%$	$\frac{142}{2,450} \times 100\%$	$\frac{148}{2,750} \times 100\%$	$\frac{125}{1,825} \times 100\%$	$\frac{127}{1,875} \times 100\%$
	= 5.80%	= 5.38%	= 6.85%	= 6.77%

ANSWER 2 (Continued)

(a)

(iv) Return on capital employed

$$\frac{\text{Net profit}}{\text{Capital employed}} \times 100\% \qquad \frac{142}{700 + 80} \times 100\% \qquad \frac{148}{700 + 148} \times 100\% \qquad \frac{125}{800 + 284} \times 100\% \qquad \frac{127}{800 + 371} \times 100\%$$

$$= \underline{\underline{18.21\%}} \qquad = \underline{\underline{17.45\%}} \qquad = \underline{\underline{11.53\%}} \qquad = \underline{\underline{10.85\%}}$$

(v) Price/earnings

$$\frac{\text{Market price per share}}{\text{Earnings per share}} \qquad \frac{1.2}{142/700} \qquad \frac{1.15}{148/700} \qquad \frac{1.45}{125/800} \qquad \frac{1.55}{127/800}$$

$$= \underline{\underline{5.92}} \qquad = \underline{\underline{5.44}} \qquad = \underline{\underline{9.28}} \qquad = \underline{\underline{9.76}}$$

(vi) Dividend cover

$$\frac{\text{Net profit}}{\text{Dividend paid}} \qquad \frac{142}{50} \qquad \frac{148}{80} \qquad \frac{125}{40} \qquad \frac{127}{40}$$

$$= \underline{\underline{2.84}} \qquad = \underline{\underline{1.85}} \qquad = \underline{\underline{3.13}} \qquad = \underline{\underline{3.18}}$$

ANSWER 2

(b) (iv) **Return on capital employed**

The return on capital employed ratio shows the manager's effectiveness in using the capital. Company A has a higher ratio both in year 2003 and year 2004 than Company B. A higher ratio means a higher income yield in relationship to the amounts invested. From the point of view of an investor, Company A is more attractive than Company B.

(v) **Price/ earnings**

Price earnings ratio indicates the number of years required to earn back the amount invested in the company. Company B which has a higher price/ earnings ratio than Company A indicates to the investors a stronger confidence in the future profit growth.

(vi) **Dividend cover**

As for divided distribution, Company B shows a greater dividend cover than Company A, That means Company B only distributes a small proportion of profit as dividend and retains a large amount of profit as reserve to finance future operations. Whilst Company A paid dividend generously to attract investors who expect to earn higher investment income.

ANSWER 3

CONGLOMERATES

(a)

	Journal	**Dr**	**Cr**
		$	$
(1)	Bank (300,000 × $1)	300,000	
	Irredeemable Preferred Shares Application		300,000
	Irredeemable Preferred Shares Application	300,000	
	7% Irredeemable Preferred Shares Capital		300,000
(2)	Bank (2,400,000 × 1/3 × $0.40)	320,000	
	Ordinary Shares Application		320,000
	Ordinary Shares Application	320,000	
	Ordinary Share Capital (800,000 × $0.25)		200,000
	Share Premium (800,000 × $0.15)		120,000
(3)	Share Premium $(50,000 + 120,000)	170,000	
	Revaluation Reserve	20,000	
	Accumulated Profits (balancing figure)	10,000	
	Bonus (capitalisation) issue		200,000
	$(2,400,000 + 800,000) × 1/4 × $0.25		
(4)	12% Debentures	350,000	
	Accumulated profits - premium on redemption of debentures ($350,000 × 10%)	35,000	
	Debenture Redemption		385,000
	Debenture Redemption	385,000	
	Bank		385,000

(b) Calculation showing the change in bank balance

	$
Cash received from issue of -	
7% Irredeemable Preferred Shares	300,000
Ordinary Shares	320,000
	620,000
Less: Redemption of debentures	385,000
Bank balance	235,000

(c) Share capital and reserves after completion of the four transactions

	$
4,000,000 Ordinary Shares of $0.25	1,000,000
500,000 7 % Irredeemable Preferred Shares of $1	500,000
Accumulated profits $(540,000 - 10,000 - 35,000)	495,000
	1,995,000

ANSWER 4

BREWSTONS

(a) **Calculation of the loss on the office machinery scrapped**

		$	$
Cost of the office machinery			2000
Less: Depreciation			
2001	$2,000 × 20%	400	
2002	$1,600 × 20%	320	
2003	$1,280 × 20%	256	976
Loss on the office machinery scrapped			1,024

BREWSTONS

(b) **Income Statement for the year ended 31 March 2004**

	$	$	$
Revenue			185,450
Less: Operating expenses			
Office expenses		23,450	
Salaries		121,348	
Advertising		1,345	
Loss on the office machinery scrapped		1,024	
Cost of removal		1,024	
Provision for audit fee		1,250	
Depreciation on:-			
Vehicles $(64,200 - 21,400) × 20%	8,560		
Office machinery (working)	2,995		
Office furniture ($16,250 × 10%)	1,625	13,180	162,621
Net profit for the year			22,829
Proposed dividend (40,000 × $0.08)			3,200
			19,629
Accumulated profits b/f			13,688
Accumulated profits c/f			33,317

Working:

Depreciation on office machinery		$
Cost $(32,400 - 2,000)		30,400
Less: Accumulated depreciation $(16,400 - 976)		15,424
		14,976
	× 20%	2,995

ANSWER 4 (Continued)

BREWSTONS

(c) Balance Sheet at 31 March 2004

Assets	**Cost**		**Accumulated depreciation**	**Net**
Non-current assets	$		$	$
Office machinery $(32,400 - 2,000)	30,400	$(16,400 - 976 + 2,995)	18,419	11,981
Office furniture	16,250	$(7,450 + 1,625)	9,075	7,175
Vehicles	64,200	$(21,400 + 8,260)	29,960	34,240
	110,850		57,454	53,396
Current assets				
Receivables				28,350
				81,746

Equity and liability		$
Capital and reserves		
Ordinary share capital		40,000
Accumulated profits		33,317
Proposed dividend		3,200
		76,517
Current liabilities		
Payables	465	
Accrued charges $(1,250 + 1,024)	2,274	
Bank overdraft	2,490	5,229
		81,746

ANSWER 5

[Attention: this question is not in accordance with 1AS - Post Balance Sheet Events because the proposed dividend should not be reflected as a dividend payable in the current liabilities.]

(a) **SIMPSONS**

Statement reconciling the net operating profits to cash generated by operations for the year ended 31 March 2004

	$	$
Operating profit before dividend and interest $(27,725 + 700)		28,425
Depreciation		10,600
Loss on disposal of machinery		1,350
Operating profit before working capital changes		40,375
Decrease in inventory $(18,450 - 17,410)	1,040	
Increase in receivables $(24,530 - 22,670)	(1,860)	
Decrease in payables and accruals $(23,140 - 19,065 - 2,500)	(1,575)	(2,395)
Cash generated from operations		37,980
Interest paid	(700)	
Dividend paid	(6,000)	(6,700)
Net cash inflow from operating activities		31,280

(b) **Cash Flow Statement for the year ended 31 March 2004 (In accordance with IAS 7)**

	$	$
Net cash inflow from operating activities		31,280
Cash flows from investing activities		
Purchase of vehicle	(7,500)	
Proceeds from disposal of machine	870	
Net cash used in investing activities		(6,630)
Cash flows from financing activities		
Repayment of loan		(20,000)
Net increase in cash and cash equivalents		4,650
Cash and cash equivalents at 1 April 2003 (answer Part (c))		(5 050)
Cash and cash equivalents at 31 March 2004		(400)

Note: Cash and cash equivalents	31 Mar 2004	31 Mar 2003
	$	$
Bank overdraft	(400)	(5,050)

ANSWER 5 (Continued)

(c) Calculation of bank balance at 31 March 2003

	$	$
Non-current assets at net book value (Working)		58,720
Inventory		18,450
Receivables		22,670
Total assets		99,840
Less: Capital and liabilities		
Capital	32,000	
Retained profits	13,650	(45,650)
Loan		(20,000)
Payables and accruals	23,140	
Dividend payable	6,000	(29,140)
Bank overdraft		5,050

Working:

Non-current assets at net book value at 31 March 2003

	$	$
Net book value at 31 March 2004		53,400
Add: Depreciation	10,600	
Disposal of machine at net book value $(1,350 + 870)	2,220	12,820
		66,220
Less: Purchase of vehicle		(7,500)
Net book value at 31 March 2003		58,720

ANSWER 6

BLOGGS

(a) Calculation of the values of :

Opening inventory	(400 units × $0.40)	$160
Total sales	(500 × $0.60 + 1,000 × $0.60 +500 × $0.60)	$1,200
Total purchases	(600 × $0.42 +500 × $0.43 + 800 × $0.42 + 200 × $0.44)	$891
Number of units in closing inventory	(400 + 600 + 500 + 800 + 200 - 500 -1,000 - 500)	500 units

Notes: 1 Unit sold 2,000 units
2 Units purchases 2,100 units

(b) Calculation of the gross profit on item X for March 2004 using: -

(i) First in, First out method

	$	$
Sales (2,000 units)		1,200
Less: Cost of goods sold		
Opening inventory (400 units × $0.40)	160	
Purchases (2,100 units)	891	
	1,051	
Less Closing inventory (300 units × $0.42 + 200 units × $0.44)	214	837
Gross profit		363

(ii) Perpetual Weighted Average Cost method

	$	$
Sales (2,000 units)		1,200
Less: Cost of inventories sold		
Opening inventory (400 units × $0.40)	160	
Purchases (2,100 units)	891	
	1,051	
Less Closing inventory (500 units) (Workings)	211	840
Gross Profit		360

(iii) The Period Weighted Average Cost Method

	$	$
Sales (2000 units)		1,200
Less: Cost of goods sold		
Opening inventory (400 units × $0.40)	160	
Purchases (2100 units)	891	
	1,051	
Less Closing inventory ($1,051 × 500 units / 2,500 units)	210	841
Gross profit		359

ANSWER 6 (Continued)

Working
The Perpetual Weighted Average Cost Mothod

Date		Units	Unit price	Amount
March			$	$
1	Opening inventory b/f	400	0.40	160
4	Purchased	600	0.42	252
		1,000	0.41	412
8	Sold	(500)	0.41	(205)
		500	0.41	207
10	Purchased	500	0.43	215
		1,000	0.42	422
15	Purchased	800	0.42	336
		1,800	0.42	758
20	Sold	(1,000)	0.42	(420)
		800	0.42	338
24	Purchased	200	0.44	88
		1,000	0.43	426
30	Sold	(500)	0.43	(215)
31	Closing inventory c/f	500	0.42	211

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 4 EXAMINATION 2004
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

ARTHUR JONES

(a) Income statement for the year ended 31 March 2004

	$000	$000
Sales		685
Less: Cost of goods sold		
Inventory at 1 April 2003	34	
Add: Purchases	437	
	471	
Less: Inventory at 31 March 2004	37	434
Gross profit		251
Add: Discount received		9
Provision for doubtful debts [6 - (50 × 8%)]		2
		262
Less: Operating Expenses		
General expenses (41 - 4)	37	
Wages and salaries (81 + 7)	88	
Administration expenses	37	
Discount allowed	12	
Directors' fees	36	
Depreciation on		
- machinery (280 × 15%)	42	
- vehicles [(45 - 15) × 20%]	6	258
Net profit for the year		4
Appropriation		
Less: Proposed dividend		3
Profit for the year		1
Add: Accumulated profits brought forward		2
Accumulated profits carried forward		3

ANSWER 1 (Continued)

(b) **ARTHUR JONES**
Balance Sheet at 31 March 2004

Non-current assets	$000	$000	$000
Land and buildings		125	
Vehicles	45		
Less: Provision for depreciation (15 + 6)	21	24	
Machinery	280		
Less: Provision for depreciation (120 + 42)	162	118	267
Current assets			
Inventory		37	
Receivables	50		
Less: Provision for doubtful debts	4	46	
Prepayment		4	
Bank		40	127
			394
Financed by			
Capital and Reserves			$000
Ordinary share capital ($1 share)			300
Revaluation reserve (125 - 90)			35
Accumulated profits			3
			338
Current liabilities			
Payables		46	
Accruals		7	
Proposed dividend		3	56
			394

ANSWER 2

HOLDINGS AND ITS TWO SUBSIDIARIES, SPARKS AND PLUGS
Consolidated Balance Sheet at 31 March 2004

Non-current assets	$000	$000	$000
Land and buildings (350 + 40)	390		
Less: Accumulated depreciation (20 + 4)	24	366	
Fixtures and fittings (80 + 20)	100		
Less: Accumulated depreciation (10 + 5)	15	85	
Office machinery (60 + 130 + 300)	490		
Less: Accumulated depreciation (30 + 50 + 180)	260	230	681
Negative Goodwill (Working 1)			(44.6)
Current assets			
Inventory (25 + 80)		105	
Receivables (80 + 30 + 70 - 4)		176	
Bank		50	331
			967.4
Financed by			
Capital and Reserve			$000
Share capital			750
Accumulated profits (Working 2)			74.4
			824.4
Minority interest (Working 3)			42
Current liabilities			
Payables (30 + 10 + 40 - 4)		76	
Bank overdraft (5 + 20)		25	101
			967.4

ANSWER 2 (Continued)

Workings

(1) Negative Goodwill on consididation

	Sparks (100%)		Plugs (80%)	
	\$000	\$000	\$000	\$000
Investment		180		120
Less: Share capital	180		120 (150 × 80%)	
Pre-acquisition profit	11	191	33.6 [(24 + 36 × 1/2) × 80%]	153.6
Negative goodwill		(11)		(33.6)

(2) Accumulated profits

	\$000
Accumulated profits - Holdings	80
Post-acquisition profit (loss)	
- Sparks (11+ 9)	(20)
- Plugs [(60 - 24) × 1/2 × 80%]	14.4
Accumulated profits	74.4

(3) Minority interest

	\$000
Share capital of Plugs (150 × 20%)	30
Accumulated profits of Plugs (60 × 20%)	12
	42

ANSWER 3

TOM

(a) Trading and Profit & Loss Account for the year ended 31 March 2004

		$	$
Sales (25,000 × $6)			150,000
Less:	**Cost of goods sold**		
	Purchases (30,000 × $4)	120,000	
	Less: Stock at 31 March 2004 (5,000 × $4)	20,000	100,000
Gross profit			50,000
Less:	Other expenses	38,000	
	Depreciation on machinery (60,000 × 15%)	9,000	47,000
Net profit for the year			3,000

HARRY LIMITED

Income Statement for the year ended 31 March 2004

		$	$
Sales (25,000 × $6.2)			155,000
Less:	**Cost of goods sold**		
	Purchases (30,000 × $4)	120,000	
	Less: Inventory at 31 March 2004 (5,000 × $4)	20,000	100,000
Gross profit			55,000
Less:	Other expenses	38,000	
	Director's salary	8,000	
	Depreciation on machinery (60,000 × 25%)	15,000	
	Discount allowed (155,000 × 1/2 × 5%)	3,875	
	Provision for bad debts (8% × 13,200)	1,056	65,931
Net loss for the year			(10,931)

(b) In comparing the results revealed in (a) above, Harry earned more gross profit than Tom due to its higher profit margin of Product X. In addition, Harry adopted the policies of giving discount allowed to customers, provision for bad debts, directors salary and higher depreciation rate on machinery, whereas these items were not taken into account by Tom. As a result, Tom achieved better profitability than Harry. Therefore, the accounts cannot be compared primarily on the net result because different account policies will result with different profit figures.

ANSWER 4

(a) **JOURNAL**

			$	$
2002				
1	April	Goodwill	40,000	
		Capital - Robert (40,000 × 4/10)		16,000
		Capital - Hilary (40,000 × 3/10)		12,000
		Capital - Mary (40,000 × 3/10)		12,000
		Capital - Hilary (40,000 × 3/5)	24,000	
		- Mary (40,000 × 2/5)	16,000	
		Goodwill		40,000
2003				
1	April	Goodwill (5,000 × 10)	50,000	
		Capital - Hilary (50,000 × 3/5)		30,000
		Capital - Mary (50,000 × 2/5)		20,000
		Capital - Hilary (50,000 × 5/10)	25,000	
		Capital - Mary (50,000 × 4/10)	20,000	
		Capital - John (50,000 × 1/10)	5,000	
		Goodwill		50,000

ANSWER 4 (Continued)

(b)

HILARY AND MARY
Appropriation Account for the year ended 31 March 2003

	$	$
Net profit		40,000
Appropriation		
Interest on capital		
- Hilary [(60,000 + 12,000 - 24,000) × 10%]	4,800	
- Mary [(40,000 + 12,000 - 16 000) × 10%]	3,600	8,400
Share of profits		
- Hilary (3/5)	18,960	
- Mary (2/5)	12,640	
		31,600

HILARY, MARY AND JOHN
Appropriation Account for the year ended 31 March 2004

	$	$
Net profit		55,000
Appropriation		
Interest on capital		
- Hilary [(60,000 + 12,000 - 24,000 + 30,000 - 25,000) × 10%]	5,300	
- Mary [(40,000 + 12,000 - 16,000 + 20,000 - 20,000) × 10%]	3,600	
- John (25,000 - 5,000) × 10%	2,000	10,900
Share of profits		
- Hilary (5/10)	22,050	
- Mary (4/10)	17,640	
- John (1/10)	4,410	
		44,100

ANSWER 5

(a) **ROBERT AND JANE**

Memorandum Joint Venture

2004			$	$	2004			$	$
April	2	Purchases			April	22	Sales		
		(750 × $3)		2,250			(400 × $4.25)		1,700
	2	Transport and insurance		185	May	2	Sales		
	5	Hire of warehouse					(800 × $4.2)		3,360
		($120 × 3)		360		10	Insurance claim		650
	18	Purchases				20	Sales		
		(1,200 × $2.9)		3,480			(500 × $4.3)		2,150
	18	Transport and insurance		225	June	3	Sales		260
	20	Handling cost		35			Insurance claim		140
	26	Purchases				12	Sales		
		(600 × $3.1)		1,860			(1,150 × $4.3)		4,945
	26	Transport and insurance		155		18	Inventory taken		
May	20	Delivery charges		60			over by Jane		
	24	Purchases					(800 × $3.75)		3,000
		(1,400 × $2.85)		3,990					
	24	Transport and insurance		345					
June	12	Delivery charges		50					
	30	Profit on joint venture							
		- Robert (1/2)	1,605						
		- Jane (1/2)	1,605	3,210					
				16,205					16,250

Workings

Unsold inventory units taken over by Jane

= (750 + 1,200 + 600 + 1,400) - (400 + 800 + 200 + 500 + 100 + 1,150)

= 3,950 - 3,150

= 800

ANSWER 5 (Continued)

JANE'S BOOK

(b) **Joint Venture With Robert**

2004			$	2004			$
April	5	Hire of warehourse ($120 × 3)	360	April	22	Sales (400 × $4.25)	1,700
	20	Handling cost	35	May	2	Sales (800 × $4.2)	3,360
May	23	Bank: interim payment	4,500		20	Sales (500 × $4.3)	2,150
June	12	Delivery charges	110	June	7	Sales	260
	30	Profit on joint venture	1,605		12	Sales (1,150 × $4.3)	4,945
	30	Bank: settlement of amount due to Robert	8,805		18	Inventory taken over by Jane (800 × $3.75)	3,000
			15,415				15,415

ANSWER 6

Calculation for J Doakes in respect of each quarter the : -

	Q1		Q2		Q3		Q4
	$'000		$'000		$'000		$'000
(a) Working capital at the end							
Current assets (200 + 40 + 80)	320	(240 + 160)	400	(250 + 300)	550	(110 + 50 + 110)	270
Less Current liabilities	80	(100 + 60)	160	(150 + 160)	310		30
Working capital	240		240		240		240

(b) Working capital ratio at the end

	Q1	Q2	Q3	Q4
$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{320}{80}$	$\frac{400}{160}$	$\frac{550}{310}$	$\frac{270}{30}$
	= 4 : 1	= 2.5 : 1	= 1.8 : 1	= 9 : 1

(c) Acid test ratio at the end

	Q1	Q2	Q3	Q4
$\frac{\text{Current assets - Inventories}}{\text{Current liabilities}}$	$\frac{40 + 80}{80}$	$\frac{160}{100 + 60}$	$\frac{300}{150 + 160}$	$\frac{50 + 110}{30}$
	= 1.5 : 1	= 1 : 1	= 1 : 1	= 5.3 : 1

(d) Sales for each quarter

	Q1		Q2		Q3		Q4
	120	(600 - 120)	480	(1,400 - 600)	800	(1,550 - 1,400)	150

(e) Credit period given to customers based on receivables and expressed in months

	Q1	Q2	Q3	Q4
$\frac{\text{End of quarter receivables}}{\text{Sales (credit)}} \times 12$	$\frac{40}{120} \times 12$	$\frac{160}{(600 - 120)} \times 12$	$\frac{300}{(1{,}400 - 600)} \times 12$	$\frac{50}{(1{,}550 - 1{,}400)} \times 12$
	= 4 months	= 4 months	= 4.5 months	= 4 months

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 3 EXAMINATION 2005
ACCOUNTING (IAS)
(LEVEL 3)

ANSWER 1

(a) **DIET**

Calculation of profit from operations for the year ended 31 March 2005

	$000	$000
Accumulated profits at 31 March 2005		305
Less: Accumulated profit at 31 March 2004		808
		(503)
Proposed dividend		265
Bonus issue		500
Net profit		262
Bank overdraft interest		4
Operating profit		266

(b) **Cash Flow Statement for the year ended 31 March 2005**
(in accordance with IAS 7)

	$000	$000
Operating activities		
Operating profit		266
Adjustments for:		
Depreciation - buildings (528 - 515)	13	
machinery	300	
vehicles	20	333
Operating profit before working capital changes		599
Increase in inventory (195 - 180)	(15)	
Decrease in receivables (385 - 340)	45	
Decrease in payables (230 - 215)	(15)	15
Cash generated from operations		614
Interset paid		(4)
Net cash from operating activities		610

ANSWER 1 (b) (CONTINUED)

Investing activities		
Purchase of machinery	(380)	
Purchase of vehicles	(25)	
Net cash used from investing activities		(405)
		205
Financing activities		
Dividend paid		(220)
Net decrease in cash and cash equivalents		(15)
Cash and cash equivalents at 31 March 2004		(55)
Cash and cash equivalents at 31 March 2005		(70)

Note: Analysis of cash and cash equivalents

	31 March 2005 $000	31 March 2005 $000
Bank overdraft	(70)	(55)

Working

Depreciation of Machinery and vehicles:	Machinery $000	Vehicles $000
Net book value at 31 March 2004	1 840	65
Add: Purchases	380	25
	2 220	90
Less: Net book value at 31 March 2005	1 920	70
Depreciation for the year	300	20

ANSWER 2

MANOR PLC

Consolidated Balance Sheet at 31 March 2005

	$000	$000
ASSETS		
Non-current assets		
Land and buildings (150 + 50)	200	
Less: Accumulated depreciation (14 + 11)	25	175
Machinery (750 + 235)	985	
Less: Accumulated depreciation (220 + 65)	285	700
Office equipment (175 + 15 + 25)	215	
Less: Accumulated depreciation (25 + 5 + 15)	45	170
		1 045
Goodwill (Working 1)		89
		1134
Current assets		
Inventory (60 + 70)	130	
Receivables (55 + 21 + 65 - 15)	126	
Bank	45	301
		1 435

	$000	$000
EQUITIES AND LIABILITIES		
Capital and Reserves		
Ordinary share capital		900
Accumulated profits (Working 3)		96
		996
Minority interest (Working 2)		289
Current liabilities		
Payables (35 + 50 +38 - 15)	108	
Bank overdraft (10 + 32)	42	150
		1 435

	$000	$000
Workings: (1) Goodwill		
(a) Acquisition of shares of Cottages at 1 April 2004		
Investment cost in Cottages		379
Less: Manor's proportion of sundry net assets		
Share capital	500	
Accumulated profits	40	
	540	
Multiplied by Manor's proportion (540 × 60%)		324
Goodwill		55
Less: Amortisation (55 × 1/5)		(11)
		44

ANSWER 2 (CONTINUED)

	$000	$000	$000
(b) Acquisition of shares of Bungalows at 1 October 2004			
Investment cost in Bungalows			236
Less: Manor's proportion of sundry net assets			
Share capital		200	
Accumulated profits at 1 October 2004			
Profit for the year (45 - 20)	25		
Profit to 1 October 2004 (25 × 6 ÷ 12)	12.5		
Accumulated profits at 1 April 2004	20	32.5	
Total sundry net assets		232.5	
Multiplied by Manor's proportion (232.5 × 80%)			186
Goodwill			50
Less: Amortisation (50 × 1/5 × 6/12)			5
			45
Goodwill arising on consolidation - Cottages			44
- Bungalows			45
			89

(2) Minority interest

	Cottages	Bungalows	Total
	$000	$000	$000
Share capital	500	200	
Accumulated profits	100	45	
	600	245	
Minority's proportion	600 × 40%	245 × 20%	
	= 240	= 49	289

(3) Accumulated profits

	$000	$000
Manor		66
Cottages (100 - 40) × 60%		36
Bungalows (45 - 32.5) × 80%		10
		112
Less: Goodwill amortised for the year (11 + 5)		16
		96

ANSWER 3

(a)

NEWLETS PLC
Income Statement for the year ended 31 March 2005

		$000	$000	$000
Sales				9 120
Less: Cost of goods sold				
Opening inventory			350	
Add: Purchases			5 650	
			6 000	
Less: Closing inventory			415	5 585
Gross profit				3 535
Less: General expenses			950	
Administrative expenses (1 040 - 42)			998	
Selling expenses			675	
Debenture interest (400 × 12%)			48	
Depreciation	- buildings (1 200 - 450) × 2%		15	
	- machinery (4 250 - 1 449 - 9) × 25%		698	
Loss on disposal of fixed assets (16 × 0.75 × 0.75)			9	3 393
Profit for the year				142
Less: Interim dividends	- preferred shares	30		
	- ordinary shares	45	75	
Final dividends	- preferred shares (800 × 10% - 30)	50		
	- ordinary shares (4 000 × 0.06)	240	290	365
Retained loss for the year				(223)
Accumulated profits b/f				425
Accumulated profits c/f				202

ANSWER 3 (CONTINUED)

(b)

NEWLET PLC
Balance Sheet at 31 March 2005

	$000	$000
ASSETS		
Non-current assets		
Land and buildings	1 200	
Less: Accumulated depreciation (80 + 15)	95	1 105
Machinery (4 250 - 16)	4 234	
Less: Accumulated depreciation (1 449 + 698 - 7)	2 140	2 094
		3 199
Current assets		
Inventory	415	
Receivables	780	
Prepayment	42	1 237
		4 436
EQUITIES AND LIABILITIES		
Capital and liabilities		
Ordinary share capital		2 000
Accumulated profits		202
Proposed dividends (50 +240)*		290
		2 492
Non-current liabilities		
10% Redeemable preferred share capital		800
12% Debentures		400
		1 200
Current liabilities		
Payables	485	
Interest payable	48	
Bank overdraft	211	744
		4 436

* It is assumed that dividends are proposed before the balance sheet date.

ANSWER 4

(a) **MANUFACT**

Statement of non-distributable reserves at 1 April 2004

	$000
Share premium	150
Revaluation reserve	100
	250

(b) **Statement of the change in the bank balance**

	$000
(1) Right issue (3 000 000 × 1/3 × $0.7)	700
(2) Issue of preferred shares (200 000 × $1)	200
	900
(3) Less: Redemption of 12% Debentures ($200 000 × 1.05)	(210)
Debenture interest ($200 000 × 12% × 6/12)	(12)
Increase in bank balance	678

(c) **Journal**

	Dr $000	Cr $000
Share premium ($150 000 + 1 000 000 × $0.2 - $200 000 × 5%)	340	
Revaluation reserve	100	
General reserve (Balancing figure)	60	
Ordinary share capital (5 000 000 - 3 000 000 - 1 000 000) × $0.5		500

Being bonus issue of the remaining ordinary shares.

(d) **Capital and Reserves on 2 December 2004**

	$000	$000
5 000 000 Ordinary shares of $0.5 each		2 500
500 000 9% Preferred shares of $1 each		500
General reserve ($125 000 - $60 000)		65
Accumulated profits ($340 000 - $12 000)		328
		3 393

ANSWER 5

(a) **GEORGE, HARRIET AND JILL**

Calculation of the total drawings made by each partner up to the end of Year 3

	George	Harriet	Jill	Total
	$	$	$	$
Share of profit for the Year 1 (3 600 × 1/3)	1 200	1 200	1 200	3 600
Share of profit for the Year 2 (15 900 × 1/3)	5 300	5 300	5 300	15 900
	6 500	6 500	6 500	19 500
Balance of current account at the end of Year 3	3 750	(4 000)	(500)	(750)
Total Drawings	10 250	2 500	6 000	18 750

(b) **Appropriation Account for Year 3**

		$	$
Net profit for the year			23 700
Less: Salary to Jill			(4 000)
Interest on capital	- George (20 000 × 8%)	1 600	
	- Harriet (15 000 + 2 000 + 2 000) × 8%	1 520	
	- Jill (25 000 - 3 000) × 8%	1 760	(4 880)
			14 820
Share of residual profit	- George (14 820 × 2/5)	5 928	
	- Harriet (14 820 × 2/5)	5 928	
	- Jill (14 820 × 1/5)	2 964	14 820

(c) **Calculation of the gain or loss for each partner in Year 3**

		George	Harriet	Jill	Total
		$	$	$	$
Share of profit without agreement (23 700 × 1/3)	(A)	7 900	7 900	7 900	23 700
Share of profit having agreement: (Answer part b)					
Salary to Jill		-	-	4 000	4 000
Interest on capital		1 600	1 520	1 760	4 880
Share of residual profit		5 928	5 928	2 964	14 820
	(B)	7 528	7 448	8 724	23 700
Gain or (Loss) (B) - (A)		(372)	(452)	824	0

ANSWER 6

(a) **ROBERTS**

Cash budget for the six months period from 1 April 2005 to 30 September 2005

	Apr	May	Jun	Jul	Aug	Sep
	$	$	$	$	$	$
Opening bank balance	1 450	1 830	4 070	5 360	3 520	2 910
Receipts						
Receivables (Working 1)	9 900	11 860	10 910	8 030	8 860	10 270
	11 350	13 690	14 980	13 390	12 380	13 180
Payments						
Payables - material (Working 2)	4 200	4 300	4 300	4 300	3 900	3 900
Labour - direct	3 500	3 500	3 500	3 750	3 750	3 750
Labour - indirect	850	850	850	850	850	850
Other cash expenses	970	970	970	970	970	970
	9 520	9 620	9 620	9 870	9 470	9 470
Closing bank balance	1 830	4 070	5 360	3 520	2 910	3 710

Workings:

(1) Cash received from receivables

	Apr	May	Jun	Jul	Aug	Sep
	$	$	$	$	$	$
Product X (at $9.8 each)	3 920	5 880	5 390	3 430	1 960	2 450
Product Y (at $9.2 each)						
- Sales in March	5 980					
- Sales in April (650 × $9.2)		5 980				
- Sales in May (600 × $9.2)			5 520			
- Sales in June (500 × $9.2)				4 600		
- Sales in July (750 × $9.2)					6 900	
- Sales in August (850 × $9.2)						7 820
Total	9 900	11 860	10 910	8 030	8 860	10 270

ANSWER 6 (CONTINUED)

(2) Payments to trade payables (for purchases of Material A)
Analysis of purchases and production

		Purchases in					
		April	May	June	July	August	September
		$	$	$	$	$	$
Production in May:	Product X (500 × $5)	2 500					
	Product Y (600 × $3)	1 800					
Production in June:	Product X (500 × $5)		2 500				
	Product Y (600 × $3)		1 800				
Production in July:	Product X (300 × $5)			1 500			
	Product Y (800 × $3)			2 400			
Production in August:	Product X (300 × $5)				1 500		
	Product Y (800 × $3)				2 400		
Production in September:	Product X (300 × $5)					1 500	
	Product Y (900 × $3)					2 400	
Production in October:	Product X (300 × $5)						1 500
(assume units same	Product Y (800 × $3)						2 400
as in Sep.)		4 300	4 300	3 900	3 900	3 900	3 900

Payments to payables

	April	May	June	July	August	September
	$	$	$	$	$	$
Purchases in February	4 200					
March		4 300				
April			4 300			
May				4 300		
June					3 900	
July						3 900

ANSWER 6 (CONTINUED)

(b) Calculation of the budgeted number of units in inventory of X and Y on 30 September 2005

		Product X	Product Y
		unit	unit
Opening inventory at 1 April 2005		500	600
Add: Production from April to June	(500 × 3)	1 500	
	(600 × 3)		1 800
Production from July to September	(300 × 3)	900	
	(800 × 3)		2 400
		2 900	4 800
Less: Budget sales from April to September			
Product X (400 + 600 + 550 + 350 + 200 + 250)		2 350	
Product Y (650 + 600 + 500 + 750 + 850 + 800)			4 150
Closing inventory at 30 September 2005		550	650

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 4 EXAMINATION 2005
ACCOUNTING (IAS)
(LEVEL 3)

ANSWER 1

(a) **HAROLD, BILL, MARY AND ROSEMARY**
INCOME STATEMENT AND APPROPRIATION ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2005

	£000	£000
Fee income		185.0
Less Operating Expenses		
Wages and Salaries	68.0	
General expenses	38.0	
Insurance	6.0	
Electricity	5.0	
Depreciation		
- Office machinery (£8 000 × 15%)	1.2	
- Office furniture (£8 000 × 10%)	0.8	
- Vehicles [£(24 000 - 12 000) × 25%]	3.0	122.0
		63.0
Adjustment re Rosemary (13 000 × 50%)		6.5
Net profit for the year		69.5

	1 April 2004 to 1 October 2004 £000		1 October 2004 to 31 March 2005 £000		
Net profit for the year	31.5		31.5		63.0
Add Adjustment for Salary to Rosemary			6.5		6.5
			38.0		69.5
Less Partner's salary to Rosemary	-		6.0		6.0
	31.5		32.0		63.5
Share of Profit					
- Harold	10.5	(1/3)	9.6	(3/10)	20.1
- Bill	10.5	(1/3)	9.6	(3/10)	20.1
- Mary	10.5	(1/3)	9.6	(3/10)	20.1
- Rosemary	-		3.2	(1/10)	3.2
	31.5		32.0		63.5

ANSWER 1 (CONTINUED)

(b)

HAROLD, BILL, MARY AND ROSEMARY
BALANCE SHEET AT 31 MARCH 2005

Non-current assets	Cost	Accumulated Depreciation	Net
	£000	£000	£000
Office building	60.0	-	60.0
Office Machinery	8.0	7.2	0.8
Vehicles	24.0	15.0	9.0
Office furniture	8.0	2.8	5.2
	100.0	25.0	75.0
Current assets			
Receivables		15.0	
Bank		14.0	29.0
			104.0

Representing

	Harold	Bill	Mary	Rosemary	Total
	£000	£000	£000	£000	£000
Capital	30.0	25.0	34.0	15.0	104.0
Current					
Balance at 1 April 2004	8.0	(11.0)	6.0	-	
Partner's salary	-	-	-	6.0	
Share of profit	20.1	20.1	20.1	3.2	
Drawings	(22.0)	(20.0)	(24.0)	(6.5) *	
	6.1	(10.9)	2.1	2.7	-
					104.0

*£6 500 salary adjustment to Rosemary being treated as Drawings after being admitted as a partner on 1 October 2004.

ANSWER 2

FERGUSON

	2003	2004	2005
(i) Gross profit to sales			
$\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$	$\frac{60}{160} \times 100\%$	$\frac{80}{200} \times 100\%$	$\frac{100}{250} \times 100\%$
	= 37.5%	= 40%	= 40%
(ii) Net profit to sales			
$\frac{\text{Gross Profit}}{\text{Sales}} \times 100\%$	$\frac{15}{160} \times 100\%$	$\frac{25}{200} \times 100\%$	$\frac{40}{250} \times 100\%$
	= 9.4%	= 12.5%	= 16%
(iii) Return on capital employed			
$\frac{\text{Net profit}}{\text{Captial and reserves}}$	$\frac{15}{100} \times 100\%$	$\frac{25}{140} \times 100\%$	$\frac{40}{140} \times 100\%$
	= 15%	= 17.9%	= 29%
(iv) Current ratio			
$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{8 + 12 + 4}{6}$	$\frac{14 + 22}{5 + 20}$	$\frac{20 + 30}{40}$
	= 4:1	= 1.4:1	= 1.3:1
(v) Receivable collections period			
$\frac{\text{Receivables}}{\text{Sales}} \times 365$ days	$\frac{12}{160} \times 365$ days	$\frac{22}{200} \times 365$ days	$\frac{30}{250} \times 365$ days
	= 27.4 days	= 40.2 days	= 43.8 days

ANSWER 2 (CONTINUED)

(b) **Profitability**

Gross profit ratio and net profit ratio were improving from 2003 to 2005 whilst the gross profit margin remained relatively stable. This indicates effective internal cost controls of the company in salaries and other expenses. Management should further study and improve the cost control of sales. The significant increase of return on capital employed shows that the company can provide a good return for owners' investments.

Liquidity

These ratios are important indicators of the short-term viability of the company. A company with unhealthy current ratios will have liquidity problems as it depends heavily on bank overdraft. Compared with 2003, the current ratio in 2004 and 2005 became worse. This is considered as a sign of the deterioration in liquidity, which was caused by increase in inventories and receivables. Corrective actions must be taken by the company to avoid difficulty in financing future operations.

ANSWER 3

(a) **MIDSHIRES TENNIS CLUB**

Working: calculation of subscriptions for the year ended 31 March 2005

	£
Subscriptions in advance at 1 April 2004	110
Subscriptions received from bank	15 400
Subscriptions in the arrear at 31 March 2005 (£110 × 2)	220
	15 730
Less: Subscriptions in arrear at 1 April 2004	550
Subscriptions income	15 180

The number of members of Midshires Tennis Club

$$= \frac{\text{Subscriptions income}}{\text{Subscriptions per mumber}}$$

$$= \frac{£15\,180}{£110}$$

$$= 138$$

(b) **BAR TRADING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005**

	£	£
Bar revenue		82 450
Less Cost of sales		
Inventory at 1 April 2004	7 450	
Add Bar purchases £(7 100 + 71 400 + 6 800)	71 700	
	79 150	
Less Inventory at 31 March 2005	7 345	71 805
Bar gross profit		10 645
Less Bar steward's salary		13 500
Loss on bar trading		(2 855)

ANSWER 3 (CONTINUED)

(c)

MIDSHIRES TENNIS CLUB
INCOME AND EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2005

		£	£
Income			
Subscriptions income			15 180
Net income on dance £(5 800 - 3 000)			2 800
			17 980
Less	**Expenditure**		
	Secretarial expenses	2 150	
	Insurance	345	
	Match fees	1 650	
	Travel to matches	350	
	Groundsman's wages	7 460	
	Depreciation on		
	- Equipment [£(10 500 + 1 500) × 12.5%]	1 500	
	- Computers (£795 × 1/3)	265	
	Loss on sale of computer £(350 - 70)	280	
	Loss on bar trading	2 855	16 855
Surplus for the year			1 125

ANSWER 4

(a) Under IAS 2, inventory should be valued at lower of cost and the net realisable value in different categories of inventories.

Inventory value at 31 March 2005

Item A
Cost per unit = 26 600/3 800 = 7
NRV = 9.9 - 1.2 = 8.7
∴ take cost as valuation

Closing inventory valuation = (3 800 - 500) × 7 = 23 100

Item B
Cost per unit = 7 200/180 = 40

	Cost	NRV	Valuation	Amount
	£	£	£	£
25 units	40	30	30	750
15 units	40	50 - 12 = 38	38	570
Balance 180 - 25 - 15 = 140 units	40	50	40	5 600
				6 920

Item C
Total cost = 180 + 50 + 4.5 × 10 = 275

NRV = 12.5 × 40 = 500

∴ Closing inventory valuation = $275

Total inventory value = £23 100 + £6 920 + £275 = £30 295

(b) Calculation of Expected Total Profit on Sale of inventory
With the limited information given, the only possible way to calculate the expected profit is by taking the difference of the **net realizable value** and the **closing inventory valuations** at 31 March 2005.

Detailed calculations are as follows-

	Inventory cost (lower of cost or NRV)	Expected sales (Net realiable value)	Expected profit
	£	£	£
Item A (8.7 × 3 300)	23 100	28 710	5 610
B (25 × 30 + 15 × 38 + 140 × 50)	6 920	8 320	1 400
C	275	500	225
	30 295	37 530	7 235

ANSWER 5

(a) **SHAMUS AND GREGORY**
MEMORANDUM JOINT VENTURE ACCOUNT

2004			£	£	2004			£
Jun	5	Purchases (2 500 × £2.5)		6 250	Jul	12	Sales [(2 500 × 75% × £4.8) + £3 200]	12 200
	7	Shipping and insurance costs		214	Aug	8	Sales (400 × £1.8)	720
	25	Purchases (4 000 × £3)		12 000		8	Insurance claim (400 × £2.75)	1 100
	25	Storage rental		2 000		10	Sales	
	30	Storage rental (8 × £75)		600			(4 000 - 400) × £5	18 000
						28	Sales	45 000
Jul	1	Handling costs		606		30	Inventory taken over by Shamus	
	10	Shipping and insurance costs		260			(5 200 × 20% × £9)	9 360
Aug	1	Purchases (5 200 × £7)		36 400				
	4	Shipping and insurance costs		350				
Aug	31	Profit on joint venture						
		- Shamus	13 850					
		- Gregory	13 850	27 700				
				86 380				86 380

(b) In the books of Gregory

JOINT VENTURE WITH SHAMUS

2004			£	2004			£
Jun	30	Storage rental	600	Jul	12	Bank: Sales	12 200
Jul	1	Handling costs	606	Aug	8	Bank: Sales	720
Aug	31	Profit and Loss (Profit)	13 850		8	Bank: Insurance claim	1 100
	31	Bank - Settlement	71 324		10	Bank: Sales	18 000
					28	Bank: Sales	45 000
					30	Inventory taken over	9 360
			86 380				86 380

ANSWER 6

(a) **PATRICIANS**

APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31 MARCH

	2003	2004		2005	
	£	£		£	
Net profit before debenture interest	320 000	385 000		410 000	
Less: Debenture interest					
(£500 000 × 10%)	50 000	25 000	(W1)	-	
Net profit after debenture interest	270 000	360 000		410 000	
Less: Dividend					
- Proposed preferred dividend					
(£800 000 × 7.5%)	60 000	37 500	(W2)	75 000	(W5)
- Interim preferred dividend	-	30 000	(W3)	-	
- Proposed ordinary dividend					
(£12 000 000 × £0.018)	216 000	270 000	(W4)	320 000	(W6)
	276 000	337 500		395 000	
(Loss)/ Profit for the year	(6 000)	22 500		15 000	
Add: Accumulated profits brought forward	165 000	159 000		181 500	
Accumulated profits carried forward	159 000	181 500		196 500	

Workings

W1 = £500 000 × 10% × 1/2
= 25 000

W2 = £1 000 000× 7.5%×1/2
= 37 500

W3 = £800 000 × 7.5% × 1/2
= 30 000

W4 = £3 000 000 × 9%
= 270 000

W5 = £1 000 000 × 7.5%
= £75 000

W6 = (12 000 000 + 4 000 000) × £0.02
= £320 000

ANSWER 6

(b) **PATRICIANS**
BALANCE SHEET AT 31 MARCH 2005 (EXTRACT)

	£
16 million Ordinary shares of 25p each	4 000 000
1 million 7.5% Preferred shares of £1 each	1 000 000
Share premium (4 000 000 × 5p)	200 000
Accumulated profits	196 500
	5 396 500

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 3 EXAMINATION 2006
ACCOUNTING (IAS)
(LEVEL 3)

ANSWER 1

(a)

GLOSSOP
Journal

Item		Dr £	Cr £
(1)	Trading	3 600	
	Inventory $(18 400 - 14 800)		3 600
(2)	Motor expenses	780	
	Purchases		780
(3)	Purchases	227	
	Trade payable		227
(4)	Accumulated depreciation on motor vehicles [(8 600 × 20%) - (4 200 × 25%)]	670	
	Depreciation		670
(5)	Heat and light	320	
	Accrued expenses		320
(6)	Prepayment	247	
	Insurance		247

(b) **Statement showing the adjusted gross profit**

	£	£
Gross profit before adjustment		78 100
Add: (2) Purchases overstated		780
		78 880
Less: (1) Closing inventory overstated	3 600	
(3) Purchases omitted	227	3 827
Adjusted gross profit		75 053

Statement showing the adjusted net profit

	£	£
Net profit before adjustment		14 800
Add: (2) Purchases overstated	780	
(4) Depreciation overstated	670	
(5) Prepaid insurance omitted	247	1 697
		16 497
Less: (1) Closing inventory overstated	3 600	
(3) Purchases omitted	227	
(2) Motor expenses understated	780	
(5) Accrued heat and light	320	4 927
Adjusted net profit		11 570

ANSWER 2

(a) Calculation of amount overpaid by successful applicants on application:
(3 000 000 - 2 000 000 - 500 000) × £0.75
= £375 000

(b) (i)

Bank

	£ 000		£ 000
Application and allotment	2 250	Application and allotment	375
(3 000 000 × £0.75)		(500 000 × £0.75)	
Application and allotment	2 125		
£[(2 000 000 × 1.25) - 375 000]			
Call	999		
£(2 000 000 × 0.5 - 2 000 × 0.5)			

(ii)

Application and allotment

	£ 000		£ 000
Bank (500 000 × £0.75)	375	Bank (3 000 000 × £0.75)	2 250
Ordinary share capital	1 000	Bank	2 125
(2 000 000 × £0.5)		[(2 000 000 × £1.25) -	
Share premium (2 000 000 × £1.5)	3 000	(500 000 × £0.75)]	
	4 375		4 375

(iii)

Ordinary Share Capital

	£ 000		£ 000
Balance c/f	5 000	Balance b/f	3 000
		Application and allotment	1 000
		Call (2 000 000 × £0.5)	1 000
	5 000		5 000

(iv)

Share premium

	£ 000		£ 000
Balance c/f	3 000	Application and allotment	3 000

(v)

Call

	£ 000		£ 000
Ordinary share capital	1 000	Bank	999
(2 000 000 × £0.5)		[(2 000 000 - 2 000) × £0.5]	
		Call in arrear (2 000 × £0.5)	1
	1 000		1 000

(c) Preferred shareholders are entitled to receive fixed dividend whilst ordinary shareholders are not. Ordinary shareholders can have voting rights at the general meeting. Upon winding up of a company, capital will be fully repaid to holders of preferred shares before any return of capital to ordinary shareholders.

ANSWER 3

ALAN

Monthly Cash Budget for the six months from July to December 2006

	July	August	September	October	November	December
	£	£	£	£	£	£
Opening balance	-	13 875	28 925	55 925	84 125	119 525
Receipts						
Trade receivables (W1)	28 125	41 250	50 250	57 750	65 250	72 750
	28 125	55 125	79 175	113 675	149 375	192 275
Payments						
Raw materials (W3)	-	18 750	16 250	18 750	21 250	23 750
Labour (W4)	7 500	4 500	3 750	4 250	4 750	5 250
Sundry variable costs	2 250	1 950	2 250	2 550	2 850	3 150
Supervisor's salary	1 000	1 000	1 000	1 000	1 000	1 000
Advertising	3 000	-	-	3 000	-	-
Insurance	500	-	-	-	-	-
	14 250	26 200	23 250	29 550	29 850	33 150
Closing balance	13 875	28 925	55 925	84 125	119 525	159 125

Workings

(1) Sales

		Collection of Sales receipts	July	August	September	October	November	December
			£	£	£	£	£	£
July	500 × £75 = £37 500	75:20:5	28 125	7 500	1 875			
August	600 × £75 = £45 000	75:20:5		33 750	9 000	2 250		
September	700 × £75 = £52 500	75:20:5			39 375	10 500	2 625	
October	800 × £75 = £60 000	75:20:5				45 000	12 000	3 000
November	900 × £75 = £67 500	75:20:5					50 625	13 500
December	1 000 × £75 = £75 000	75:20:5						56 250
			28 125	41 250	50 250	57 750	65 250	72 750

(2) Production budget (in units)

	July	August	September	October	November	December
Opening inventory	-	(250)	(300)	(350)	(400)	(450)
Sales	500	600	700	800	900	1 000
Closing inventory	250	300	350	400	450	500
Production	750	650	750	850	950	1 050
(3) Payments (Production × \$25 be paid in following month)		18 750	16 250	18 750	21 250	23 750

(4) Labour

		July	August	September	October	November	December
July	750 × 2 × 5 = 7 500	7 500					
August	250 × 2 × 5 + 400 × 1 × 5 = 4 500		4 500				
September	750 × 1 × 5 = 3 750			3 750			
October	850 × 1 × 5 = 4 250				4 250		
November	950 × 1 × 5 = 4 750					4 750	
December	1 050 × 1 × 5 = 5 250						5 250
		7 500	4 500	3 750	4 250	4 750	5 250

ANSWER 4

VALLEY PARTNERSHIP
Profit and Loss Accounts for each of the four month period
(a) **ending 30 April, 31 August and 31 December 2005**

	30 April		31 August		31 December	
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Sales (1:2:4)		40		80		160
Less: Cost of goods sold						
Opening inventory	25		38		40	
Purchases	45		62		116	
	70		100		156	
Less: Closing inventory	38	32	40	60	28	128
Gross Profit		8		20		32
Administrative expenses (12:8:4)			4		2	
Selling and distribution expenses (1:2:4)			4		8	
Other expenses (1:1:1)		11	3	11	3	13
Net profit/(Loss)		(3)		9		19

Appropriation Accounts for each of the four month periods
(b) **ending 30 April, 31 August and 31 December 2005**

	30 April		31 August		31 December	
	£000	£000	£000	£000	£000	£ 000
Net profit/loss		(3.0)		9.0		19.0
Less: Partners' salary						
- Sam (9/3) / (0.6 × 4)		(3.0)		(2.4)		
- Ross (0.5 × 4)					(2.0)	
- Witch (0.5 × 4)					(2.0)	(4.0)
		(6.0)		(6.6)		15.0
Share of profit/(loss)	(3:2:		(2:1)		(2:2:1)	
- Sam	(3.0)		4.4		6.0	
- Ross	(2.0)		2.2		6.0	
- Witch	(1.0)	(6.0)	-	2.6	3.0	15.0

ANSWER 5

		Trafford	Flixton
(a) (i)	**Dividend yield**		
	$\frac{\text{Dividend per share}}{\text{Market price per share*}} \times 100$	$\frac{£0.04}{£0.6} \times 100$	$\frac{£0.02}{£0.5} \times 100$
		= 6.67%	= 4%
	*Market price per share	3 × £0.2 = £0.6	5 × £0.1 = £0.5
(ii)	**Dividend Cover**		
	$\frac{\text{Earnings per share}}{\text{Dividend per share}}$	$\frac{£0.2}{£0.04}$	$\frac{£0.1}{£0.02}$
		= 5 times	= 5 times
(iii)	**Earnings yield**		
	$\frac{\text{Earnings per share}}{\text{Market price per share*}} \times 100$	$\frac{£0.2}{£0.6} \times 100$	$\frac{£0.1}{£0.5} \times 100$
		= 33.33%	= 20%
(iv)	**Interest cover**		
	$\frac{\text{Earnings before interest}}{\text{Interest}} =$	$\frac{£0.2 + £0.2 \times 25\%}{0.2 \times 25\%}$	$\frac{£0.1 + £0.1 \times 20\%}{0.1 \times 20\%}$
		= 5 times	= 6 times

ANSWER 5 (CONTINUED)

(b) (i) The statement is true because the higher the price/earnings ratio, the more you are paying for an estimated trend of earnings. Investors usually are willing to pay a high price/earnings ratio for companies they judge will be growing faster than the norm because P/E ratio is an indicator of how highly a company is valued by the investors.

(ii) Dividend cover shows how many times over the profits could have paid as dividends to shareholders. For a company with prudent policy, it is true that a high dividend cover would be recommended by the directors of the company . For an investor who is looking for future growth in the capital value of their investment, it is probably good to have the profit ploughed back for future development of the business.

(iii) It is true that the price/earnings ratio depends on market price but the dividend cover ratio does not. A company with high price/earnings ratio depends on the market price means that the market is expecting the increase of share price over the next few months or years. However, a company with a high dividend cover ratio tells us how easily a business can pay its dividend from profit, and thus not depend on market price which does not fluctuate widely.

ANSWER 6

(a) (i) Goodwill on consolidation

		£ 000	£ 000
Investment in Gate			216
Less: Ordinary share capital	(200 × 80%)	160	
Pre-acquisition loss	(30 × 80%)	(24)	136
Goodwill			80

∴ The balance of the goodwill on consolidation:

$$= £80\,000 - £80\,000 \times \frac{4}{5}$$

$= £16\,000$

(ii) Additional depreciation charged in error by Gate:

$$\left(\frac{£150\,000}{75\%} \times 25\% \right) - \left(\frac{£150\,000}{75\%} \times 20\% \right)$$

$= (£200\,000 \times 25\%) - (£200\,000 \times 20\%)$

$= £50\,000 - £40\,000$

$= £10\,000$

(iii) Amount to be written off Gate's inventory

	£ 000
Unrealised profit on inventory £(9 000 × 1/3)	3
Inventory reduced to net realisable value £[12 000 - (14 000 - 4 000)]	2
Amount to be written off Gate's inventory	5

(iv) Consolidated accumulated profits at 31 December 2005

	£ 000
Accumulated profits - Squires	172
Less: Unrealised profit	3
	169
Accumulated profits - Gate (£97 000 + £30 000 + £10 000 - £2 000) × 80%	108
	277
Less: Amortisation of goodwill (£80 000 × 4/5)	64
	213

(v) Minority interest at 31 December 2005

	£ 000
Ordinary share capital £(200 000 × 20%)	40
Accumulated profits £(97 000 + 10 000 - 2 000) ×20%	21
	61

ANSWER 6

(b)

SQUIRES GROUP
Consolidated Balance Sheet at 31 December 2005

	£ 000	£ 000
Non-current Assets		
Tangible (380 + 150 + 10)	540	
Intangible	16	556
Current Assets		
Inventory (336 + 119 - 5)	450	
Receivables (183 +126 - 3) .	306	
Bank (73 + 19 +1)	93	849
Total Assets		1 405
Equity and Liabilities		£ 000
Capital and reserves		
Ordinary share capital		800
Share premium		80
Accumulated profits		213
Equity		1 093
Minority interest		61
		1 154
Current Liabilities		
Payables (136 + 117 - 2)		251
		1 405

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THE LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 4 EXAMINATION 2006
ACCOUNTING (IAS)
(THIRD LEVEL)

ANSWER 1

(a) (i)

ASHFORD PARTNERS
Journal

Item		Dr $	Cr $
(1)	Inventory (3 826 - 3 628)	198	
	Trading		198
(2)	Suspense	1 500	
	Machinery disposal		1 500
	Machinery disposal	3 800	
	Machinery		3 800
	Accumulated depreciation	2 000	
	Machinery disposal		2 000
	Income statement - loss on disposal	300	
	Machinery disposal		300
(3)	Prepaid rent expense	278	
	Accrued rent expense	278	
	Rent		556
(4)	Telephone	332	
	Accrued telephone expense		148
	Prepaid telephone expense		184
(5)	Drawings	400	
	Suspense		400
(6)	Bank	3 000	
	Capital		3 000
(7)	Drawings	4 400	
	Suspense		4 400

ANSWER 1 (CONTINUED)

(a) (ii)

Suspense

	$		$
Balance b/d	3 300	Drawings (5)	400
Machinery disposal (2)	1 500	Drawings (7)	4 400
	4 800		4 800

(iii)

Statement showing the correct net profit

		$	$
Net profit before adjustments			12 600
Add:	Inventory understated (1)	198	
	Rent overstated (3)	556	754
			13 354
Less:	Loss on disposal of machinery (2)	300	
	Telephone expense understated (4)	332	632
Correct net profit			12 722

(b) The bookkeeper's ability cannot be fully relied on because -

(i) he is lack of accounting knowledge
e.g. (a) he failed to account properly for disposal of asset - item (2)
(b) he did not know how to account for drawings properly - items (5) & (7)

(ii) he is careless
e.g. (a) in transposition of figures - item (1)
(b) in adjusting prepayments and accruals - items (3) & (4)
(c) in ommission of entries - item (6)

ANSWER 2

LORDSWOOD SOCIAL CLUB

(a) **Statement to calculate Accumulated Fund at 1 January 2005**

	$	$
Assets		
Fixed assets		12 000
Subscriptions in arrears		400
Bar inventory at cost		2 400
Bank (in hand)		2 100
		16 900
Less: Liabilities		
Subscriptions in advance	700	
Bar wages accrued	280	
Bar purchases payables	560	
Life membership subscription fund	4 200	5 740
Accumulated fund		11 160

(b) **Bar Trading Account for the year ended 31 December 2005**

	$	$
Bar revenue		78 000
Less: Cost of sales		
Opening inventory	2 400	
Purchases (35 100 + 504 - 560)	35 044	
	37 444	
Less: Closing inventory (2 400 × 130%)	3 120	34 324
Gross profit		43 676
Less: Bar wages (14 000 + 160 - 280)		13 880
Profit on bar trading		29 796

ANSWER 2 (CONTINUED)

(b) **Income and Expenditure Account for the year ended 31 December 2005**

	$	$
Income		
Profit on bar trading		29 796
Subscriptions (W1)		45 970
Life membership subscriptions (W2)		620
		76 386
Expenditure		
Rent	12 000	
Insurance	3 000	
Depreciation (12 000 × 10%)	1 200	
Subscriptions written off (400 - 360)	40	
Loss on disposal of fixed assets	200	16 440
Surplus of income over expenditure		59 946

(c) **Balance Sheet at 31 December 2005**

	$	$	$
Fixed assets (12 000 - 1 200 - 2 300 + 44 200) (W3)			52 700
Current assets			
Bar inventory		3 120	
Subscriptions in arrears		650	
Bank (W4)		21 260	
		25 030	
Less Current liabilities			
Bar purchases payables	504		
Accrued bar wages	160		
Subscriptions in advance	380	1 044	
Net current assets			23 986
			76 686
Financed by:			$
Accumulated fund at 1 January 2005			11 160
Add Surplus			59 946
			71 106
Life membership subscription fund			5 580
			76 686

ANSWER 2 (CONTINUED)

Workings

(1) **Subscriptions**

	$		$
In arrears b/d	400	In advanced b/d	700
Income and expenditure	45 970	Bank	45 360
(balancing figure)		Subscriptions written-off	40
In advanced c/d	380	In arrears c/d	650
	46 750		46 750

(2) **Life membership subscription fund**

	$		$
Income and expenditure	620	Balance c/d	4 200
(6 200 × 1/10)			
Balance c/d	5 580	Bank	2 000
	6 200		6 200

(3) **Disposal of fixed assets**

	$		$
Fixed assets	2 300	Income and expenditure	200
(balancing figure)		- Loss on disposal	
		Bank	2 100
	2 300		2 300

(4) Balance of Bank account = $(2 100 + 360 + 45 000 + 2 100 + 2 000 + 78 000 - 12 000 - 3 000 - 44 200 - 14 000 - 35 100)

= $ 21 260

ANSWER 3

(a) **CHATHAM**

Income Statement for the year ended

	2004	2005
	$	$
Revenue	500 000	600 000 (W1)
Less Cost of sales (balancing figures)	300 000	300 000
Gross profit	200 000 (W2)	300 000
Less Expenses (balancing figures)	90 000	198 000
Net profit	110 000	102 000 (W3)

Workings

(1) Revenue for 2005 = $500 000 × 1.2 = $600 000

(2) Gross profit margin for 2005 = 50%
Gross profit margin for 2004 = 50% - 10% = 40%
Gross profit for 2004 = $500 000 × 40%
= $200 000

(3) Net profit margin for 2004 = 22%
Net profit margin for 2005 = 22% - 5% = 17%
Net profit for 2005 = $600 000 × 17%
= $102 000

(b) (i) Year end receivables 2004 = 4 × (2 000 + 8 000) - 36 000
= $4 000

Year end receivables 2005 = 5 × 12 000 - (46 000 + 4 000)
= $10 000

(ii) Acid-test ratio 2004 = $\dfrac{\$4\ 000}{\$10\ 000}$ = 0.4:1

Acid-test ratio 2005 = $\dfrac{\$10\ 000 + \$4\ 000}{\$12\ 000}$ = 1.17:1

ANSWER 3 (CONTINUED)

(b) (iii) Inventory turnover 2004 $= \dfrac{\$36\ 000}{\$300\ 000} \times 365 \text{ days}$

$= \underline{\underline{43.8 \text{ days}}}$

Inventory turnover 2005 $= \dfrac{\$46\ 000}{\$300\ 000} \times 365 \text{ days}$

$= \underline{\underline{56 \text{ days}}}$

(iv) Receivables collection period 2004 $= \dfrac{\$4\ 000}{\$500\ 000} \times 365 \text{ days}$

$= \underline{\underline{2.9 \text{ days}}}$

Receivables collection period 2005 $= \dfrac{\$10\ 000}{\$600\ 000} \times 365 \text{ days}$

$= \underline{\underline{6.1 \text{ days}}}$

(v) Payables settlement period 2004 $= \dfrac{\$8\ 000}{\$300\ 000} \times 365 \text{ days}$

$= \underline{\underline{9.7 \text{ days}}}$

Payables settlement period 2005 $= \dfrac{\$12\ 000}{\$300\ 000} \times 365 \text{ days}$

$= \underline{\underline{14.6 \text{ days}}}$

(vi) Return on capital employed 2004 $= \dfrac{\$110\ 000}{\$(320\ 000 + 36\ 000 + 4\ 000 - 8\ 000 - 2\ 000)} \times 100\%$

$= \dfrac{\$110\ 000}{\$350\ 000} \times 100\%$

$= \underline{\underline{31.43\%}}$

ANSWER 3 (CONTINUED)

Return on capital employed 2005 $= \dfrac{\$102\,000}{\$(460\,000 + 46\,000 + 10\,000 + 4\,000 - 12\,000)} \times 100\%$

$= \dfrac{\$102\,000}{\$508\,000} \times 100\%$

$= \underline{\underline{20.08\%}}$

(c) Limitations of ratio analysis are (any two):
- Lack of benchmarking
- Use of different accounting policies may distort the result
- Window dressing may be made by preparers of financial statements
- Distortion of results be caused by inflation over the years

ANSWER 4

(a) **Calculation of goodwill arising on acquisition of Fleet on 1 April 2002**

	$000
Goodwill at 31 March 2005	40
Add Goodwill amortised (40 × 5/2)	60
Goodwill at 1 April 2002	100

(b) **Calculation of the consolidated accumulated profits at 31 March 2005 attributable to Fleet**

	$000
Consolidated accumulated profits	240
Less Accumulated profits of Cray	120
Consolidated accumulated profits of Fleet	120

(c) **Calculation of Accumulated profits in Fleet attributable to Minority Interest**

	$000
Minority interest per balance sheet	126
Less Ordinary share capital	40
	86

(d) **Journal**

	$	$
Cost of investment	180 000	
Ordinary share capital		120 000
Share premium		60 000

(e) **Calculation of Newport's net assets at 1 April 2005**

	$
Cost of investment	180 000
Less Goodwill	90 000
Newport's capital and reserves	90 000

Cray's holding on Newport = 90%

Newport's net assets = $90 000 ÷ 90%
= $100 000

ANSWER 4 (CONTINUED)

(f) **Calculation of goodwill in the Consolidated Balance Sheet**

	$000
Goodwill - Newport (90 000 × 2/3)	60
- Fleet (100 000 × 1/5)	20
	80

(g) (1) It is correct to state that paying cash would have meant no dilution in control. But no matter paying cash or issuing shares, goodwill would have arisen.

(2) The statement is correct because goodwill is the difference between the cost of the holding company's investment in the subsidiary and its share of the fair value of the net assets of the subsidiary at the date of acquisition, not the future prospects of the subsidiary.

ANSWER 5

(a) **Depreciation charged for the year**

	2004	2005	2006
	$	$	$
Land and buildings			
(200 000 - 80 000) / 50	2 400	2 400	
(300 000 - 108 000) / 48			4 000
Plant and machinery			
140 000 × 0.3	42 000		
140 000 × (0.7) (0.3) + 12 000 × 0.3		33 000	
140 000 × $(0.7)^2$ (0.3) + 12 000 × (0.7) (0.3)			23 100
Fixtures and fittings			
75 000 × 5/15	25 000		
(75 000 - 30 000) × 4/15		12 000	
(75 000 - 30 000) × 3/15			9 000
	69 400	47 400	36 100

(b)

DORKING
Journal

Date		Dr	Cr
2004		$	$
1 Oct	Plant and Machinery	12 000	
	Bank		12 000
	Being purchase of plant and machinery for $12 000.		
1 Oct	Bank	12 300	
	Accumulated depreciation (30 000 × 5/15)	10 000	
	Income Statement	7 700	
	Fixtures and fittings		30 000
	Being sale of fixtures and fittings at a loss.		
2005			
1 Oct	Land and buildings	100 000	
	Accumulated depreciation	4 800	
	Revaluation reserve		104 800
	Being land and buildings being revalued at $300 000.		

ANSWER 5 (CONTINUED)

(c) **Extracts of Cash Flow Statement for the year ended 30 September 2005**

	$	$
Cash flows from investing activities		
Purchases of plant and machinery	(12 000)	
Proceeds of sale of fixtures and fittings	12 300	
Net cash flows from investing activities		300
Cash flows from operating activities		
Depreciation	47 400	
Loss on disposal of fixtures and fittings	7 700	55 100

Cash Flow Statement for the year ended 30 September 2005

	$	$
Cash flows from operating activities		
Depreciation		47 400
Loss on disposal of fixtures and fittings		7 700
Cash flows from investing activities		
Purchases of non-current assets		(12 000)
Sales of non-current assets		12 300

ANSWER 6

(a) (i) **Calculation of the change in bank balance**

	$
Cash received from issue of ordinary shares (40 000 × £1.3)	52 000
Less: Cash paid for redemption (150 000 × £1.8)	(270 000)
Decrease in bank balance	(218 000)

(ii) **Calculation of revised balance on share premium**

	$
Balance of share premium	180 000
Add: Premium on new issue (40 000 × $0.8)	32 000
	212 000
Less: Premium used in redemption of shares	(75 000)
Revised balance of share premium	137 000

(iii) **Calculation of the required transfer to capital redemption reserve fund**

	$
Nominal value of shares redeemed	75 000
Less: Proceeds of new issue (40 000 × $1.3)	(52 000)
Transfer to capital redemption reserve	23 000

(iv) **Calculation of revised number of ordinary shares in issued**

	$
Ordinary shares in issued ($450 000 / $0.5)	900 000
Add: New issue of shares	40 000
	940 000
Less: Redemption of shares	(150 000)
Revised number of shares	790 000

(b) **Reasons for buying back shares**
- to utilise surplus cash available to the company
- to buy out some troublesome shareholders
- to provide some cash for shareholders.

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LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 3 EXAMINATION 2007
ACCOUNTING (IAS)
(LEVEL 3)

ANSWER 1

(a) **PADDINGTON**

Income Statement for the year ended 31 December 2006

		$	$
Revenue $(247,000 - 3,000)			244,000
Less	Cost of goods sold		
	Opening inventory	5,000	
	Add Purchases	120,000	
		125,000	
	Less Closing inventory $(16,000 - 750 + (300 - 50))	15,500	109,500
Gross profit			134,500
Add	Bad debts recovered		600
	Decrease in provision for bad debts ($35,000 x 10%) - $4,400		900
			136,000
Less	Expenses		
	Wages ($52,010 - $1,000 x 12)	40,010	
	Rent	32,000	
	Sundry expenses	15,130	
	Bad debts	1,000	
	Depreciation ($(140,000 - 5,000) x 15%)	20,250	
	Loss on disposal $(5,000 - 3,000)	2,000	
	Accountant's fee	1,000	111,390
Net profit			24,610

ANSWER 1 (CONTINUED)

(a) (Continued) **PADDINGTON**

Balance Sheet as at 31 December 2006

	$	$
Non-Current Assets		
Non-current assets at cost		135,000
Less Accumulated depreciation		20,250
		114,750
Current Assets		
Inventory	15,500	
Receivables $(42,000 - 6,000 - 1,000 - 3,500)	31,500	
Bank $(18,560 + 600)	19,160	
Cash	2,000	68,160
		182,910
Capital		192,500
Add: Net profit		24,610
		217,110
Less: Drawings ($28,000 + $1,000 x 12)		40,000
		177,110
Current Liabilities		
Payables ($10,800 - $3,000 x 2)	4,800	
Accruals	1,000	5,800
		182,910

(b) (i) Transactions are completely omitted from the books (errors of omission).

(ii) Double entries are made for transactions, but an incorrect account classification is used (errors of principle).

(iii) The correct accounts with correct side are entered, but not with the correct amount (errors of original entry).

(iv) The entries of transaction entered twice (errors of duplication).

ANSWER 2

(a) UPMINSTER

Freehold Property

2006		$	2006		$
Jan 1	Balance b/f	200,000	Jul 1	Accumulated depreciation	122,000
Jul 1	Revaluation reserve	182,000	Dec 31	Balance c/f	260,000
		382,000			382,000

Accumulated Depreciation on Freehold Property

2006		$	2006		$
Jul 1	Freehold property	122,000	Jan 1	Balance b/f	120,000
Dec 31	Balance c/f	6,667		$(200,000 - 80,000)	
			Jun 30	Income statement	2,000
				Jan - Jun	
				($200,000 x 2% x 6/12)	
			Dec 31	Income statement	6,667
				Jul - Dec	
				($260,000 ÷ 19.5 years x 6/12)	
		128,667			128,667

Revaluation Reserve

2006		$	2006		$
Dec 31	Retained profits	4,667	Jul 1	Freehold property	182,000
	($182,000 ÷ 19.5 years x 6/12)				
	Balance c/f	177,333			
		182,000			182,000

Motor Vehicles

2006		$	2006		$
Jan 1	Balance b/f	80,000	Jul 1	Motor vehicle disposal	80,000
Jul 1	Motor vehicle disposal - trade in	46,000	Dec 31	Balance c/f	210,000
	Bank $(210,000 - 46,000)	164,000			
		290,000			290,000

ANSWER 2 (CONTINUED)

(a) (Continued)

Accumulated Depreciation on Motor Vehicles

2006		$	2006		$
Jul 1	Motor vehicle disposal	28,000	Jan 1	Balance b/f	28,000
Dec 31	Balance c/f	52,500		$(80,000 - 52,000)	
			Dec 31	Income statement	52,500
				($210,000 x 25%)	
		80,500			80,500

Motor Vehicles Disposal

2006		$	2006		$
Jul 1	Motor vehicles	80,000	Jul 1	Accumulated depreciation on motor vehicles	28,000
				Motor vehicles - trade in	46,000
				Income statement - loss on disposal	6,000
		80,000			80,000

(b) **UPMINSTER**

Cash Flow Statement for the year ended 31 December 2006 (Extract)

	$
Cash flows from operating activities	
Depreciation $(2,000 + 6,667 + 52,500)	61,167
Loss on disposal of fixed assets	6,000
Cash flows from investing activities	
Proceeds from disposal of fixed assets	46,000
Purchase of fixed assets	(210,000)

ANSWER 3

CIRCLE

(a) **Purchase Ledger Control**

2006		$	2006		$
Dec 31	Purchase returns	928	Dec 31	Balance b/f	14,516
	Bank	7,246		Purchases	8,199
	Discounts received	220			
	Balance c/f	14,321			
		22,715			22,715

(b) **Purchase Ledger**

Baywater

2006		$	2006		$
Dec 31	Balance c/f	2,660	Dec 31	Balance b/f	2,174
				Purchases	486
		2,660			2,660

Victoria

2006		$	2006		$
Dec 31	Bank	2,100	Dec 31	Balance b/f	1,762
	Discounts received	120		Purchases	1,201
	Balance c/f	743			
		2,963			2,963

Westminster

2006		$	2006		$
Dec 31	Bank	711	Dec 31	Balance b/f	2,142
	Discounts received	100			
	Balance c/f	1,331			
		2,142			2,142

Embankment

2006		$	2006		$
Dec 31	Bank	1,428	Dec 31	Balance b/f	3,426
	Balance c/f	1,998			
		3,426			3,426

ANSWER 3 (CONTINUED)

(b) (Continued)

Temple

2006		$	2006		$
Dec 31	Purchases returns	307	Dec 31	Balance b/f	3,716
	Bank	1,511		Purchases	4,163
	Balance c/f	6,061			
		7,879			7,879

Blackfriars

2006		$	2006		$
Dec 31	Bank	1,296	Dec 31	Balance b/f	1,296

Monument

2006		$	2006		$
Dec 31	Balance c/f	1,437	Dec 31	Purchases	1,437

Aldgate

2006		$	2006		$
Dec 31	Purchase returns	621	Dec 31	Purchases	912
	Bank	200			
	Balance c/f	91			
		912			912

(c) **Reconciliation**

Purchase ledger balances:	$
Bayswater	2,660
Victoria	743
Westminster	1,331
Embankment	1,998
Temple	6,061
Blackfriars	-
Monument	1,437
Aldgate	91
Purchase ledger control balance	14,321

(d) (i) Incorrect prime entry records.
(ii) Adjustments not posted to purchase ledger control account.
(iii) Entries were missed, or incorrectly made on individual suppliers accounts.
(iv) Individual supplier accounts might have been incorrectly balanced at the end of the accounting period.

ANSWER 4

(a) **SOUTHALL AND HAYES**

Memorandum Joint Venture
For Three Months Ended 31 August 2006

	$	$		$
Purchases		51,050	Revenue	58,620
$(6,250 + 31,200 + 14,000 - 400)			$(12,600 + 21,200 + 25,100 - 280)	
Storage costs		220	Inventory taken over by Southall	1,220
Transport costs $(300 + 200)		500		
Allowance for use of car		600		
Share of profit:				
Southall (2/3)	4,980			
Hayes (1/3)	2,490	7,470		
		59,840		59,840

(b) (i) Not part of the double book-keeping system

(ii) Not part of the double book-keeping system

(c) Each venturer needs to maintain Joint Venture with other venturer account to record the financial transactions with other venturer.

This account records only that part of the venturer's transactions (expenditure incurred, receipts / sales for the venture, profit on joint venture). The balance of the account represents the amount due to (a credit balance) or due from (a debit balance) the other party and is discharged by the payment or receipt of cash respectively.

ANSWER 5

(a) The authorised share capital is the maximum amount of share capital which the company is allowed to issue. The issued share capital is the total amount of share capital already issued to shareholders. It is not possible for the issued share capital to be higher than the authorised share capital.

(b) (i) Total amount payable on allotment by two applications in category C

	$
(2 x 1,000 shares x $0.15)	300

(ii) Total amount refundable on allotment to three applications in category A

	$
Received on application (3 x 10,000 shares x $0.55)	16,500
Amount due on application and allotment (3 x 7,500 shares x $(0.55 + 0.15)	15,750
	750

(c) Total amount credited to share premium account

	$
Received on application and allotment (1,000 shares x $(0.55 + 0.15))	700
Received on reissue (1,000 shares x $1.8)	1,800
	2,500
Amount payable (1,000 shares x $1.2)	1,200
	1,300

(d) The issue price should be higher than $1.20 mainly due to over subscription. Moreover, the reissued price can be set at $1.80 per share.

(e)

	$	$
Ordinary share capital	80,000	
Ordinary share redemption		80,000
Ordinary share redemption	80,000	
Bank		80,000
Retained earnings (Income statement appropriation)	80,000	
Capital redemption reserve		80,000

ANSWER 6

(a) AMERSHAM GROUP

Consolidated Balance Sheeet at 31 December 2006

	$	$
Non-Current Assets		
Tangible $(200,000 + 160,000)		360,000
Intangible - goodwill (W1)		91,700
		451,700
Current Assets		
Inventory $(40,000 + 50,000 - 9,000)	81,000	
Receivables $(33,000 + 13,000)	46,000	
Bank $(4,000 + 2,000)	6,000	133,000
		584,700
Capital and Reserves		
Ordinary share capital		400,000
Accumulated profit (W2)		89,900
		489,900
Minority interest ($216,000 x 30%)		64,800
		554,700
Current Liabilities		
Creditors $(21,000 + 9,000)		30,000
		584,700

Workings:

	$	$
(a) W1: **Goodwill**		
Cost of investment		320,000
Less: Net assets at 1 Jan 2004		
Share capital	240,000	
Pre-acquisition profit	30,000	
	270,000	
Amersham's proportion of net assets $270,000 x 70%		189,000
Goodwill		131,000
Goodwill amortization $131,000 x 3/10 yrs		39,300
		91,700
(2) W2: **Accumulated profit**		
Amersham		176,000
Chesham $(30,000 + 24,000) x 70%		(37,800)
		138,200
Less: Goodwill amortisation	39,300	
Unrealised profit on inventory ($10,000 x 9/10)	9,000	48,300
		89,900

ANSWER 6 (CONTINUED)

(b) (i) This indicates that Chesham has not adopted good management policy on cost controls, particularly of the transfer pricing. Thus, Chesham suffered losses since acquisition.

(ii) By transferring goods from Amersham to Chesham at 10 times their cost, it though not fraudulent, affects the minority shareholders' interests.

(iii) No dividends can be paid by Chesham as Chesham has no available distributable profits. However, Amersham may declare dividends for shareholders.

(iv) A company can still declare dividend if there is available distributable profits. Cash availability is not a main concern.

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LONDON CHAMBER OF COMMERCE AND INDUSTRY
SERIES 4 EXAMINATION 2007
ACCOUNTING (IAS)
(LEVEL 3)

ANSWER 1

(a) PANG, TILE AND GORE

Journal

		Dr	Cr
		$	$
(i)	Cost of good sold	4,500	
	Inventory		4,500
(ii)	Sales	5,000	
	Receivables		5,000
	Capital - Pang	5,000	
	Vehicles		4,800
	Profit on disposal of vehicles		200
(iii)	Gas	400	
	Accruals		400
	Prepayments	720	
	Rent		720
(iv)	Receivables	350	
	Bad debts		350

ANSWER 1 (CONTINUED)

(b) **PANG, TILE AND GORE**

Statement showing the draft net profit for the year ended 31 December 2006 before the corrections

			$	$
Net profit after correction				84,500
Add	(i)	Inventory overstated	4,500	
	(ii)	Sales overstated	5,000	
	(iii)	Expenses understated	400	9,900
				94,400
Less	(ii)	Profit on disposal of vehicles	200	
	(iii)	Expenses overstated	720	
	(iv)	Bad debt recovered	350	1,270
Net profit before correction				93,130

(c) **Appropriation Account for the year ended 31 December 2006**

		$	$
Net profit			84,500
Less	Partners' salaries		
	Pang ($3,000 x 6/12 months)	1,500	
	Tile	5,000	6,500
			78,000
Share of profit:	Pang (3/6)	39,000	
	Tile (2/6)	26,000	
	Gore (1/6)	13,000	78,000

(d) If Pang has more responsibilities and workloads than Tile and Gore, salary should be given to him to increase his motivation.
On the other hand, the profit available will be decreased, as partners' salaries will be deducted from the net profit before sharing.

ANSWER 2

(a) **DIDCOTT**

(i) **Calculation of the corrected Consolidated Accumulated Profit**

		$000	$000
Balance before adjustments			1,820
Less	Goodwill amortisation ($1,000 x 1/10)	100	
	Depreciation: Didcott	30	
	Parkway ($20 x 80%)	16	
	Unrealised profit in inventory ($75 x 2/3 x 1/5 x 80%)	8	
	Provision for bad debts ($200 x 80% x 2.5%)	4	
	Accruals	3	161
Balance after adjustments			1,659

(ii) **Calculation of the corrected Minority Interest**

		$000	$000
Balance before adjustments			324
Less	Depreciation ($20 x 20%)	4	
	Provision for bad debts ($20 x 20% x 2.5%)	1	
	Unrealised profit in inventory ($75 x 2/3 x 1/5 x 20%)	2	7
Balance after adjustments			317

(b) **DIDCOTT**

Consolidated Balance Sheet at 31 December 2006

		$000	$000
Non-current assets			
Tangible -	Land and buildings		2,000
	Plant and machinery $(400 - 30 - 20)		350
			2,350
Intangible -	Goodwill $(700 - 100)		600
			2,950
Current assets			
Inventory $(512 - 8 - 2)		502	
Receivables $(278 - 4 - 1 - 8)		265	
Bank		14	781
			3,731
Capital and reserves			
Ordinary shares $1 each			1,500
Accumulated profit			1,695
			3,159
Minority interest			317
			3,476
Current liabilities			
Payables and accruals $(260 - 8 + 3)			255
			3,731

ANSWER 3

TWYFORD

(a)

(i) Inventory turnover period $= \dfrac{\text{Closing inventory}}{\text{Cost of goods sold}} \times 365$ days

2005: $\dfrac{\$12{,}100}{\$104{,}000} \times 275$ days $=$ $\underline{\underline{32 \text{ days}}}$

2006: $\dfrac{\$12{,}300}{\$110{,}000} \times 365$ days $=$ $\underline{\underline{41 \text{ days}}}$

(ii) Receivables' collection period $= \dfrac{\text{Closing trade receivables}}{\text{Sales}} \times 365$ days

2005: $\dfrac{\$15{,}200}{\$126{,}000} \times 275$ days $=$ $\underline{\underline{33 \text{ days}}}$

2006: $\dfrac{\$19{,}600}{\$137{,}000} \times 365$ days $=$ $\underline{\underline{52 \text{ days}}}$

(iii) Payables' settlement period $= \dfrac{\text{Closing trade payables}}{\text{Purchases}} \times 365$ days

2005: $\dfrac{\$13{,}900}{\$104{,}000 + \$12{,}100} \times 275$ days $=$ $\underline{\underline{33 \text{ days}}}$

2006: $\dfrac{\$14{,}600}{\$110{,}000 + \$12{,}300 - \$12{,}000} \times 365$ days $=$ $\underline{\underline{48 \text{ days}}}$

(b) Advantages of minimising the time taken to collect receivables:
- To minimise the risk of bad debts.
- To maintain a good financial position.

Disadvantages of minimising the time taken to collect receivables:
- To damage relationship with customers.
- To increase cash discounts (discounts allowed).

(c) Advantages of maximising the time taken to pay payables:
- To maintain a good financial position.
- To reduce interest paid.

Disadvantages of maximising the time taken to pay payables:
- To damage relationship with suppliers.
- To increase cash discounts (discounts received).

ANSWER 4

(a) **Calculation of Inventory amount at 30 June 2007**

		Steam	Diesel	Electric
		$ / Unit	$ / Unit	$ / Unit
Cost				
Purchase price before trade discount		5.20	5.90	7.20
Less:	Trade discount	0.78	0.89	1.04
		4.42	5.01	6.16
Add:	Import taxes	0.52	0.59	0.72
	Painting	1.40	1.20	1.10
	Boxes	0.60	0.70	0.40
	Carriage inwards	0.30	0.20	0.22
		7.24	7.70	8.60
Net realisable value				
Selling price		6.10	11.30	10.90
Less:	Selling costs	0.40	0.35	0.60
	Carriage outwards	0.50	0.55	0.60
		5.20	10.40	9.70
Inventory value - Lower of cost or net realizable value		5.20	7.70	8.60
Units		340	410	380
		1,768	3,157	3,268
Total inventory value: $(1,768 + 3,157 + 3,268)				8,193

(b) **Calculation of depreciation**

(i) **Straight line method**

$(10,000 - 2,000) / 5 = $1,600 per year

ANSWER 4 (CONTINUED)

(b) (ii) **Reducing balance method**

		$
2007	Cost	10,000
	Depreciation ($10,000 x 50%)	5,000
	Net book value	5,000
2008	Depreciation ($5,000 x 50%)	2,500
	Net book value	2,500
2009	Depreciation ($2,500 x 50%)	1,250
	Net book value	1,250
2010	Depreciation ($1,250 x 50%)	625
	Net book value	625
2011	Depreciation ($625 x 50%)	313
	Net book value	312

(iii) **Sum of the years' digits method**

		$
2007	$(10,000 - 2,000) x 5/15	2,667
2008	$8,000 x 4/15	2,133
2009	$8,000 x 3/15	1,600
2010	$8,000 x 2/15	1,067
2011	$8,000 x 1/15	533

(c) **Reasons for inspection and record of fixed assets at year end**

- To verify the existence of fixed assets in the locations recorded in the books.
- To verify that correct depreciation charge being made.
- To reduce the risk of lost records.

ANSWER 5

(a) CHOLSEY

Cash Flow Statement for the year ended 31 December 2006

	$	$
Cash flows from operating activities		
Net operating profit $(4,800 + 5,000 x 10%)		5,300
Adjustments for:		
Depreciation $(380 + 2,300 + 3,230)		5,910
Profit on disposal of fixed assets $(1,200 -780)		(420)
Operating profit before working capital changes		10,790
Increase in inventories $(17,986 - 12,327)	(5,659)	
Increase in receivables $(15,812 - 12,417)	(3,395)	
Increase in payables $(35,200 - 1,200 - 31,200)	2,800	(6,254)
Cash generated from operations		4,536
Interest paid		(500)
Net cash from operating activities		4,036
Cash flows from investing activities		
Purchase of land and buildings $(42,300 + 380 - 28,400 - 12,400)	(1,880)	
Purchase of plant and machinery $(31,200 + 2,300 + 780 - 18,927)	(15,353)	
Purchase of fixtures and fittings $(12,101 + 3,230 - 1,200 - 13,736)	(395)	
Proceeds from disposal of plant and machinery	1,200	
Net cash used in investing activities		(16,428)
Cash flows from financing activities		
Issues of 10% debentures	5,000	
Dividends paid $(16,783 + 4,800 - 17,636)	(3,947)	
Net cash used in financing activities		1,053
Net decrease in cash and cash equivalents		(11,339)
Cash and cash equivalents at 1 January 2006		4,176
Cash and cash equivalents at 31 December 2006		(7,163)

ANSWER 6

(a) **BANBURY**

(i) **Branch Inventory**

	$	$		$	$
Goods sent to branch ($1,200 x 90% x $120)	129,600		Sales (1,000 x $120 x 1.25)		150,000
Branch inventory adjustment ($1,200 x 90% x $120 x 1/4)	32,400	162,000	Goods sent to branch (60 x $120)	7,200	
Goods sent to branch ($400 x 80% x $100)	32,000		Branch inventory adjustment (60 x $120 x 1/4)	1,800	9,000
Branch inventory adjustment ($400 x 80% x $100 x 1/4)	8,000	40,000	Sales (240 x $100 x 1.25)		30,000
			Goods sent to branch (40 x $100)	4,000	
			Branch inventory adjustment (40 x $100 x 1/4)	1,000	5,000
			Reduction is selling price (Balancing figure)		500
			Balance c/f		7,500
		202,000			202,000

(ii) **Branch Inventory Adjustment**

	$		$
Branch inventory	1,800	Branch inventory	32,400
Branch inventory	1,000	Branch inventory	8,000
Branch inventory	500		
Income statement (Balancing figure)	35,600		
Balance c/f	1,500		
	40,400		40,400

ANSWER 6 (CONTINUED)

(iii) **Branch Income Statement**

	$		$
Rent ($4,200 x 12/15)	3,360	Branch inventory adjustment	35,600
Sundry expenses ($20 x 52)	1,040		
Staff salaries ($90 x 52)	4,680		
Branch manager's salary ($1,750 x 12)	21,000		
Pension fund $(21,000 + 4,680) x 10%	2,568		
Commission ($180,000 x 1%)	1,800		
Net profit	1,152		
	35,600		35,600

(b) i) Is 1% commission sufficient to motivate staff?
ii) Why branch manager is not entitled to the award?
iii) How to ensure there is still profit after commission?
iv) Why not give a larger % based on net profit?

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