Certificate in Accounting (IAS) Level 3
Series 2 2003

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Magnum had the following figures on its Balance Sheet at 31 December 2002:

	Cost $000	Depreciation $000	Net $000
Non-current Assets			
Land and Buildings	250	30	220
Machinery	1,650	540	1,110
Vehicles	170	95	75
	2,070	665	1,405
Investment in Parkson			620
			2,025
Current Assets			
Inventory		165	
Trade receivables		252	
Bank		45	462
			2,487
Financed by			
$1 Ordinary Shares			1,200
Retained profits			405
			1,605
Non-current liabilities			
12% Debenture stock			600
Current liabilities			
Trade payables			282
			2,487

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SECTION A CONTINUED

QUESTION 1 CONTINUED

At the same date Parkson had the following Balance Sheet:

	Cost	Depreciation	Net
Non-current Assets	**$000**	**$000**	**$000**
Land and Buildings	150	50	100
Machinery	550	180	370
Vehicles	20	5	15
	720	235	485
Current Assets			
Inventory		94	
Trade receivables		82	176
			661
Financed by			
$1 Ordinary Shares			600
Retained profits			12
			612
Current liabilities			
Trade payables		17	
Bank overdraft		32	49
			661

Included in the above figures is a sale made by Parkson to Magnum amounting to $32,000. Magnum has sold these goods to a third party but has not yet paid Parkson for them.

At 31 December 2001 the balance of Parkson's Retained Profits was $48,000. The loss for 2002 can be taken as accruing evenly over the year.

Magnum acquired 55% of the shares in Parkson on 1 April 2002 at a cost of $350,000. They bought a further 25% of the shares on 1 July 2002 at a cost of $140,000 and the final 20% on 1 October 2002 at a cost of $130,000.

REQUIRED

Prepare the Consolidated Balance Sheet of Magnum and its subsidiary at 31 December 2002.

(20 marks)

SECTION A CONTINUED

QUESTION 2

The following figures were extracted from the books of Giorgia:

	$000	$000	$000	$000	$000
Year ended 31 March	**1998**	**1999**	**2000**	**2001**	**2002**
Sales	186	212	240	265	280
Gross Profit	46	53	60	65	70
Depreciation for year	10	12	12	14	15
Net Profit	15	18	20	17	19
Balance Sheet at 31 March					
Machinery at book value	90	108	108	126	135
Inventory	12	15	32	28	35
Trade receivables	15	20	25	30	45
Bank	5	8	(9)*	(12)*	(20)*
Trade payables	10	12	15	24	30
$1 shares	100	120	120	120	120
Retained profit	12	19	21	28	45

* Bank overdraft

REQUIRED

(a) **A calculation to one decimal place of the following for each of the four years 1999-2002:**

(i) **dividend paid** (3 marks)

(ii) **return on capital employed (based on opening capital)** (3 marks)

(iii) **current ratio** (3 marks)

(iv) **inventory turnover ratio (based on average inventory and expressed in days).** (3 marks)

(b) **A report on the company's progress in terms of liquidity and profitability.**

(8 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Joe, Bill and Mary have been in partnership for four years. For the first three years they operated without a partnership agreement.

At the start of the partnership Joe provided $20,000, Bill $25,000 and Mary $30,000 as their opening capital.

In the first year they made a profit of only $4,800. In the second year the profit rose to $25,500. At the end of that year Joe transferred $2,500 from his current account to his capital account.

The third year showed a profit of $49,500 and at the end of that year Joe transferred a further $4,000 to his capital account and Bill transferred $3,000 to his capital account. Both these transfers were from current account.

In the fourth year the partners have made $52,500 profit and prior to allocating that profit, their current account balances were Joe Dr $4,700, Bill Dr $3,700 and Mary Dr $5,100.

Joe, Bill and Mary decided to bring in a partnership agreement from the beginning of the fourth year under which there would be each year: 8% interest on capital, a salary to Joe of $2,500 and remaining profits divided in the ratio 4: 7: 9 respectively.

REQUIRED

(a) **Calculate the total drawings for each partner over the four year period.**

(7 marks)

(b) **Calculate the balance on their current accounts after the appropriation of year 4.**

(13 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 4

The Shire Sports Club currently has 80 members and the subscription for the year ending 31 March 2002 was $105.

The Shire Sports Club Balance Sheet at 1 April 2001 was as follows:

	$	$	$
Club House owned freehold at cost			35,000
Equipment at cost	17,450		
Less depreciation	8,400		9,050
Inventory at bar	3,750		
Subscriptions in arrears	300		
Balance at bank	250	4,300	
Less			
Trade payable for bar supplies	1,150		
Subscriptions in advance	210	1,360	2,940
Accumulated Fund			46,990

For the year ended 31 March 2002 the bank account of the Shires Sports Club was as follows:

	$	$
Opening balance		250
2000-2001 subscriptions	300	
2001-2002 subscriptions	7,980	
Cash from bar sales	8,240	
Fund raising receipts	740	17,260
		17,510
Less		
Paid for bar supplies	6,140	
Costs of fund-raising	175	
Postage and administration expenses	845	
New equipment	1,740	
Club house expenses – repairs and rates	1,240	
Bar stewards wages	1,400	
Match costs	1,500	
Travel costs	830	
Secretary's wages	2,000	15,870
Closing balance		1,640

At 31 March 2002 there were no subscriptions paid in advance for the year 2002-2003. The bar supplier was owed $1,995 and the inventory in hand in the bar was $4,100. Equipment is depreciated at 10% per annum, on cost based on the cost of equipment held at the end of the year.

REQUIRED

Prepare for the Shire Sports Club:

(a) **a Bar Trading Account, including the bar stewards wages, for the year ended 31 March 2002**

(4 marks)

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

(7 marks)

(c) **a Balance Sheet at 31 March 2002.**

(9 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

Bergons has the following Authorised Capital structure:

Authorised
2,000,000 $0.50 Ordinary shares
100,000 $1 8% Preference shares.

At 1 April 2002 the capital and reserves section of the Balance Sheet of Bergons was as follows:

Issued	**$000**
1,000,000 $0.50 Ordinary shares	500
80,000 $1 8% Preference shares	80
Revaluation reserve	75
Retained earnings	105
	760

It also had $150,000 10% Debenture stock and $30,000 cash at bank.

On 1 April 2002 the Directors decided to:

(1) Make a bonus issue of 1 for every 5 Ordinary shares
(2) Issue the remaining Ordinary shares at a premium of $0.25 per share
(3) Issue the remaining Preference shares at par
(4) Redeem the Debenture stock at a premium of 6%.

Note:
Bergons wishes to minimise its use of retained earnings in carrying out the above transactions.

REQUIRED

(a) **Journal entries, without narratives, for all the above transactions.**

(13 marks)

(b) **A calculation of the balance at bank after all of the above transactions had taken place.**

(2 marks)

(c) **The capital and reserves section of Bergons's Balance Sheet after the above transactions have taken place.**

(5 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

On 1 June 2002, Jones who lived in the UK entered a joint venture with Sing who lived in Hong Kong. Under the terms of their agreement Sing would purchase clothing in Hong Kong and ship it to the UK where Jones would sell it. The trade would continue for 6 months and at the end of that period Jones would purchase any unsold inventory at cost plus the proportion of shipping insurance and import costs necessary to bring it to the UK. Profits would then be divided equally between the two parties.

Sing kept his transactions in $ and Jones in £.

Sing's books showed the following transactions:

		£	$
1 Jun	Purchases		25,000
5 Jun	Storage – rent of warehouse for 6 months		3,250
9 Jun	Shipping and Insurance costs		5,025
5 Jul	Purchases		37,400
8 Jul	Shipping and Insurance costs		6,230
1 Aug	Received from Jones on account	14,000	
10 Sep	Purchases		42,600
15 Sep	Shipping and Insurance costs		7,025
1 Oct	Received from Jones on account	15,000	
18 Oct	Purchases		38,425
22 Oct	Shipping and Insurance costs		6,350
5 Nov	Purchases		52,400
8 Nov	Shipping and Insurance costs		8,150

For the same period Jones' books showed:

		£
1 Jul	Import charges	850
3 Jul	Storage – rent of warehouse for 6 months	2,400
8 Jul	Sales	6,500
31 Jul	Sent to Sing	14,000
1 Aug	Import costs	940
5 Aug	Sales	9,300
25 Sep	Import costs	1,050
30 Sep	Sent to Sing	15,000
3 Oct	Sales	13,450
5 Nov	Import costs	850
12 Nov	Sales	11,240
22 Nov	Import costs	622
28 Nov	Sales	9,250

At 30 November the inventory still on hand with Jones represented 30% of the last purchase made by Sing.

Throughout the period the exchange rate was **£1 = $6.5 dollars**, and the final settlement between the Joint Ventures was not made until 20 December 2002.

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QUESTION 6 CONTINUED

REQUIRED

Prepare:

(a) **the Memorandum Joint Venture Account for Jones and Sing for the 6 months ended 30 November 2002. Make all calculations to the nearest £.**

(13 marks)

(b) **the Joint Venture with Sing Account in the books of Jones for the 6 months ended 30 November 2002.**

(7 marks)

(Total 20 marks)

Note: The joint venture maintains its records in £.

EXAMINATIONS BOARD

SERIES 3 EXAMINATION 2003

CERTIFICATE IN

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

THURSDAY 5 JUNE

Instructions to Candidates

(a) *The time allowed for this examination is **3** hours **30** minutes.*

(b) *Answer **5** questions – the **2 compulsory** questions (Questions 1 and 2 in Section A) and **3** other questions from Section B.*

(c) *Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.*

(d) *Candidates are advised to study the **"REQUIRED"** section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) *All questions carry equal marks.*

(f) *Begin each question at the top of a page in the answer book.*

(g) *All answers must be clearly and correctly numbered but need not be in numerical order.*

(h) *Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.*

(i) *Show details of workings, where appropriate, in your answer book.*

(j) *Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.*

(UK Accreditation No: 100/1450/0)

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

The Trial Balance at 31 March 2003, of a partnership providing consultancy services, was as follows:

	$	$
Capital Account:		
Barry		40,000
Charles		35,000
Derek		25,000
Current Account:		
Barry		1,900
Charles		1,300
Drawings:		
Alan	4,800	
Barry	11,000	
Charles	9,500	
Derek	4,100	
Freehold premises at cost	85,000	
Accumulated depreciation on freehold premises		8,500
Equipment, fixtures and fittings at cost	80,000	
Accumulated depreciation on equipment Fixtures and fittings		15,900
Vehicles at cost	37,500	
Accumulated depreciation on vehicles		15,500
Sales of services		125,000
Trade receivables/payables	12,400	11,350
General expenses	14,350	
Salaries	22,650	
Light, heat and power	3,500	
Advertising	1,450	
Travel	2,650	
Bank	950	
Loan from Alan		10,400
	289,850	289,850

Notes

(1) Alan retired from the partnership on 30 September 2002. On this date the balances on his capital account ($35,000) and his current account (CR $400) were transferred to a loan account bearing interest at 10% per annum.

(2) On 30 September 2002, Derek (a senior employee) became a partner. Derek invested $25,000 in cash in the business and this was immediately paid to Alan in part settlement of the loan. The remainder of the loan is to be repaid in 2010.

(3) Neither Alan's share of the profit for the six months up to his retirement nor his drawings for that period were included in the loan arrangement. The balance of these together with six months loan interest was to be paid to Alan in April 2003.

(4) Derek received a salary of $10,000 for the six month period ending 30 September 2002 and this figure is included in the figure for salaries in the above Trial Balance.

(5) Premises are depreciated at 2% on cost, equipment, fixtures and fittings at 10% on cost and vehicles at 25% on the reducing balance method.

(6) The partners have agreed that apart from Derek's salary and Alan's loan interest the profits accrued equally throughout the year. They also agreed that there was no goodwill at the time of the change.

(7) The original partnership agreement allowed for 12% per annum interest on capital and then the equal division of the remaining profits or losses. The new partnership agreement requires profits or losses to be divided in the ratio of their capital account balances.

QUESTION 1 CONTINUED

REQUIRED

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

(7 marks)

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

(8 marks)

(c) **Prepare the Appropriation Account for the six month period up to 31 March 2003.**

(3 marks)

(d) **Calculate the amount payable to Alan in April 2003.**

(2 marks)

(Total 20 marks)

QUESTION 2

The following figures were extracted from the most recent year end accounts of three separate companies:

Company	**A** **$000**	**B** **$000**	**C** **$000**
Turnover	600	900	400
Gross Profit	120	135	120
Net profit	30	54	32
Ordinary Share Capital ($1 shares)	200	350	200
Reserves	100	50	150
Non Current Asset (book value)	200	380	250
Inventory	60	90	20
Trade receivables	50	60	nil
Bank	40	(46)*	116
Trade payables	40	70	20
Income tax payable	10	14	16

* Overdraft

REQUIRED

(a) **Calculate for each company to one decimal place, the following ratios:**

(i) **Gross profit as a percentage of cost of sales**
(ii) **Net profit to sales**
(iii) **Return on capital employed**
(iv) **Current**
(v) **Inventory turnover (expressed in days).**

(14 marks)

(b) **State two additional pieces of information you would consider before advising a potential investor on which of the three companies to invest in.**

(6 marks)

(Total 20 marks)

SECTION B

QUESTION 3

George is in business as a sole trader making and selling Products A and B. He has made the following forecasts for the period from 1 July to 31 December:

(1) At 1 July his inventory will consist of 400 units of Product A and 500 units of Product B together with sufficient materials to produce 400 units of Product A and 500 units of Product B. Also on that date his bank balance will be $15,000.
(2) During July he expects to receive $36,500 from sales made before 1 July. There will be no other receipts from previous sales.
(3) He expects sales as follows: Product A 400 units per month from July to September and 600 units per month from October to March, all at $45 each. Product B 500 units per month from July to March, all at $65 each.
(4) Product A is sold on one month's credit. Product B is sold on extended credit: a deposit of $5 when sold and then $20 in each of the three subsequent months.
(5) Both products are produced in the month before they are sold.
(6) Labour is paid in the month of production at the rate of $7 per unit of Product A and $9 per unit of Product B.
(7) Materials are purchased a month before production and are paid for in the month of purchase. Product A requires $27 of material per unit and Product B requires $46 of material for each unit.
(8) Cash overheads amount to $1,500 per month.
(9) George intends buying a new machine in August at a cost of $6,000. The machine will be paid for in September.

REQUIRED

(a) **Prepare for George a cash budget in columnar form showing the balances at the end of each of the months July to December.**

(16 marks)

(b) **Comment on the position revealed by your answer to (a) above.**

(4 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 4

The following is the most recent Balance Sheet of Fredrick:

Non-Current Assets	**Cost**	**Depreciation**	**Net**
	$000	**$000**	**$000**
Buildings	120	24	96
Machinery	480	250	230
Vehicles	60	30	30
	660	304	356
Current Assets			
Inventory		120	
Trade receivables		230	
Bank		105	455
			811
Authorised Share Capital			
2,000,000 Ordinary Shares of 50c			1,000
Issued Share Capital			
1,000,000 Ordinary Shares of 50c			500
Profit & Loss Balance b/f		51	
Add Current Year's retained profit		40	91
			591
Current Liabilities			
Trade payables			220
			811

In the year just ended Sales were $2,760,000, at a mark-up on cost of 60%. The Directors are considering the following plan for next year:

(1) Issue the remaining authorised shares at par.
(2) Buy new machinery at a cost of $400,000 and a new vehicle at a cost of $30,000.
(3) Reduce the mark-up on cost to 55%, and allow trade receivables 2 months to pay, which should increase sales to $4,000,000.
(4) Increase administration costs by $15,000.
(5) Keep inventory and trade payables at the same proportion of sales.
(6) Continue to depreciate machinery at 20% per year on cost and vehicles at 25% per year using the reducing balance method.

REQUIRED

(a) **The total expenses excluding cost of goods sold for the year just ended.**

(3 marks)

(b) **The budgeted gross profit, total expenses excluding cost of goods sold, and net profit for the next year.**

(9 marks)

(c) **The projected change in the bank balance resulting from the share issue, purchase of non-current assets, investment in inventory and trade receivables and the increase in trade payables.**

(8 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

The following are the Balance Sheets of Holdings and its subsidiary Bretax at 31 March 2003:

Holdings

	Cost	Depreciation	Net
Non-Current Assets	**$000**	**$000**	**$000**
Land and Buildings	924	85	839
Machinery	2,145	452	1,693
Vehicles	327	57	270
	3,396	594	2,802
Investment in Bretax			792
Current Assets			
Inventory		124	
Trade receivables		76	200
			3,794
Capital and Reserves			**$000**
$1 Ordinary Shares			3,000
Accumulated profits			564
			3,564
Current Liabilities:			
Trade payables		143	
Bank overdraft		87	230
			3,794

Bretax

	Cost	Depreciation	Net
Non-Current Assets	**$000**	**$000**	**$000**
Land and Buildings	200	30	170
Machinery	1,568	920	648
Vehicles	45	18	27
	1,813	968	845
Current Assets			
Inventory		86	
Trade receivables		57	
Bank		24	167
			1,012
Capital and Reserves			**$000**
Ordinary Shares $1			800
Accumulated profits			175
			975
Current Liabilities			
Trade payables			37
			1,012

Notes

(1) Holdings made the investment in Bretax on 1 April 2001 when Bretax retained earnings was $115,000. 640,000 shares in Bretax were purchased.
(2) Holdings writes off goodwill evenly over five years.
(3) At 31 March 2003 Bretax owed Holdings $15,000 in respect of purchases.
(4) At 31 March 2003 Bretax had goods remaining in inventory of $18,000, invoiced to it by Holdings at cost plus a mark-up of 50%.

REQUIRED

(a) Calculate the following amounts at 31 March 2003:

(i) Goodwill arising on consolidation (4 marks)

(ii) Consolidated accumulated profits (4 marks)

(iii) Minority interest. (1 mark)

(b) Prepare the Consolidated Balance Sheet of Holdings at 31 March 2003. (11 marks)

(Total 20 marks)

QUESTION 6

The following are the Balance Sheets of Pelagir at 31 March 2002 and 31 March 2003:

Balance Sheet at 31 March 2002

	Cost $000	Depreciation $000	Net $000
Non-Current Assets			
Buildings	230	46	184
Machinery	985	255	730
Vehicles	125	50	75
	1,340	351	989
Current Assets			
Inventory		257	
Trade receivables		348	
Bank		105	710
			1,699
Capital			
$1 Ordinary Shares			600
Accumulated profits			480
			1,080
Non-Current Liabilities			
10% Debenture			200
Current Liabilities			
Trade payables			419
			1,699

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Balance Sheet at 31 March 2003

	$000 Cost	$000 Depreciation	$000 Net
Non-Current Assets			
Buildings at valuation	350	–	350
Machinery	1,250	455	795
Vehicles	125	75	50
	1,725	530	1,195
Current Assets			
Inventory		317	
Trade receivables		312	629
			1,824
Capital			
$1 Ordinary shares			900
Accumulated profits			450
			1,350
Current Liabilities			
Trade payables		389	
Bank overdraft		85	474
			1,824

During the year ended 31 March 2003, the following transactions took place:

(1) The buildings were revalued at $350,000.
(2) A bonus issue of one share for every two shares held was made making use of the revaluation surplus and some of the accumulated profits.
(3) The debentures were redeemed at a premium of 5% on 30 September 2002.
(4) A machine with a original cost of $34,000 and a book value of $8,000 was sold for $10,000.

REQUIRED

(a) Calculate for the year ended 31 March 2003:

(i) the operating profit of Pelagir

(ii) the cash generated from operations.

(13 marks)

(b) Prepare the Cash Flow Statement of Pelagir for the year ended 31 March 2003 in accordance with IAS 7.

(7 marks)

(Total 20 marks)

EXAMINATIONS BOARD

SERIES 4 EXAMINATION 2003

CERTIFICATE IN

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

WEDNESDAY 3 DECEMBER

Instructions to Candidates

*(a) The time allowed for this examination is **3** hours **30** minutes.*

*(b) Answer **5** questions – the **2 compulsory** questions (Questions 1 and 2 in Section A) and **3** other questions from Section B.*

(c) Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.

*(d) Candidates are advised to study the **"REQUIRED"** section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) All questions carry equal marks.

(f) Begin each question at the top of a page in the answer book.

(g) All answers must be clearly and correctly numbered but need not be in numerical order.

(h) Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.

(i) Show details of workings, where appropriate, in your answer book.

(j) Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.

(UK Accreditation No: 100/1450/0)

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

George, Mary and Susan were in partnership sharing profits in the ratio 2 : 2 : 1 respectively after paying Susan a salary of $8,000 per year.

In the year ended 31 March 2003 the partnership made a profit of $48,000 assumed to accrue evenly throughout the year.

Mary has taken no part in the partnership from 1 January 2003. Accordingly it was agreed that the profit for the year ended 31 March 2003 should be shared as per the partnership agreement up to 31 December 2002 and from 1 January 2003 to 31 March 2003, divided equally between George and Susan. Susan's salary ceased at 31 December 2002.

On 1 April 2003 George and Susan formed a company, Surge, to take over all the assets and liabilities of the partnership at book value. Mary received a cash payment of $8,500. The remainder of the amount owing to her, including $7,500 for her 40% share of the goodwill, was recorded as a loan to the company at 10% interest per annum. George and Susan took ordinary shares at par value of $0.50 equal to their total capitals at 31 March 2003 after adjusting for goodwill on the basis of the original partnership agreement. Goodwill was to remain unrecorded. A sum of $12,000 was to be raised by issuing ordinary shares at a premium of 10p per share on 1 April 2003.

The following balances were in the partnership books at 31 March 2003, ***before allocating the profit of $48,000***:

		$
Capital:	George	31,500
	Mary	27,000
	Susan	21,750

The partners did not keep separate current accounts.

Drawings:

	George	9,500
	Mary	10,500
	Susan	8,500

Bank balance at 31 March 2003 was a bank overdraft of $1,200.

REQUIRED

(a) **Calculate the number of shares issued to George and Susan and the amount of the loan from Mary.**

(14 marks)

(b) **Show the capital section of Surge's Balance Sheet at 1 April 2003 and the Company's bank balance at that date.**

(6 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Merchandise depreciates machinery at 25% per annum using the reducing balance method. A full year's depreciation is provided in the year of acquisition and no provision is made in the year of sale. The company's year end is 31 March.

(1) On 1 April 2000 the balance on Machinery Account was $450,000 and the balance on Provision for Depreciation of Machinery Account was $145,600.

(2) On 1 July 2000 a machine was purchased at a cost of $40,000.

(3) On 1 February 2001 Merchandise purchased a machine for $55,000 but received a trade-in allowance of $6,500 on an old machine. The old machine had cost $22,000 on 1 August 1997.

(4) On 1 May 2001 Merchandise scrapped a machine purchased on 1 January 1996 for $16,000. The scrap value was equal to the cost of removing the machine.

REQUIRED

In respect of Merchandise show the following accounts (accurate to the nearest $) for each of the 2 years ended 31 March 2001 and 31 March 2002:

(a) Machinery at cost

(5 marks)

(b) Provision for depreciation of machinery

(11 marks)

(c) Machinery disposal.

(4 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Publish is a holding company with two subsidiaries, Books and Mags.

The Balance Sheets of the three companies at 31 March 2003 were as follows:

Publish	**Cost $000**	**Depreciation $000**	**Net $000**
Non-current assets			
Freehold Office	850	85	765
Investments			
360,000 shares in Books	450		
450,000 shares in Mags	380		830
Current assets			
Trade receivables: Books		25	
Others		45	70
			1,665
Capital and reserves			
$1 Ordinary Shares		1,000	
Accumulated profits		605	1,605
Current liabilities:			
Trade payables – Mags		8	
Bank overdraft – Others		20	
Bank overdraft		32	60
			1,665

	Books			**Mags**		
	Cost $000	**Dprn $000**	**Net $000**	**Cost $000**	**Dprn $000**	**Net $000**
Non-current assets						
Land and Buildings	210	45	165	320	60	260
Machinery	950	360	590	870	600	270
	1,160	405	755	1,190	660	530
Current assets						
Inventory		85			90	
Trade receivables		80			60	
Bank		–	165		12	162
			920			692
Capital and reserves						
$1 Ordinary Shares			600			600
Accumulated profits			230			52
			830			652
Current liabilities:						
Trade payables		45			40	
Bank overdraft		45	90		–	40
			920			692

QUESTION 3 CONTINUED

Publish bought the shares in Mags on 1 January 2003 when there were accumulated losses of $120,000.

Publish bought the shares in Books on 1 January 2002 when the accumulated profits were $100,000.

Goodwill arising on consolidation is to be written off evenly over five years. A full year is to be written off in the year to 31 March 2003.

REQUIRED

Prepare the Consolidated Balance Sheet of Publish and its subsidiaries at 31 March 2003.

(20 marks)

QUESTION 4

Margreaves has an authorised share capital of 20,000,000 $0.50 Ordinary Shares and 400,000 $1 9% Preference Shares.

The Company's Balance Sheet at 31 March 2003 included the following amounts:

		$
Issued Share Capital:	12,000,000 $0.50 Ordinary Shares	6,000,000
	300,000 $1 9% Preference Shares	300,000
Share premium		500,000
Accumulated profits		750,000
12% Debentures		800,000

On 1 April 2003 it was decided to carry out the following transactions in the order given below:

(1) Make a one for three Ordinary Share rights issue at a premium of $0.125 payable in full at issue.

(2) Make a bonus (capitalisation) issue of one Ordinary Share for every 10 Ordinary Shares then held.

(3) Issue the remaining Preference Shares at par, 40% payable on application and 60% on allotment.

(4) Redeem the Debentures at a premium of 10%.

The rights issue was fully subscribed and applications were received for 120,000 Preference Shares. A pro rata allocation of Preference Shares was made and surplus application money retained as part payment of the amounts due on allotment. All allotment money was received.

Share issue costs amounted to $85,000.

Margreaves recorded the above transactions making maximum use of the share premium.

REQUIRED

(a) **Prepare Journal entries (without narratives) to record transactions (1) to (4) above.**

(12 marks)

(b) **Show the Capital and Reserves section of Margreaves' Balance Sheet after recording all the above information. You should include the authorised share capital.**

(8 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

XYZ had the following Balance Sheet at 31 March 2003:

Non-current assets	Cost $000	Depreciation $000	Net $000
Land and Buildings	750	15	735
Machinery	700	250	450
	1,450	265	1,185
Current assets			
Inventory		325	
Trade receivables		450	
Bank		120	895
			2,080
Capital and reserves			**$000**
$1 Ordinary Shares			1,500
Accumulated profits			205
			1,705
Trade payables			375
			2,080

XYZ is considering two **alternative** ways of increasing profit:

All sales are made on credit.

(1) Giving trade receivables 2 months to pay instead of the current 1 month. This would increase sales by 10% in volume without any change in the current pricing policy of adding a mark up of 25% on production cost. This would not require any additional machinery and the relationship between inventory and cost of goods sold and between trade payables and purchases would remain the same. Working capital would remain at $520,000 and interest on any bank overdraft required would be at 15% per annum.

(2) Borrowing $500,000 at an annual rate of interest of 10% and investing this in cost saving machinery. This would result in the mark up on production cost rising to 30% without any change in selling price. The volume of sales and purchases would remain as at present. Again working capital would remain at $520,000 and inventory trade receivables and trade payables terms would be unaltered. The machinery would have a life span of 6 years and a scrap value of $2,000.

REQUIRED

(a) Calculate for each alternative the effect on annual gross profit.

(7 marks)

(b) Calculate for each alternative the revised bank balance after implementation.

(7 marks)

(c) Advise XYZ as to which alternative should be adopted giving reasons for your answer.

(6 marks)

NB Calculations should be made to the nearest $1,000.

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

The Ashcote Sports Club had the following Balance Sheet at 31 March 2002:

	$	$	$
Premises at cost			35,000
Equipment at cost		18,500	
Less Depreciation to date		7,200	11,300
			46,300
Bar inventory	3,150		
Subscriptions in arrears	240		
Cash at bank	350	3,740	
Bar payables	2,250		
Subscriptions in advance	170	2,420	1,320
			47,620
Less Bank loan at 15%			15,000
			32,620
Accumulated fund			32,620

Following is the summarised Bank Account for the year ended 31 March 2003:

	$	$
Balance at bank 1 April 2002		350
Subscriptions received	6,870	
Bar takings	15,170	
Fund raising	3,040	
Sale of equipment	400	25,480
		25,830
Paid to bar payables	11,120	
Bar Steward's wages	3,250	
Purchase of equipment	2,400	
Repairs to club premises	1,650	
Secretarial expenses	2,140	
Travel to matches	640	
Costs of fund raising	835	
Loan interest	2,250	
Light, heat and power	870	25,155
Balance at bank 31 March 2003		675

The following additional information is available:

(1) At 31 March 2003 bar inventory had a cost price of $3,240 and the bar payables were $1,980.
(2) The subscriptions for the year ending 31 March 2002 had been $80 per member and the arrears were all included in the subscriptions received.
(3) Subscriptions for the year ending 31 March 2003 were $85 per member. The Club has 80 members.
(4) Equipment is depreciated at 20% per annum using the reducing balance method, based on the equipment held at the year end. The equipment sold during the year ending 31 March 2003 was purchased in April 1998 at a cost of $1,200.

 CONTINUED ON NEXT PAGE

QUESTION 6 CONTINUED

REQUIRED

Prepare for Ashcote Sports Club the following:

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

(5 marks)

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

(9 marks)

(c) Balance Sheet at 31 March 2003.

(6 marks)

Note: Make all calculations to the nearest $.

(Total 20 marks)

LCCI EXAMINATIONS BOARD

SERIES 2 EXAMINATION 2004

CERTIFICATE IN

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

FRIDAY 23 APRIL

Instructions to Candidates

(a) *The time allowed for this examination is **3** hours **30** minutes.*

(b) *Answer **5** questions – the **2 compulsory** questions (Questions 1 and 2 in Section A) and **3** other questions from Section B.*

(c) *Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.*

(d) *Candidates are advised to study the **"REQUIRED"** section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) *All questions carry equal marks.*

(f) *Begin each question at the top of a page in the answer book.*

(g) *All answers must be clearly and correctly numbered but need not be in numerical order.*

(h) *Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.*

(i) *Show details of workings, where appropriate, in your answer book.*

(j) *Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.*

SECTION A
(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Alex, Bert and Charles were in partnership. The partnership Trial Balance at 31 March 2004 was as follows:

		$000	$000
Purchases/Sales		780	1,250
Inventory at 1 April 2003		60	
Trade receivables/Trade payables		105	65
Discounts allowed/Discounts received		25	15
Machinery at cost		745	
Buildings at valuation		355	
Vehicles at cost		75	
General expenses		130	
Sales expenses		105	
Accumulated depreciation on machinery			545
Accumulated depreciation on vehicles			60
Capital Account:	Alex		120
	Bert		80
	Charles		70
Current Account:	Alex		20
	Bert	12	
	Charles	8	
Bank overdraft			175
		2,400	2,400

Notes
(1) The Inventory at 31 March 2004 cost $33,000.
(2) Machinery is depreciated at 20% per year on cost, and vehicles are depreciated at 12% per year on cost.
(3) Profits/losses were divided between Alex, Bert and Charles in the ratio 4 : 3 : 3 respectively.

REQUIRED

(a) Prepare the Income Statement of the Alex, Bert and Charles partnership for the year ended 31 March 2004.

(8 marks)

Alex retired on 1 April 2004 and Bert and Charles decided on that date to form a company, BC, with an authorised and issued share capital of 300,000 $1 Ordinary Shares. The company took over all the partnership assets and liabilities at their book value. Goodwill was valued at twice the net profit for the year to 31 March 2004. It remained unrecorded but the necessary adjustments were made between the partners immediately prior to the formation of BC. The amount owing to Alex on the dissolution of the partnership was paid to him in cash and Bert and Charles received Ordinary Shares at par as their settlement.

The remaining Ordinary Shares were sold to friends at par.

REQUIRED

(b) Calculate the amount of cash received by Alex, and the number of Ordinary Shares issued to Bert and Charles respectively.

(5 marks)

(c) Prepare the Balance Sheet of BC at 1 April 2004 assuming all transactions indicated above have been completed and no trading has taken place.

(7 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Barchester Products had the following summarised Balance Sheets at 31 March 2003 and 31 March 2004 respectively:

	2003		2004	
	$000	$000	$000	$000
Land at cost	650		850	
Buildings (cost $920,000)	828		810	
Machinery (cost $1,450,000)	730		440	
Vehicles (cost $220,000)	–		190	
Inventory	230		295	
Trade receivables	285		340	
Bank/Bank overdraft	35			50
Trade payables		360		370
Ordinary Shares of $1		1,500		1,800
Retained profits		898		705
	2,758	2,758	2,925	2,925

Notes
In the year to 31 March 2004:
(1) No fixed assets were sold and no buildings or machinery were purchased.
(2) Dividends proposed and paid during the year amounted to $150,000.
(3) 90,000 shares were issued at par for cash and there was also a capitalisation issue.

REQUIRED

(a) **Calculate the operating profit for the year ended 31 March 2004 and reconcile it with the net cash inflow from operating activities.**

(11 marks)

(b) **Prepare the cash flow statement of Barchester Products for the year ended 31 March 2004 in accordance with IAS7.**

(9 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

The following are the Balance Sheets of Holdings and its two subsidiaries Parts and Bits all at 31 March 2004:

Holdings	**$000 Cost**	**$000 Depreciation**	**$000 Net**
Land and buildings	350	14	336
Office equipment	75	25	50
	425	39	386
Investment in Parts			150
Investment in Bits			140
Trade receivables			45
Bank			30
			751
Ordinary share capital ($1 shares)			600
Retained profits			116
Trade payables			35
			751

Parts	**$000 Cost**	**$000 Depreciation**	**$000 Net**
Land and buildings	150	21	129
Machinery	450	250	200
Office equipment	15	5	10
	615	276	339
Inventory			50
Trade receivables			25
			414
Ordinary share capital ($1 shares)			300
Retained profits			20
Trade payables			60
Bank overdraft			34
			414

Bits

	$000 Cost	$000 Depreciation	$000 Net
Machinery	235	125	110
Office equipment	35	15	20
	270	140	130
Inventory			70
Trade receivables			55
			255
Ordinary share capital ($1 shares)			150
Retained profits			35
Trade payables			38
Bank overdraft			32
			255

Notes

(1) Holdings purchased 60% of the shares of Parts on 1 April 2003 when Parts had a debit balance on its retained profits account of $60,000.

(2) Holdings bought 80% of the shares in Bits on 1 October 2003. Bits had retained profits of $25,000 at 1 April 2003 and profits in that company are assumed to accrue evenly throughout the year.

(3) None of the three companies have declared dividends in respect of the year to 31 March 2004 and there were no inter company debts at 31 March 2004.

(4) Goodwill arising on consolidation is not to be amortised.

REQUIRED

Prepare in good style the Consolidated Balance Sheet of Holdings and its subsidiaries at 31 March 2004.

(20 marks)

QUESTION 4

John Finlay is a sole trader, and the following figures have been extracted from his accounts:

(1) **Income Statement for year ended 31 March**

	2002	**2003**	**2004**
	$000	**$000**	**$000**
Sales	740	900	1,200
Gross Profit	250	300	350
Depreciation of machinery	50	60	60
Net profit	30	50	40

(2) **Balance Sheet at 31 March**

	2002	**2003**	**2004**
Machinery at book value	200	300	550
Inventory	50	55	75
Trade receivables	60	90	150
Bank (overdraft)	30	5	(75)
Trade payables	40	50	80
Capital	300	400	620

REQUIRED

(a) **Calculate four appropriate ratios for each of the three years (ie 12 ratios in total). Your ratios should cover both profitability and liquidity. Turnover ratios should be expressed in days, and all ratios given to 2 decimal places.**

(12 marks)

(b) **Comment on the progress of John Finlay's business on the basis of the data provided and the ratios that you have calculated in (a) above.**

(8 marks)

(Total 20 marks)

QUESTION 5

The Trial Balance at 31 March 2004 of Jonas did not balance. A suspense account with a credit balance of $280 was created. This was treated as a liability due within one year when preparing the draft year end accounts.

These accounts showed the following amounts:

Gross profit of $43,450
Net profit of $17,230
Current assets of $3,250
Liabilities due within one year (including a bank overdraft of $340) $2,420

When checking the company's records the auditor discovered the following errors:

(1) Postal expenses of $84 had been correctly recorded in the bank account but debited in the expense account as $48.
(2) A returns inward of $72 had been credited to sales revenue account and also credited to the customer's account.
(3) A payment to bank from cash of $180 had been debited to cash account and credited to the bank account.
(4) The balance on a supplier's account of $460 had been omitted from the trial balance.

REQUIRED

(a) Prepare the Suspense Account showing the effects of the auditor's discoveries.

(5 marks)

(b) Prepare a table showing the correction to gross profit, net profit, current assets and liabilities due within the year. Your table should include the final totals which would appear in the corrected set of accounts.

(15 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

Ralph Pearson intends starting up in business.

Premises will cost $75,000 for a 20 year lease and office machinery will cost $5,400. Ralph will buy his product for $12 per unit and sell it for $20 per unit and will hold one month's stock. Overheads, other than amortisation and depreciation, will amount to $65,000 a year.

Ralph is now considering two alternative strategies:

Strategy A

Buy the product for cash earning a discount of 5%. Sell 12,000 units a year, on one month's credit, evenly over the year. Bad debts would be 1% of sales revenue. Depreciate the machinery over five years on a straight line basis assuming a residual value of zero.

Strategy B

Buy the product on one month's credit with no discount. Sell 10,800 units a year for cash evenly over the year. Depreciate the machinery over two years on a straight line basis assuming a residual value of $2,000.

Ralph Pearson has an initial capital of $50,000 from his own resources and can borrow additional funds at 15% per annum interest.

REQUIRED

(a) **Calculate the additional funds Ralph Pearson would require to start his business (including working capital) for *each* of Strategies A and B.**

(8 marks)

(b) **Calculate Ralph Pearson's budgeted net profit for his first year of business (assuming the initial borrowing is not repaid) for *each* of strategies A and B.**

(12 marks)

(Total 20 marks)

LCCI EXAMINATIONS BOARD

SERIES 3 EXAMINATION 2004

CERTIFICATE IN

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

THURSDAY 10 JUNE

Instructions to Candidates

(a) *The time allowed for this examination is* ***3*** *hours* ***30*** *minutes.*

(b) *Answer* ***5*** *questions – the* ***2 compulsory*** *questions (Questions 1 and 2 in Section A) and* ***3*** *other questions from Section B.*

(c) *Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.*

(d) *Candidates are advised to study the* ***"REQUIRED"*** *section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) *All questions carry equal marks.*

(f) *Begin each question at the top of a page in the answer book.*

(g) *All answers must be clearly and correctly numbered but need not be in numerical order.*

(h) *Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.*

(i) *Show details of workings, where appropriate, in your answer book.*

(j) *Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.*

SECTION A
(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Following is the Trial Balance of a partnership at 31 March 2004 after calculating the loss for the year:

		$	$
Machinery at cost		55,000	
Vehicles at cost		63,000	
Receivables		18,450	
Furniture at cost		18,650	
Bank			600
Payables			3,250
Depreciation on machinery			37,500
Depreciation on vehicles			35,600
Depreciation on furniture			8,450
Rent prepaid		1,450	
Insurance prepaid		640	
Electricity accrued			2,400
Capital Accounts:	– George		45,000
	– Arthur		30,000
	– Elizabeth		10,000
	– Alan		6,000
Current Accounts:	– George		2,350
	– Arthur		850
	– Elizabeth	830	
	– Alan	1,980	
Loss for the year		22,000	
		182,000	182,000

The partners share profits and losses equally after allowing interest on capital at 10% per year based on their capital account balances.

On calculating the loss for the year the partners decided to dissolve the partnership immediately. The following transactions took place:

(1) The machinery was sold for $14,300 and the furniture for $6,250.
(2) George took over one vehicle at $8,200 and Arthur took over another for a value of $4,300; the remaining two were sold for a combined figure of $7,300.
(3) The prepaid rent was recovered in full but the prepaid insurance had to be written off.
(4) Apart from a bad debt of $60 the receivables paid in full and the payables and accrued electricity were settled in full.
(5) Dissolution expenses of $750 were incurred and paid.
(6) The partners who ended up owing money to the partnership paid in the amounts owed and the partners to whom money was owed by the partnership were paid off.

QUESTION 1 CONTINUED

REQUIRED

(a) **The Appropriation Account of the partnership for the year ended 31 March 2004.**

(3 marks)

(b) **The Dissolution Account of the partnership.**

(9 marks)

(c) **The Partners' Capital Accounts (in columnar form) including the final cash settlement with each partner.**

(4 marks)

(d) **The Partnership Bank Account from 31 March 2004.**

(4 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

The following figures were extracted from the Income Statements and Balance Sheets of two companies

	Company A		Company B	
Year ended 31 March	**2003**	**2004**	**2003**	**2004**
	$000	**$000**	**$000**	**$000**
Sales	2,450	2,750	1,825	1,875
Gross profit	820	850	460	475
Net profit	142	148	125	127
At 31 March	**2003**	**2004**	**2003**	**2004**
	$000	**$000**	**$000**	**$000**
Machinery (book value)	275	311	435	290
Vehicles (book value)	30	30	44	31
Buildings (book value)	350	400	425	625
Inventory	180	195	95	90
Receivables	135	255	120	110
Bank	50	-	60	105
Bank overdraft	-	48	-	-
Payables	190	215	55	40
Dividend paid	50	80	40	40
$1 Ordinary Shares	700	700	800	800
Accumulated profits	80	148	284	371

The market prices of these companies' shares were:

Company A $1.20 in April 2003 and $1.15 in April 2004
Company B $1.45 in April 2003 and $1.55 in April 2004

REQUIRED

(a) **For *each* company for *each* year calculate (to two decimal places) the following ratios:**

(i) Current (Working capital)
(ii) Gross profit to sales
(iii) Net profit to sales
(iv) Return on capital employed
(v) Price/earnings
(vi) Dividend cover.

(12 marks)

(b) **Using your answers to (a) (iv), (v) and (vi) above, compare the two companies from the point of view of an investor.**

(8 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Conglomerates had the following capital structure:

Authorised Share Capital	
4,000,000 Ordinary Shares of $0.25	1,000,000
500,000 7% Irredeemable Preferred Shares of $1	500,000
Issued Share Capital and Reserves	
2,400,000 Ordinary Shares of $0.25	600,000
200,000 7% Irredeemable Preferred Shares of $1	200,000
Share Premium	50,000
Revaluation Reserve	20,000
Accumulated profits	540,000

The Company had $350,000 12% Debentures.

The Directors resolved to carry out the following transactions in the order given and to make maximum use of the non-distributable reserves:

(1) Issue the remaining Preferred Shares at par.

(2) Make a 1 for 3 rights issue of Ordinary Shares at a premium of $0.15 per share.

(3) Make a 1 for 4 bonus (capitalisation) issue of Ordinary Shares.

(4) Redeem the 12% Debentures at a premium of 10%.

REQUIRED

(a) **Prepare Journal entries (without narratives) to record *each* of the four transactions above.** (14 marks)

(b) **Calculate the change in the company's bank balance caused by the four transactions.** (2 marks)

(c) **Show the Issued Share Capital and Reserves of the company after the completion of the four transactions.** (4 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 4

Brewstons, a small limited company, had the following Trial Balance at 31 March 2004:

		$	$
Revenue			185,450
Office expenses		23,450	
Salaries		121,348	
Advertising		1,345	
Receivables		28,350	
Payables			465
Bank			2,490
Office machinery	– cost	32,400	
	accumulated depreciation		16,400
Office furniture	– cost	16,250	
	accumulated depreciation		7,450
Vehicles	– cost	64,200	
	accumulated depreciation		21,400
Ordinary share capital ($ shares)			40,000
Accumulated profits			13,688
		287,343	287,343

The following matters have still to be taken into consideration:

(1) Depreciation on vehicles and office machinery is calculated on the reducing balance basis at 20% per year. Depreciation on furniture is calculated at 10% per year on cost. Calculations are made to the nearest $ and no depreciation is charged in the year of disposal.
(2) Office machinery purchased for $2,000 on 1 April 2000 was scrapped in the year to 31 March 2004. The scrap value equalled the cost of removal.
(3) Provision for an audit fee of $1,250.
(4) The Directors have proposed, before the year end, a dividend of $0.08 per share.

REQUIRED

(a) Calculate the loss on the office machinery scrapped.

(2 marks)

(b) Prepare the Income Statement of Brewstons for the year ended 31 March 2004.

(9 marks)

(c) Prepare the Balance Sheet of Brewstons at 31 March 2004.

(9 marks)

(Total 20 marks)

QUESTION 5

Following are the accounting statements of Simpsons, a limited company:

Income Statement
for the year ended 31 March 2004

	$	$
Revenue		264,520
Less Cost of goods sold:		
Opening inventory	18,450	
Purchases	178,460	
	196,910	
Closing inventory	17,410	179,500
Gross profit		85,020
Less Interest	700	
Miscellaneous expenses	44,645	
Depreciation	10,600	
Loss on sale of machinery	1,350	57,295
Net profit		27,725
Proposed Dividend		7,200
Retained profit		20,525
Retained profit b/f		13,650
Retained profit c/f		34,175

Balance Sheet as at 31 March 2004

	$	$	$
ASSETS			
Non-current assets	**Cost**	**Depreciation**	**Net**
Office buildings	40,000	7,400	32,600
Office machinery	34,200	19,600	14,600
Vehicles	12,250	6,050	6,200
	86,450	33,050	53,400
Current assets			
Inventory		17,410	
Receivables		24,530	
Total assets			41,940
			95,340
EQUITY AND LIABILITIES			
Capital and reserves			
$1 ordinary shares			32,000
Accumulated profits			34,175
Equity			66,175
Current liabilities			
Payables		19,065	
Bank overdraft		400	
Proposed dividend		7,200	
Accruals		2,500	
Total equity and liabilities			29,165
			95,340

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QUESTION 5 CONTINUED

On 1 April 2003 receivables were $22,670 and payables and accruals totalled $23,140.

During the year to 31 March 2004 the following transactions took place in addition to the normal trading activities:

(1) A machine costing $6,000 was sold for $870.
(2) A vehicle was purchased for $7,500.
(3) The dividend proposed, which was proposed before the year end, of $6,000 was paid.
(4) A loan of $20,000 redeemable in 2006 was repaid early by Simpsons.

Note: No shares were issued during the year.

REQUIRED

(a) Prepare a statement reconciling the net operating profit to cash generated by operations for the year ended 31 March 2004.

(7 marks)

(b) Prepare the Cash Flow Statement of Simpsons for the year ended 31 March 2004 in accordance with IAS 7.

(10 marks)

(c) Using your answer to (b) above, calculate the bank balance of Simpsons at 31 March 2003.

(3 marks)

(Total 20 marks)

QUESTION 6

Bloggs buys and sells item X. The following information relates to the transactions in item X for March 2004:

			Units	Purchase Price/unit $	Selling Price/unit $
March	1	Inventory held	400	0.40	
	4	Purchased	600	0.42	
	8	Sold	500		0.60
	10	Purchased	500	0.43	
	15	Purchased	800	0.42	
	20	Sold	1000		0.60
	24	Purchased	200	0.44	
	30	Sold	500		0.60

REQUIRED

(a) **Calculate the values of opening inventory, total sales, and total purchases of item X for March 2004, and calculate the number of units in closing inventory.**

(5 marks)

(b) **Calculate the gross profit on item X for March 2004 assuming alternatively that Bloggs values inventory using:**

(i) **First In First Out method** (3 marks)

(ii) **The Perpetual Weighted Average Cost method** (9 marks)

(iii) **The Period Weighted Average Cost method based on a one month period** (3 marks)

All answers should be to the nearest $.

(Total 20 marks)

Drawings 3/

EXAMINATIONS BOARD

SERIES 4 EXAMINATION 2004

CERTIFICATE IN

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

WEDNESDAY 1 DECEMBER

Instructions to Candidates

(a) *The time allowed for this examination is **3** hours **30** minutes.*

(b) *Answer **5** questions – the **2 compulsory** questions (Questions 1 and 2 in Section A) and **3** other questions from Section B.*

(c) *Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.*

(d) *Candidates are advised to study the **"REQUIRED"** section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) *All questions carry equal marks.*

(f) *Begin each question at the top of a page in the answer book.*

(g) *All answers must be clearly and correctly numbered but need not be in numerical order.*

(h) *Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.*

(i) *Show details of workings, where appropriate, in your answer book.*

(j) *Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.*

SECTION A
(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

At 31 March 2004 the Trial Balance for Arthur Jones, a small private company, was as follows:

	$000	$000
Purchases / Sales	437	685
Receivables / Payables	50	46
Inventory at 1 April 2003	34	
General expenses	41	
Machinery at cost	280	
Land and buildings at cost	90	
Vehicles at cost	45	
Administration expenses	37	
Wages and salaries	81	
Discount allowed / Discount received	12	9
Directors' fees	36	
Ordinary share capital ($1 shares)		300
Accumulated profits		2
Provision for doubtful debts		6
Provision for depreciation:		
Vehicles		15
Machinery		120
Balance at bank	40	
	1,183	1,183

Notes

(1) Inventory at 31 March 2004 cost $37,000.
(2) The land and buildings were revalued on 20 March 2004 at $125,000. The adjustment for this has not been included in the above figures.
(3) Wages and salaries accrued at 31 March 2004 amounted to $7,000.
(4) General expenses prepaid at 31 March 2004 amounted to $4,000.
(5) The provision for doubtful debts is to be adjusted to 8% of receivables.
(6) Machinery is depreciated at 15% per annum on cost.
(7) Vehicles are depreciated at 20% per annum using the reducing balance method.
(8) The Directors proposed a dividend of $3,000 before the balance sheet date.

REQUIRED

Prepare the:

(a) **Income Statement of Arthur Jones for the year ended 31 March 2004.** (12 marks)

(b) **Balance Sheet of Arthur Jones at 31 March 2004.** (8 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Holdings and its two subsidiaries, Sparks and Plugs, had the following Trial Balances at 31 March 2004:

	Holdings		Sparks		Plugs	
	$000	$000	$000	$000	$000	$000
Land and buildings at cost	350	–	40	–	–	–
Accumulated depreciation	–	20	–	4	–	–
Fixtures and fittings at cost	80	–	20	–	–	–
Accumulated depreciation	–	10	–	5	–	–
Office machinery at cost	60	–	130	–	300	–
Accumulated depreciation	–	30	–	50	–	180
Investment in Sparks	180	–	–	–	–	–
Investment in Plugs	120	–	–	–	–	–
Inventory	–	–	25	–	80	–
Receivables	80	–	30	–	70	–
Bank	50	–	–	–	–	–
Bank overdraft	–	–	–	5	–	20
Payables	–	30	–	10	–	40
Share capital	–	750	–	180	–	150
Accumulated profits	–	80	–	–	–	60
Accumulated losses	–	–	9	–	–	–
	920	920	254	254	450	450

Notes

(1) Holdings purchased 100% of the shares in Sparks on 1 April 2003 when the accumulated profits of Sparks were $11,000.

(2) Holdings purchased 80% of the shares in Plugs on 1 October 2003. At 1 April 2003 Plugs had accumulated profits of $24,000. Profits/Losses in Plugs are assumed to accrue evenly throughout the year.

(3) At 31 March 2004 Sparks was owed $4,000 by Plugs.

(4) Ignore amortisation of either positive or negative goodwill, which should be shown under non-current assets.

REQUIRED

Prepare the Consolidated Balance Sheet for Holdings and its two subsidiaries at 31 March 2004.

(20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Tom and Harry each started in business on 1 April 2003 with capital of $100,000 and each then purchased machinery costing $60,000.

During his first year of business Tom operated as a sole trader. He purchased 30,000 units of Product X on one month's credit at $4 each and sold 25,000 of these on a cash basis at $6 each. He depreciated his machinery at 15% on cost. His other expenses amounted to $38,000. He made drawings of $8,000.

During his first year of business Harry operated as a limited company. He purchased 30,000 units of Product X at $4 each on one month's credit and sold 25,000 of these on one month's credit at $6.20 each. He allowed his customers a 5% discount if they paid within 7 days. Half of his turnover earned this discount. His receivables at 31 March 2004 amounted to $13,200. Harry wished to set up a provision for bad debts of 8% of receivables. He drew a director's salary of $8,000 and provided for depreciation on machinery at 25% using the reducing balance method. His other expenses amounted to $38,000.

REQUIRED

(a) Prepare the Trading Profit & Loss Account for Tom and the Income Statement for Harry for the year ended 31 March 2004.

(13 marks)

(b) Briefly comment on the differences revealed in (a) above. (7 marks)

(Total 20 marks)

QUESTION 4

Robert, Hilary and Mary were in partnership sharing profits and losses in the ratio 4:3:3 respectively. The balances on their fixed capital accounts on 31 March 2002 were Robert $80,000, Hilary $60,000, Mary $40,000.

On 1 April 2002 Robert retired and goodwill was valued at $40,000. Adjustments were made to record goodwill via the fixed capital accounts and Robert was paid out. Hilary and Mary agreed to continue in partnership but agreed to receive interest on fixed capital at 10% per annum and divide residual profits in the ratio 3:2 with Hilary having the larger share. On 1 April 2002 they also wrote off the goodwill via the fixed capital accounts. Profit for the year ended 31 March 2003 was $40,000.

On 1 April 2003 John joined the partnership. Goodwill was revalued and John paid in a total of $25,000. It was agreed that of this sum $5,000 should be taken as his share of goodwill. Under the new agreement the partners continued to receive interest on fixed capital at 10% but residual profits were now to be divided in the ratio 5:4:1 (Hilary, Mary, John). Goodwill was again to remain unrecorded. Profits for the year ended 31 March 2004 were $55,000.

REQUIRED

Prepare:

(a) Journal entries (without narratives) showing the recording and writing off of goodwill on each of the retirement of Robert and the joining of John.

(7 marks)

(b) The Appropriation Account in respect of each of the years ended 31 March 2003 and 31 March 2004. (13 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

Robert and Jane entered into a Joint Venture on 1 April 2004. Robert was to be responsible for purchasing units of Product X and sending them to Jane. Jane was to be responsible for selling Product X. They agreed to run the joint venture for 3 months and then divide profits/losses equally.

The following transactions took place:

April	2	Robert purchased 750 units at $3 per unit and sent them to Jane. Transport and insurance on these totalled $185 paid by Robert.
	5	Jane hired space in a warehouse for three months, paying in advance, at a cost of $120 per month.
	18	Robert purchased 1,200 units at $2.90 per unit and sent them to Jane. Transport and insurance on these totalled $225 paid by Robert.
	20	Jane received the first batch of Product X and paid handling cost of $35.
	22	Jane sold 400 units at $4.25 per unit.
	26	Robert purchased 600 units at $3.10 per unit and sent them to Jane. Transport and insurance on these totalled $155 paid by Robert.
May	2	Jane received the second and third batches of Product X and informed Robert that 200 units had been lost. She sold 800 units at $4.20 per unit.
	10	The insurance company paid $650 to Robert in respect of the units which had been lost.
	20	Jane sold 500 units at $4.30 per unit but had to pay delivery charges on them totalling $60.
	23	Jane sent Robert an interim payment of $4,500.
	24	Robert purchased 1,400 units at $2.85 per unit and sent them to Jane. Transport and insurance on these totalled $345 paid by Robert.
June	3	Jane received the final batch of Product X and found that 100 units had been damaged. Jane informed Robert and it was agreed that these would be sold at reduced prices.
	7	Jane sold the damaged units for a total of $260. The insurance company paid a further $140 to Robert.
	12	Jane sold 1,150 at $4.30 per unit but, again, had to pay delivery charges on them totalling $50.
	18	Jane agreed to take over the remaining inventory at $3.75 per unit.
	30	Jane sent Robert a cheque for the amount due to him at the end of the joint venture.

REQUIRED

Prepare the:

(a) Memorandum Joint Venture Account of Robert and Jane.

(13 marks)

(b) Joint Venture with Robert Account as it would appear in Jane's books.

(7 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

The firm of J Doakes has a seasonal pattern to its trade. The figures for each quarter of its most recent financial year were as follows:

	Q1 $000	Q2 $000	Q3 $000	Q4 $000
Cumulative sales (all credit)	120	600	1,400	1,550
Cumulative purchases	240	550	1,000	1,100
End of quarter inventory	200	240	250	110
End of quarter receivables	40	160	300	50
End of quarter payables	80	100	150	30
End of quarter bank balance	80	(60)*	(160)*	110

* Overdraft

REQUIRED

Calculate for J Doakes in respect of each quarter the:

(a) **working capital at the end** (4 marks)

(b) **working capital ratio at the end** (4 marks)

(c) **acid test ratio at the end** (4 marks)

(d) **sales for each quarter** (2 marks)

(e) **credit period given to customers based on closing receivables and expressed in months.** (6 marks)

Note: all answers should be correct to one decimal place.

(Total 20 marks)

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EXAMINATIONS BOARD

SERIES 3 EXAMINATION 2005

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

THURSDAY 9 JUNE

Instructions to Candidates

(a) *The time allowed for this examination is* ***3*** *hours* ***30*** *minutes.*

(b) *Answer* ***5*** *questions – the* ***2 compulsory*** *questions (Questions 1 and 2 in Section A) and* ***3*** *other questions from Section B.*

(c) *Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.*

(d) *Candidates are advised to study the* ***"REQUIRED"*** *section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) *All questions carry equal marks.*

(f) *Begin each question at the top of a page in the answer book.*

(g) *All answers must be clearly and correctly numbered but need not be in numerical order.*

(h) *Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.*

(i) *Show details of workings, where appropriate, in your answer book.*

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SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Diet, a public company, had the following Balance Sheet items at 31 March:

	2004		2005	
	$000	**$000**	**$000**	**$000**
Land at cost	815		815	
Buildings at book value	528		515	
Machinery at book value	1,840		1,920	
Vehicles at book value	65		70	
Inventory at cost	180		195	
Receivables	385		340	
Bank (overdraft)		55		70
Payables		230		215
Proposed dividend		220		265
Ordinary shares of $1		2,500		3,000
Accumulated profits		808		305
	3,813	3,813	3,855	3,855

Notes for year ended 31 March 2005:

(1) No fixed assets were sold and no buildings were purchased.
(2) Machinery costing $380,000 and vehicles costing $25,000 were purchased.
(3) No interim dividends were paid.
(4) A bonus (capitalisation) issue of 500,000 $1 shares was made.
(5) Bank overdraft interest of $4,000 was paid.

REQUIRED

(a) Calculate the profit from operations of Diet for the year ended 31 March 2005.

(4 marks)

(b) Prepare the Cash Flow Statement of Diet for the year ended 31 March 2005 in accordance with IAS 7.

(16 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

The following are the Trial Balances of Manor, a public company, and its two subsidiaries Cottages and Bungalows at 31 March 2005:

	Manor	Cottages	Bungalows
	$000	$000	$000
Land and buildings at cost	150	50	–
Machinery at cost	–	750	235
Office equipment at cost	175	15	25
Inventory at cost	–	60	70
Receivables	55	21	65
Bank	45	–	–
Investment in Cottages	379	–	–
Investment in Bungalows	236	–	–
	1,040	896	395
	$000	$000	$000
Depreciation on buildings	14	11	–
Depreciation on machinery	–	220	65
Depreciation on office equipment	25	5	15
Ordinary Share Capital ($1 shares)	900	500	200
Accumulated profits	66	100	45
Bank overdraft	–	10	32
Payables	35	50	38
	1,040	896	395

Notes

(1) Manor purchased 60% of the shares of Cottages on 1 April 2004 when Cottages had accumulated profits of $40,000.
(2) Manor purchased 80% of the shares in Bungalows on 1 October 2004. Bungalows had accumulated profits of $20,000 at 1 April 2004 and its profits are assumed to accrue evenly over each year.
(3) Goodwill arising on consolidation is to be written off evenly over 5 years.
(4) At 31 March 2005 Bungalows owed Cottages $15,000.
(5) None of the three companies has declared dividends.

REQUIRED

Prepare the Consolidated Balance Sheet of Manor at 31 March 2005.

(20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

The following is the Trial Balance of Newlets, a public company, at 31 March 2005:

	$000	$000
Purchases/Sales	5,650	9,120
Receivables/Payables	780	485
Land and buildings (Land $450,000) at cost	1,200	
Machinery at cost	4,250	
General expenses	950	
Administrative expenses	1,040	
Selling expenses	675	
Accumulated depreciation on buildings		80
Accumulated depreciation on machinery		1,449
10% redeemable Preferred shares $1		800
Ordinary shares $0.50		2,000
12% Debentures (redeemable 2015)		400
Inventory at 1 April 2004	350	
Interim dividend paid on: Preferred shares	30	
Ordinary shares	45	
Accumulated profits		425
Bank overdraft		211
	14,970	14,970

Notes:

(1) The inventory at 31 March 2005 cost $415,000.
(2) Buildings are depreciated at 2% on cost and machinery is depreciated at 25% using the reducing balance method.
(3) During the year a machine which had cost $16,000 and been depreciated for 2 years had to be written off completely. This event has yet to be recorded.
(4) Administrative expenses include a prepayment of $42,000.
(5) Provisions are to be made for debenture interest, the final preferred dividend and for a final ordinary dividend of $0.06 per share.

REQUIRED

(a) Prepare the Income Statement of Newlets for the year ended 31 March 2005.

(12 marks)

(b) Prepare the Balance Sheet of Newlets at 31 March 2005.

(8 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 4

Manufact, a public company, had the following capital structure at 1 April 2004:

Authorised Capital	**$000**
5,000,000 Ordinary Shares of $0.50 each	2,500
500,000 9% Preferred Shares of $1 each	500
Issued Capital	**$000**
3,000,000 Ordinary Shares of $0.50 each	1,500
300,000 9% Preferred Shares of $1 each	300
Share Premium	150
Revaluation Reserve	100
General Reserve	125
Accumulated profits	340
	2,515
Non-current liabilities	
12% Debentures	200
	2,715

The following transactions were carried out in the year to 31 March 2005:

(1) On 1 May 2004 Manufact made a rights issue of 1 Ordinary Share for every 3 held at $0.70 per share.
(2) On 1 June 2004 Manufact issued the remaining Preferred Shares at par.
(3) On 1 October 2004 Manufact redeemed the 12% Debentures at a premium on redemption of 5% and paid the 6 months' interest then due.
(4) On 1 December 2004 Manufact made a bonus (capitalisation) issue of the remaining Ordinary Shares.

Maximum use was made of the non-distributable reserves.

REQUIRED

(a) A statement of the non-distributable reserves at 1 April 2004.

(2 marks)

(b) A statement of the change in the bank balance caused by the four transactions.

(6 marks)

(c) A Journal entry in respect of transaction (4).

(6 marks)

(d) The Capital and Reserves section of Manufact's Balance Sheet on 2 December 2004 assuming that no other transactions had taken place in the period.

(6 marks)

(Total 20 marks)

QUESTION 5

George, Harriet and Jill have been in partnership for three years, working without a partnership agreement. At the commencement of the partnership, George contributed $20,000, Harriet $15,000 and Jill $25,000. At the end of Year 1 Harriet contributed a further $2,000. At the end of Year 2 Harriet again contributed $2,000, but Jill withdrew $3,000. All the above transactions were recorded in the partners' fixed capital accounts.

At the end of Year 3, prior to dividing that year's profits, the partners' current account balances were as follows:

George	$3,750	(Dr)
Harriet	$4,000	(Cr)
Jill	$500	(Cr)

The partnership profits for the first 3 years were as follows:

Year 1 $3,600; Year 2 $15,900 and Year 3 $23,700

The partners have now drawn up a partnership agreement under which the profits for Year 3 are to be divided as follows:

(1) Jill to receive a salary of $4,000 per year.
(2) Interest on fixed capital account balances is to be allowed at 8% per year.
(3) Residual profits/losses are to be divided between George, Harriet and Jill in the ratio 2 : 2 : 1 respectively.

REQUIRED

(a) Calculate the total drawings made by each partner up to the end of Year 3.

(5 marks)

(b) Prepare the Appropriation Account for the partnership for Year 3.

(8 marks)

(c) Calculate the gain or loss each partner has made in Year 3 from the change from having no agreement to having a partnership agreement.

(7 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

Roberts manufactures Products X and Y whose direct costs per unit are as follows:

Product		**X**		**Y**
		$		**$**
Material A	10 kilos @ $0.50	5.00	6 kilos at $0.50	3.00
Direct Labour	20 mins @ $7.50 per hour	2.50	30 mins @ $7.50 per hour	3.75
		7.50		6.75

On 31 March 2005 Roberts' working capital was as follows:

	$
Material A 4,000 kilos at $0.50p per kilo	2,000
X 500 units at $7.50 per unit	3,750
Y 600 units at $6.75 per unit	4,050
Receivables (Sales of Y in March)	5,980
Balance at bank	1,450
	17,230
Payables (Material A purchased February $4,200, purchased March $4,300)	8,500
	8,730

The following information relates to the period 1 April – 30 September 2005:

(1)

Budgeted sales in units	**April**	**May**	**June**	**July**	**August**	**September**
X	400	600	550	350	200	250
Y	650	600	500	750	850	800

Units of X are sold at $9.80 each on a cash basis.
Units of Y are sold at $9.20 each on one month's credit.

(2) Production will be 500 units of X and 600 units of Y during each of April, May and June. Production will be 300 units of X and 800 units of Y during each of July, August and September.

(3) Material A is purchased on 2 months' credit, each month's purchases being sufficient to meet the following months' production requirement.

(4) Direct labour, indirect labour ($850 per month) and other cash expenses ($970 per month) are all paid in the month they are incurred.

(5) Depreciation per month is calculated as one twelfth of the annual charge. Roberts uses the reducing balance method at a rate of 25% per year. The book value of fixed assets at 31 March 2005 (his year end) was $120,000.

REQUIRED

(a) Prepare for Roberts a cash budget (in columnar form) for each of the 6 months from 1 April 2005 to 30 September 2005 showing the bank balance at the end of each month.

(16 marks)

(b) Calculate for Roberts the budgeted number of units in inventory of X and of Y on 30 September 2005.

(4 marks)

(Total 20 marks)

Accounting (IAS) Level 3
Series 4 2005

QUESTION 1

Harold, Bill and Mary have been in partnership as accountants for several years without a formal partnership agreement.

Their Trial Balance at 31 March 2005 was as follows:

	£000	£000
Fee income		185
Office building (at valuation)	60	
Office machinery (at cost)	8	
Vehicles (at cost)	24	
Office furniture (at cost)	8	
Accumulated depreciation at 1 April 2004:		
Office machinery		6
Vehicles		12
Office furniture		2
Wages and salaries	68	
General expenses	38	
Receivables	15	
Insurance	6	
Electricity	5	
Cash lodged by Rosemary (Note 1)		15
Partners' capital accounts at 1 April 2004:		
Harold		30
Bill		25
Mary		34
Partners' current accounts at 1 April 2004:		
Harold		8
Bill	11	
Mary		6
Partners' drawings:		
Harold	22	
Bill	20	
Mary	24	
Bank	14	
	323	323

Notes

(1) Rosemary, a senior employee on a salary of £13,000 a year, was admitted as a partner on 1 October 2004. On that date she paid in £15,000 as her capital. However she continued to draw the same amount each month and her full year's salary as an employee was included in the wages and salaries shown in the Trial Balance.

(2) On 1 October 2004 the partners implemented a formal partnership agreement, under which Rosemary would receive a salary of £12,000 per year and residual profits would be divided between Harold, Bill, Mary and Rosemary in the ratio 3 : 3 : 3 : 1 respectively.

(3) The office building is not being depreciated as it was revalued recently and in the opinion of the partners is still worth its valuation figure.

(4) Office machinery is depreciated at 15% on cost each year.

SECTION A CONTINUED

QUESTION 1 CONTINUED

Notes continued

(5) Office furniture is depreciated at 10% on cost each year.

(6) Vehicles are depreciated at 25% on the reducing balance basis.

(7) All fee income and all expenses are deemed to accrue evenly throughout the year.

(8) At 31 March 2005 there were no payables, accruals or prepayments and no goodwill.

REQUIRED

(a) Prepare the Income Statement and Appropriation Account of the partnership for the year ended 31 March 2005 dividing the net profit between the period before Rosemary became a partner and the period after she became a partner.

(13 marks)

(b) Prepare the Balance Sheet of the partnership at 31 March 2005.

(7 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

The following information has been extracted from the year end figures of Ferguson, a private company, for the last 3 years:

Year end 31 March	**2003**	**2004**	**2005**
	£000	**£000**	**£000**
Sales	160	200	250
Cost of goods sold	100	120	150
Net profit	15	25	40
Fixed assets - cost	100	150	185
- accumulated depreciation	18	21	45
Inventory	8	14	20
Receivables	12	22	30
Payables	6	20	25
Bank	4	-	-
Bank overdraft	-	5	15
Capital and reserves	100	140	140

REQUIRED

(a) Calculate the following ratios for *each* of the 3 years:

(i) Gross profit to sales (expressed as a %)

(ii) Net profit to sales (expressed as a %)

(iii) Return on capital employed (expressed as a %)

(iv) Current (in the form X:1 where X is the current assets)

(v) Receivables collection period (expressed in days)

Note: Calculations should be correct to 1 decimal place

(15 marks)

(b) Make brief comments on Ferguson's progress.

(5 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

The Midshires Tennis Club had the following Balance Sheet at 31 March 2004:

Assets			
Non-current assets	**Cost**	**Depreciation**	**Net**
	£	£	£
Premises	17,000	5,100	11,900
Equipment	10,500	3,750	6,750
Computer	1,050	700	350
	28,550	9,550	19,000
Current Assets			
Bar inventory			7,450
Subscriptions in arrears			550
Bank			200
			27,200
Total Assets			
			£
Accumulated Fund			20,290
Current liabilities			
Bar supplier		6,800	
Subscriptions in advance		110	
			6,910
			27,200

The Receipts and Payments Account for the year ended 31 March 2005 was as follows:

	£	£
Opening balance		200
Bar revenue	82,450	
Subscriptions (140 at £110)	15,400	
Sale of computer	70	
Dance tickets	5,800	103,720
		103,920
Less		
Bar supplier	71,400	
Secretarial expenses	2,150	
Purchase of computer	795	
Insurance	345	
Match fees	1,650	
Purchase of tennis equipment	1,500	
Dance expenses	3,000	
Travel to matches	350	
Groundsman's wages	7,460	
Bar steward's salary	13,500	102,150
Closing balance		1,770

SECTION B

QUESTION 3 CONTINUED

At 31 March 2005:

(1) The bar payables were owed £7,100 and the bar inventory cost £7,345.
(2) Two subscriptions for the year to 31 March 2005 had not yet been received. All the subscriptions outstanding at 31 March 2004 had been received. No subscriptions had been received in advance for the year ending 31 March 2006. The subscription had remained the same since 1 April 2003.
(3) Premises are not to be depreciated further.
(4) Equipment is depreciated at 12.5% on the cost of equipment held at the year end.
(5) Computers are depreciated at one third of the cost of the computer held at the year end.

REQUIRED

For year ended 31 March 2005:

(a) Calculate the number of members of Midshires Tennis Club (3 marks)

(b) Prepare the Bar Trading Account of Midshires Tennis Club. (4 marks)

(c) Prepare in good style the Income and Expenditure Account of Midshires Tennis Club. (13 marks)

(Total 20 marks)

Note: A Balance Sheet is not required.

SECTION B

QUESTION 4

On 31 March 2003, a private company, Bargains' inventory consisted of the following:

Item A

3,800 pairs of boots purchased at a total cost of £26,600. During inventory taking 500 pairs of these boots were discovered to be unsaleable and it was decided to write off the cost of these immediately. The remaining pairs were expected to sell at £9.90 per pair. Bargains expected to pay £1.20 per pair for packing and postage.

Item B

180 tents purchased at a total cost of £7,200. It was discovered that 25 of these were in poor condition and could only be sold at £30 each. A further 15 tents had parts missing and providing these would cost £12 per tent. These and the remaining tents, which were all in good condition, were then expected to realise £50 each, after deducting delivery costs.

Item C

40 stoves purchased for a total cost of £180. These had all been cleaned at an extra cost of £50 in total. New parts, costing £4.50 per stove had also been fitted to 10 of the stoves. All stoves were expected to sell for £12.50 each.

REQUIRED

(a) Calculate the value of Bargains' inventory which should appear in the Balance Sheet at 31 March 2005.

(14 marks)

(b) Calculate the expected total profit that will be made by Bargains on the sale of the above inventory.

(6 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

Shamus and Gregory entered into a joint venture on 1 June 2004. The agreement was that Shamus would buy goods in Northern Ireland and ship them to England where Gregory would sell them. The joint venture would run for 3 months and at the end of that time profits would be divided equally between them.

The following transactions took place:

June	5	Shamus purchased 2,500 articles for £2.50 each.
	7	Shamus shipped the first purchase to Gregory, incurring shipping and insurance costs of £214.
	25	Shamus purchased 4,000 articles for £3 each and rented storage space for eight weeks, paying a total of £2,000 in advance.
	30	Gregory also rented storage space for 8 weeks at a cost of £75 per week, payable in full in advance.
July	1	Gregory received the first shipment and had to pay handling costs £606.
	10	Shamus shipped the second purchase to Gregory, incurring shipping and insurance costs of £260.
	12	Gregory sold 75% of the first shipment for £4.80 per article and the remaining 25% for £3,200 in total.
August	1	Shamus purchased 5,200 articles for £7.00 each.
	4	Shamus shipped the third purchase to Gregory, incurring shipping and insurance costs of £350.
	6	Gregory received the second shipment and found that 400 articles had been damaged in transit.
	8	The damaged articles were sold for £1.80 each. The insurance company agreed to pay a further £2.75 per article.
	10	Gregory sold the rest of the second shipment for £5 per article.
	14	Gregory received the cheque from the insurance company.
	25	Gregory received the third (and final) shipment.
	28	Gregory sold 80% of the final shipment at a total of £45,000.
	30	Gregory agreed with Shamus to take over the remaining 20% of the final shipment at a price of £9 per article.
	31	Gregory sent Shamus a cheque in settlement of the amount due to him.

REQUIRED

(a) Prepare the Memorandum Joint Venture Account for Shamus and Gregory.

(15 marks)

(b) Prepare the Joint Venture with Shamus Account as it would appear in the books of Gregory.

(5 marks)

(Total 20 marks)

QUESTION 6

Patricians, a public company, has the following authorised share capital:

	£
20 million Ordinary shares of 25p each	5,000,000
1 million 7.5% Preferred shares of £1.00 each	1,000,000
	6,000,000

At 1 April 2002 Patricians had the following equity:

	£
12 million Ordinary shares	3,000,000
800,000 Preferred shares	800,000
Accumulated profits	165,000
	3,965,000

At that date Patricians also had £500,000 of 10% debentures.

During the next 3 years the following took place:

(1) In the year ended 31 March 2003 Patricians made a net profit before debenture interest of £320,000, and an ordinary dividend of £0.018 per share was declared.

(2) On 1 October 2003 Patricians issued the remaining preferred shares at par and redeemed the debentures at par.

(3) In the year ended 31 March 2004 Patricians made a profit before debenture interest of £385,000 and an ordinary dividend of 9% was declared. The preferred dividend for the first six months was paid on 30 September 2003 and the remaining preferred dividend was paid on 31 March 2004.

(4) On 1 January 2005 Patricians issued 4 million ordinary shares at a price of 30p per share.

(5) In the year ended 31 March 2005 Patricians made a net profit of £410,000 and an ordinary dividend of £0.02 per share was declared on all shares in issue at the year end.

REQUIRED

(a) Prepare the Appropriation Account of Patricians for *each* of the years ended 31 March 2003, 2004 and 2005.

(15 marks)

(b) Show the equity section of Patricians' Balance Sheet at 31 March 2005 (it is not necessary to show the authorised section).

(5 marks)

(Total 20 marks)

LCCI International Qualifications

SERIES 3 EXAMINATION 2006

ACCOUNTING (IAS)

LEVEL 3

(Code No: 3901)

THURSDAY 8 JUNE

Instructions to Candidates

*(a) The time allowed for this examination is **3** hours **30** minutes.*

*(b) Answer **5** questions – the **2 compulsory** questions (Questions 1 and 2 in Section A) and **3** other questions from Section B.*

(c) Candidates must attempt the compulsory questions or they will not be eligible for the award of a Pass.

*(d) Candidates are advised to study the **"REQUIRED"** section of each question carefully. They should then extract from the information supplied the data required for their answers.*

(e) All questions carry equal marks.

(f) Begin each question at the top of a page in the answer book.

(g) All answers must be clearly and correctly numbered but need not be in numerical order.

(h) Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams, etc.

(i) Show details of workings, where appropriate, in your answer book.

(j) Candidates may use calculators, provided the calculators give no printout, have no word display facilities, are silent and cordless. The provision of batteries and responsibility for their condition must rest with the candidate.

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

The draft accounts of Glossop, a private company, show a gross profit of $78,100 and a net profit of $14,800.
The auditors have discovered the following errors:

(1) Closing inventory valued at $14,800 has been included in the accounts at $18,400.

(2) Motor expenses of $780 have been included in purchases of goods for resale.

(3) An invoice for purchases of goods for resale of $227 has been completely omitted from the books.

(4) Motor vehicles (cost $8,600, net book value at start of year $4,200) have been depreciated at 20% on cost instead of the correct 25% on a reducing balance basis.

(5) No adjustments have been made for accrued heat and light, $320 and prepaid insurance, $247.

REQUIRED

Prepare:

(a) Journal entries (without narratives) correcting the above errors.

(12 marks)

(b) Statements showing the adjusted gross profit and the adjusted net profit as a result of the corrections.

(8 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Harwood, a public company, has an authorised share capital of 7,000,000 $1 Ordinary Shares of which 3,000,000 had been issued, and fully paid, all at par.

On 1 January 2005 the directors offered 2,000,000 Ordinary Shares to the public at a price of $2.50, payable as follows:

	$
On application (including premium)	0.75
On allotment (including premium)	1.25
On first and final call	0.50
	2.50

Applications were received for 3,000,000 shares and on 1 February 2005 allotments were made as follows:

(1) Applications for 500,000 shares were refused and the monies returned.

(2) The remainder of the shares were allotted on a pro-rata basis, with money overpaid being retained towards the amount due on allotment.

All money due on allotment was duly received by 28 February 2005.

On 1 July 2005 the first and final call was made and all monies received, with the exception of money in respect of 2,000 shares. These have not yet been forfeited.

REQUIRED

(a) **Calculate the amount overpaid by successful applicants on application.**

(2 marks)

(b) **Record the above information in the following ledger accounts:**

(i) **Bank**

(ii) **Application and Allotment**

(iii) **Ordinary Share Capital**

(iv) **Share Premium**

(v) **Call**

Note: No dates are required and entries should be in $000.

(13 marks)

(c) **State 3 common differences between preferred shares and ordinary shares.**

(5 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Alan has asked you to produce a monthly cash budget in respect of a new product, for the period July to December 2006. The new product will be produced using spare capacity in Alan's factory.

He has given you the following information:

(1) Sales for July are budgeted at 500 units, rising by 100 units each month for the next 8 months. Selling price will be $75 per unit.

(2) All sales will be on credit with 75% of the revenue expected to be received in the month of sale, 20% in the month after sale and 5% in the month after that.

(3) Production each month is to be such as to satisfy the sales of that month and leave in inventory an amount equal to half the number sold in that month.

(4) Raw materials will cost $25 for each unit produced and will be purchased as required. The supplier will be paid the following month.

(5) Labour will be paid as incurred at the rate of $5 an hour. The first 1,000 of the total number of units produced will take 2 hours each, all subsequent units will take 1 hour each.

(6) The remaining costs will be:
Sundry variable costs of $3 per unit produced, paid in the month incurred
Supervisor's salary of $12,000 per year, paid monthly
Advertising of $1000 per month, paid quarterly in advance, starting July
Insurance $500 per year, paid in advance, in July

REQUIRED

Preparé for Alan, in columnar form, a monthly cash budget in respect of his new product for the six months July to December 2006. The cumulative cash surplus/deficit at the end of each month must be shown.

(20 marks)

QUESTION 4

Following is the draft Profit and Loss Account of the Valley Partnership for the year ended 31 December 2005:

		$000	$000
Sales			280
Less: Cost of goods sold:	Opening inventory	25	
	Purchases	223	
		248	
	Closing inventory	28	220
Gross profit			60
Administrative expenses		12	
Selling and distribution expenses		14	
Other expenses		9	35
Net profit			25

Partnership profit sharing arrangements during the year were as follows:

(1) From 1 January to 30 April Sam, Ross and Pendle shared profits in the ratio 3:2:1, after allowing for a salary of $9,000 per year to Sam.

(2) From 1 May to 31 August, Sam and Ross shared profits in the ratio 2:1, after allowing for a salary of $600 per month to Sam.

(3) From 1 September to 31 December Sam, Ross and Witch shared profits in the ratio 2:2:1, after allowing for salaries of $500 per month to each of Ross and Witch.

The following information relates to the division of revenue and expenses between the three periods of the year:

(A) Sales were twice as high in the four months ended 31 December as they were in the four months ended 31 August, which in turn were twice as high as they were in the four months ended 30 April.

(B) Closing inventories at 30 April and 31 August were $38,000 and $40,000 respectively.

(C) Gross profit to sales percentages were:

4 months to 30 April	20%
4 months to 31 August	25%
4 months to 31 December	20%

(D) Administrative expenses were three times as high in the first half of the year as they were in the second half of the year.

(E) Selling and distribution expenses varied directly with sales.

(F) Other expenses were incurred evenly over the year.

 CONTINUED ON NEXT PAGE

QUESTION 4 CONTINUED

REQUIRED

(a) Show the Profit and Loss Accounts of the Valley Partnership for each of the four month periods ending 30 April, 31 August and 31 December 2005. These should be in columnar form and in the same format as the Profit and Loss Account for the year.

(12 marks)

(b) Show, in columnar form, the Appropriation Accounts of the Valley Partnership for each of the four month periods ended 30 April, 31 August and 31 December 2005.

(8 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

You are given the following information about two private companies:

	TRAFFORD	FLIXTON
Price/Earnings ratio	3 times	5 times
Earnings per share	\$0.20	\$0.10
Dividend per share	\$0.04	\$0.02
Interest as a percentage of earnings per share	25%	20%

REQUIRED

(a) Calculate the following ratios for each of Trafford and Flixton:

(i) Dividend yield
(ii) Dividend cover
(iii) Earnings yield
(iv) Interest cover

Note: Ratios should be correct to 2 decimal places

(11 marks)

(b) Briefly discuss the following comments:

(i) "The price/earnings ratio is an indicator of how highly a company is regarded by the inventory market, the lower the ratio the more highly a company is regarded".

(ii) "The higher the dividend cover, the more prudent directors have been in declaring dividends and dividends are likely to rise in future".

(iii) "The price/earnings ratio and dividend cover ratio are of limited value because both depend on the market price per share which, by its nature, can fluctuate widely".

(9 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 6

Following are the Balance Sheets of Squires and its subsidiary Gate, two private companies, at 31 December 2005:

		SQUIRES		GATE
	$000	$000	$000	$000
ASSETS				
Non-current assets		380		150
Investment in Gate		216		-
		596		150
Current Assets				
Inventory	336		119	
Receivables	183		126	
Bank	73		19	
		592		264
Total assets		1,188		414
EQUITY AND LIABILITIES				
Capital and reserves				
Ordinary Share Capital		800		200
Share Premium		80		-
Accumulated profits		172		97
Equity		1,052		297
Current Liabilities				
Payables		136		117
Total equity and liabilities		1,188		414

The following additional information is available:

(1) Squires purchased 80% of the ordinary shares of Gate on 1 January 2002, when Gate had a DEBIT balance of $30,000 on its accumulated profits account. Goodwill on consolidation is being written off evenly over 5 years.

(2) Gate's fixed assets have been wrongly depreciated in 2005. Instead of using 20% on a reducing balance basis, 25% was inadvertently used.

(3) Included in Gate's inventory at 31 December 2005 are items purchased from Door, a private company, for $12,000. These can be sold for $14,000 but only after incurring selling costs of $4,000.

(4) Included in Gate's inventory at 31 December 2005 are goods purchased from Squires for $9,000. Squires had invoiced the goods to Gate at a mark up of 50% on cost.

(5) Squires' receivables at 31 December 2005 include an amount of $3,000 due from Gate.

(6) A cheque drawn by Squires for $1,000 on 30 December 2005 was not received by Gate until 5 January 2006.

QUESTION 6 CONTINUED

REQUIRED

(a) Calculate the following:

  (i) the balance of the goodwill on consolidation account at 31 December 2005

  (ii) the amount of additional depreciation charged in error by Gate

  (iii) the amount to write off Gate's inventory to allow for both net realisable value and consolidation

  (iv) the consolidated accumulated profits at 31 December 2005

  (v) the minority interest at 31 December 2005

(12 marks)

(b) Prepare the Consolidated Balance Sheet of the Squires Group at 31 December 2005. All figures are to be shown in $000's.

(8 marks)

(Total 20 marks)

LCCI International Qualifications

LCCI SERIES 3 EXAMINATION 2006

ACCOUNTING (IAS) LEVEL 3 (Code No: 3901) THURSDAY 8 JUNE 2006

ERRATUM NOTE

Please be aware of the following error in the LCCI Series 3 Examination 2006 in Accounting (IAS) Level 3 to be held on Thursday 8 June.

CANDIDATES SHOULD BE INSTRUCTED THAT THERE IS AN ERROR IN THE EXAMINATION PAPER.

The error is on **PAGE 7 – QUESTION 5 (b) (i) which should read as follows:**

(b) Briefly discuss the following comments:

(i) "The price/earnings ratio is an indicator of how highly a company is regarded by the stock market, the lower the ratio the more highly a company is regarded".

Please accept our apologies for any inconvenience caused.

Accounting (IAS) Level 3
Series 4 2006

How to use this booklet

Model Answers have been developed by Education Development International plc (EDI) to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCI International Qualifications. The contents of this booklet are divided into 3 elements:

(1)	Questions	– reproduced from the printed examination paper
(2)	Model Answers	– summary of the main points that the Chief Examiner expected to see in the answers to each question in the examination paper, plus a fully worked example or sample answer (where applicable)
(3)	Helpful Hints	– where appropriate, additional guidance relating to individual questions or to examination technique

Teachers and candidates should find this booklet an invaluable teaching tool and an aid to success.

EDI provides Model Answers to help candidates gain a general understanding of the standard required. The general standard of model answers is one that would achieve a Distinction grade. EDI accepts that candidates may offer other answers that could be equally valid.

Accounting (IAS) Level 3
Series 4 2006

QUESTION 1

The book-keeper of Ashford Partners has prepared draft accounts showing a net profit of $12,600 and a Suspense Account with a debit balance of $3,300. The following errors were subsequently discovered:

(1) The closing inventory of $3,826 had been included in the accounts at $3,628. The partnership uses a periodic inventory recording system.

(2) The proceeds of $1,500 from the sale of machinery had been credited to the Suspense Account and debited to the Bank Account. No other entries had been made in respect of this machinery which cost $3,800 and had accumulated depreciation of $2,000 at the date of sale. No depreciation is charged in the year of sale.

(3) Prepaid rent expense of $278 had been entered as an accrual.

(4) Accrued telephone expense of $148 had been entered as a prepayment of $184.

(5) Drawings by John Ashford of $400 had been debited to Suspense Account and credited to Bank Account.

(6) No entry had yet been made in respect of capital introduced by Peter Ashford of $3,000 just before the year end.

(7) A payment of $4,400 in respect of personal expenses incurred by the partners had been correctly credited in the Bank Account but no debit entry had been made.

REQUIRED

(a) **Prepare:**

(i) Journal entries (without narratives) showing the necessary amendments

(13 marks)

(ii) The Suspense Account

(2 marks)

(iii) A statement showing the corrected net profit

(2 marks)

The senior partner now comments that he has "every confidence" in the bookkeeper.

(b) **Give two reasons for concern about the bookkeeper's ability.**

(3 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Lordswood Social Club was formed many years ago. The Treasurer has provided the following information about the Club's financial affairs:

(1) ASSETS AND LIABILITIES AT 1 JANUARY 2005	$
Fixed assets at book value	12,000
Subscriptions in arrears	400
Subscriptions in advance	700
Bar inventory at cost	2,400
Bar wages accrued	280
Bar purchase payables	560
Bank (in hand)	2,100
Life membership subscription fund	4,200

(2) BANK TRANSACTIONS FOR YEAR ENDED 31 DECEMBER 2005	$
Subscriptions received for 2004	360
Subscriptions received for 2005 and 2006	45,000
Sale of fixed assets	2,100
Life membership subscriptions received	2,000
Bar revenue	78,000
Rent	12,000
Insurance	3,000
Purchase of fixed assets	44,200
Bar wages	14,000
Bar purchase payables	35,100

(3) **OTHER INFORMATION**

(i) One tenth of the life membership subscription fund at the **end** of each year is treated as income
(ii) Annual subscriptions over a year old are written off
(iii) Subscriptions in advance at 31 December 2005 were $380 and at that date subscriptions in arrears were $650, after writing off those over a year old
(iv) The fixed assets sold were sold at a loss of $200
(v) Fixed assets are depreciated at 10% of their book value at the **beginning** of the year
(vi) Bar inventory at cost was 30% higher at 31 December 2005 than it had been at 1 January 2005
(vii) Bar wages accrued at 31 December 2005 were $160
(viii) Bar purchase payables at 31 December 2005 were 10% lower in value than they had been at 1 January 2005

REQUIRED

(a) Calculate the Accumulated Fund of Lordswood Social Club at 1 January 2005

(3 marks)

(b) Prepare the Bar Trading Account and the Income and Expenditure Account of Lordswood Social Club for the year ended 31 December 2005

(10 marks)

(c) Prepare the Balance Sheet of Lordswood Social Club at 31 December 2005

(7 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

The following data is available in respect of Chatham, a private company:

	31 December 2004	31 December 2005
Fixed assets (book value)	$320,000	$460,000
Inventory	$36,000	$46,000
Payables	$8,000	$12,000
Balance at bank	-	$4,000
Bank overdraft	$2,000	-
Current ratio	4:1	5:1

Revenue in 2004 was $500,000 and net profit was $110,000.

In 2005 revenue increased by 20%, the gross profit margin increased by 10 percentage points, the gross profit was $300,000, but the net profit margin declined by 5 percentage points.

All revenue and purchases are made on credit and there were no liabilities due beyond one year.

REQUIRED

(a) **Construct the Income Statements of Chatham for 2004 and 2005 showing revenue, cost of sales, gross profit, expenses and net profit.**

(5 marks)

(b) **Calculate the following in respect of both 2004 and 2005:**

(i) **year end receivables**
(ii) **acid test (quick) ratio**
(iii) **inventory turnover (based on closing inventory and expressed in days)**
(iv) **receivables collection period (expressed in days)**
(v) **payables settlement period (based on cost of goods sold and expressed in days)**
(vi) **return on capital employed**

(12 marks)

(c) **Give two limitations of ratio analysis**

(3 marks)

(Total 20 marks)

SECTION B

QUESTION 4

Following are extracts from the Consolidated Balance Sheet of Cray, a public company, and its subsidiary Fleet, a private company, at 31 March 2005:

	$000
Intangible Fixed Assets	
Goodwill on consolidation	40
Capital and Reserves	
Ordinary share capital ($1 Shares)	200
Accumulated profits	240
Minority Interest	126

Cray acquired 60% of the Ordinary Shares in Fleet on 1 April 2002. Goodwill is being amortised evenly over five years. Fleet has an issued Ordinary Share Capital of 100,000 shares of $1 each. The accumulated profits of Cray at 31 March 2005 were $120,000.

REQUIRED

Calculate:

(a) The goodwill arising on the acquisition of Fleet on 1 April 2002.

(2 marks)

(b) The amount of the consolidated accumulated profits at 31 March 2005 attributable to Fleet

(3 marks)

(c) The amount of the accumulated profits in Fleet at 31 March 2005 attributable to the minority interest

(2 marks)

On 1 April 2005 Cray acquired a second subsidiary, Newport, a private company. Consideration consisted of 120,000 $1 Ordinary Shares in Cray issued at a premium of $0.50 and 90% of Newport's Ordinary Shares were acquired. Goodwill arising on consolidation was $90,000.

REQUIRED

(d) Prepare, without narrative, the Journal entry in the books of Cray showing the acquisition of the shares in Newport.

(3 marks)

(e) Calculate Newport's net assets at 1 April 2005

(3 marks)

(f) Calculate the total amount of goodwill to be shown in the Consolidated Balance Sheet of Cray at 31 March 2006. Goodwill on the acquisition of Newport is being amortised evenly over three years

(2 marks)

Cray acquired the shares in Newport by issuing shares in Cray to Newport's shareholders. Alternatively it could have purchased the shares in Newport for cash. The following comments were made by directors of Cray in relation to the acquisition:

 CONTINUED ON NEXT PAGE

QUESTION 4 CONTINUED

(1) "Paying cash would have meant no dilution in the control exercised by the existing shareholders of Cray and that no goodwill would have arisen".

(2) "The key issue is not whether cash or shares were used for the acquisition but the future prospects of Newport in relation to the price paid".

REQUIRED

(g) Comment briefly on EACH of the above comments

(5 marks)

(Ignore the possibility of merger accounting throughout)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

Dorking, a private company, commenced business on 1 October 2003, and on that date acquired the following fixed assets:

	$
Land and buildings (including land $80,000)	200,000
Plant and machinery	140,000
Fixtures and fittings	75,000

Depreciation policies are as follows:

Buildings	: written off evenly over 50 years
Plant and machinery	: 30% per annum, reducing balance basis
Fixtures and fittings	: sum of the year's digits method assuming a 5 year life

In the three years ended 30 September 2006 the following transactions took place:

1 October 2004	: purchased plant and machinery for $12,000 and sold fixtures and fittings, originally costing $30,000, for $12,300
1 October 2005	: land and buildings were revalued at $300,000 (including land $108,000)

REQUIRED

(a) Calculate the total amount charged for depreciation (excluding any profit or loss on disposal) for EACH of the three years ended 30 September 2004, 2005 and 2006.

(9 marks)

(b) Prepare Journal entries (with narratives) recording the transactions on 1 October 2004 and on 1 October 2005.

(8 marks)

(c) For the year ended 30 September 2005 state the figures which would appear in the Cash Flow Statement of Dorking, and associated schedules, relating to fixed assets.

(3 marks)

(Total 20 marks)

QUESTION 6

Below is the Share Capital and Reserves section of the Balance Sheet at 31 December 2005 for Shearness, a private company.

	$000
Ordinary Shares ($0.50 each)	450
12% Preferred Shares ($1.00 each)	200
Share Premium	180
Accumulated profits	210
	1,040

Shearness is to purchase 150,000 of its own Ordinary Shares for $1.80. This will be partly financed by an issue of 40,000 Ordinary Shares at $1.30 each. The Ordinary Shares being purchased were originally issued at a premium of $0.50 per share.

REQUIRED

(a) Calculate, based on the above:

(i) The change in the Company's bank balance

(3 marks)

(ii) The revised balance on the Share Premium Account assuming maximum use is made of this Account

(5 marks)

(iii) The required transfer to the Capital Redemption Reserve Account

(3 marks)

(iv) The revised number of Ordinary Shares in issue

(3 marks)

(b) Give 3 possible reasons why companies might buy back or redeem their own shares

(6 marks)

(Total 20 marks)

LCCI International Qualifications

Series 3 Examination 2007

CERTIFICATE IN ACCOUNTING (IAS)

Level 3

Thursday 7 June

Subject Code: 3901

Time allowed: **3 hours 30 minutes**

INSTRUCTIONS FOR CANDIDATES

- Answer the **2 compulsory questions** (Questions 1 and 2 in Section A) and **3 other questions** from Section B.
- You must attempt the compulsory questions or you will not be eligible for a Pass.
- Study the "**REQUIRED**" section of each question carefully. Then extract from the information supplied the data required for your answers.
- All questions carry equal marks.
- Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered, but need not be in numerical order.
- Show workings, where appropriate, in your answer book.
- You may use a calculator, provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.

SECTION A

(Answer Questions 1 and 2 in Section A – Compulsory)

QUESTION 1

Paddington, a sole trader, has the following list of balances at 31 December 2006:

	$
Capital	192,500
Drawings	28,000
Fixed assets (NBV at 1 January 2006)	140,000
Bank (in hand)	18,560
Cash	2,000
Revenue	247,000
Purchases	120,000
Inventory (at 1 January 2006)	5,000
Receivables	42,000
Provision for doubtful debts (at 1 January 2006)	4,400
Payables	10,800
Wages	52,010
Rent	32,000
Sundry expenses	15,130

Despite the trial balance agreeing, the following errors were subsequently discovered:

(1) Paddington had paid himself a salary of $1,000 per month and included this in wages

(2) Contras of $3,000 between receivables and payables had been recorded by increasing both receivables and payables by that amount

(3) Closing inventory had been valued at $16,000, but included an item costing $750 which Paddington believes could only be sold for $300. Selling costs of $50 would be incurred.

(4) No entries had been made in respect of a bad debt recovered of $600: a cheque for this amount was discovered in a drawer. In addition, bad debts of $1,000 needed to be written off and the provision for doubtful debts adjusted to 10% of the revised receivables figure

(5) Fixed assets with a net book value of $5,000 have been sold for $3,000. This had been recorded by debiting bank and crediting revenue with $3,000. It is Paddington's policy to calculate depreciation each year by taking 15% of the net book value of assets held at the end of the year

(6) No provision had been made for the accountant's fee of $1,000.

REQUIRED

(a) Prepare the Income Statement of Paddington for the year ended 31 December 2006 and his Balance Sheet at that date.

(17 marks)

(b) Give **three** reasons why, despite a Trial Balance balancing, there can still be errors in the underlying book-keeping.

(3 marks)

(Total 20 marks)

SECTION A CONTINUED

QUESTION 2

Upminster, a public company, depreciates freehold property at 2% per year on cost, calculations being done on a monthly basis. On 1 January 2006 the books showed freehold property costing $200,000, with a net book value of $80,000. On 1 July 2006 the freehold property was revalued by a qualified independent valuer at $260,000. The directors of Upminster have decided to incorporate this value in its books.

Upminster depreciates motor vehicles at 25% per year on cost. A full year's depreciation is charged in the year of purchase but none in the year of sale. On 1 January 2006 the books showed vehicles costing $80,000, with a net book value of $52,000. On 1 July 2006 Upminster acquired an entire fleet of new vehicles costing $210,000. The supplier accepted the old vehicles in part exchange, at a value of $46,000, and the balance was paid by cheque.

REQUIRED

(a) Prepare the necessary ledger accounts of Upminster (excluding Bank and Income Statement) to record the above transactions for the year ended 31 December 2006.

(15 marks)

(b) Show extracts from Upminster's Cash Flow Statement for the year ended 31 December 2006, resulting from the above transactions.

(5 marks)

(Total 20 marks)

SECTION B

(Answer any THREE questions from Section B)

QUESTION 3

Circle, a private company, keeps a Purchase Ledger Control Account, which is part of its double entry book-keeping system. The underlying individual payables accounts are for memorandum purposes only. The following information is available in relation to payables for December 2006:

		$
Opening balances:	Purchase Ledger Control Account	14,516
	Bayswater Account	2,174
	Victoria Account	1,762
	Westminster Account	2,142
	Embankment Account	3,426
	Temple Account	3,716
	Blackfriars Account	1,296
Purchases:	Bayswater Account	486
	Victoria Account	1,201
	Temple Account	4,163
	Monument Account	1,437
	Aldgate Account	912
Purchase returns:	Temple Account	307
	Aldgate Account	621
Bank (payments):	Victoria Account	2,100
	Westminster Account	711
	Embankment Account	1,428
	Temple Account	1,511
	Blackfriars Account	1,296
	Aldgate Account	200
Discounts received:	Victoria Account	120
	Westminster Account	100

REQUIRED

(a) Write up the Purchase Ledger Control Account of Circle for December 2006, showing clearly the opening and closing balances.

(3 marks)

(b) Write up the individual Purchase Ledger Accounts of Circle for December 2006, showing clearly the opening and closing balances on each account.

(8 marks)

(c) Reconcile the total of the list of Purchase Ledger balances at 31 December 2006 with the balance on the Purchase Ledger Control Account at that date.

(4 marks)

(d) Give **three** reasons why the Purchase Ledger Control Account balance might not agree with the total of the individual Purchase Ledger balances.

(5 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 4

Southall and Hayes entered into a joint venture on 1 June 2006. The joint venture was to run for three months and the agreement stated that profits would then be divided between Southall and Hayes in the ratio 2 : 1 respectively.

At the end of the three month period Southall prepared the following memorandum account:

Southall and Harlington
Memorandum Joint Venture Account
for the Year Ended 30 September 2006

	$		$
Purchases	6,250	Sales	12,600
Purchases	31,200	Sales	21,200
Purchase returns	400	Sales returns	280
Purchases	14,000	Goods sent from Southall to Hayes	510
Goods sent from Hayes to Southall	850	Storage costs	220
Transport costs	300	Allowance to Hayes for use of car on Joint Venture business	600
Transport costs	200	Sales	25,100
Inventory taken over by Southall	1,220		
Loss: Southall	3,045		
Hayes	3,045		
	60,510		60,510

Hayes is convinced that this memorandum account is incorrect.

REQUIRED

(a) Redraft the Memorandum Joint Venture Account, in good style, showing the division of the correct profit/loss between the venturers. You may assume that Southall's figures (other than the loss) are correct.

(15 marks)

(b) State whether or not the Memorandum Joint Venture Account is part of the double entry book-keeping system of:

(i) Southall
(ii) Hayes

(2 marks)

(c) State why it is necessary for each venturer to keep a separate Joint Venture Account in his/her books and state what it contains.

(3 marks)

(Total 20 marks)

SECTION B CONTINUED

QUESTION 5

Barbican, a public company, has an authorised share capital of 6,000,000 $1 ordinary shares. The issued share capital at 31 December 2006 was 2,000,000 $1 ordinary shares, issued at par and fully paid.

On 1 January 2007 a further 2,000,000 ordinary shares were offered for sale at $1.20, payable as follows:

	$
On application (including premium)	0.55
On allotment	0.15
On first and final call on 1 April 2007	0.50
	1.20

The following applications were received:
Category A - 200 applicants for 10,000 shares each
Category B - 100 applicants for 5,000 shares each
Category C - 100 applicants for 1,000 shares each.

The Directors of Barbican decided to allocate the shares as follows:
Category A - each applicant to receive 7,500 shares
Category B - each applicant to receive 4,000 shares
Category C - each applicant to receive 1,000 shares.

Any balance of money received on application was to be applied to the amounts due on allotment. All outstanding money was received on both application and allotment and Barbican repaid the excess money received.

All monies were received in respect of the call, except for one shareholder who failed to pay the call on 1,000 shares allotted to him. These shares were forfeited and reissued at $1.80 per share.

REQUIRED

(a) Explain the difference between the authorised share capital and the issued share capital of a company. State whether or not it is possible for the issued share capital of a company to be higher than its authorised share capital. (3 marks)

(b) (i) Calculate the total amount payable on allotment by two applicants in Category C
(ii) Calculate the amount refundable on allotment to three applicants in Category A. (6 marks)

(c) Calculate the total amount that will be credited to the Share Premium Account as a result of the forfeiture and reissue of the 1,000 shares. (4 marks)

Setting a price for a new issue of existing shares is always difficult.

REQUIRED

(d) On the evidence provided by the question, suggest whether the issue price should have been higher or lower than $1.20, giving your reasons. (3 marks)

The Balance Sheet of Farrington, a public company, at 31 March 2007 included 100,000 redeemable shares of $1 each and retained earnings of $250,000. On that date it was decided to redeem 80,000 redeemable shares at par.

REQUIRED

(e) Record the above transaction using journal entries. No narratives are required. (4 marks)

(Total 20 marks)

QUESTION 6

On 1 January 2004 Amersham, a private company, paid $320,000 to acquire 70% of the share capital of Chesham, a private company. On that date Chesham had a credit balance of $30,000 in its Accumulated Profit Account. Group policy is to amortise goodwill over a period of 10 years.

The summarised Balance Sheets of the two companies at 31 December 2006 were as follows:

	Amersham	Chesham
	$	$
Tangible fixed assets	200,000	160,000
Investment: Shares in Chesham	320,000	-
Inventory	40,000	50,000
Receivables	33,000	13,000
Bank	4,000	2,000
Payables	(21,000)	(9,000)
	576,000	216,000
	$	$
Ordinary Share Capital	400,000	240,000
Accumulated profit	176,000	(24,000)
	576,000	216,000

At 31 December 2006 Chesham had in inventory goods transferred to it from Amersham valued at $10,000. These had been charged to Chesham at 10 times their cost to Amersham. No dividends have been paid by either company since 2003.

REQUIRED

(a) Prepare the Consolidated Balance Sheet of the Amersham Group at 31 December 2006.
(12 marks)

Several shareholders in Amersham and the minority shareholders of Chesham are unhappy with the performance of the group. Comments made include the following:

(i) "Chesham has made losses since acquisition. This indicates bad management."

(ii) "By transferring goods from Amersham to Chesham at 10 times their cost, the directors of Amersham are treating Chesham unfairly and possibly defrauding the minority shareholders in Chesham."

(iii) "We have had no dividends for three years. Dividends should be paid immediately."

(iv) "Dividends cannot be paid unless there is cash available, but neither company has much in the bank."

REQUIRED

(b) Critically discuss each of the above comments.

(8 marks)

(Total 20 marks)

LCCI International Qualifications

Series 4 Examination 2007

CERTIFICATE IN ACCOUNTING (IAS)

Level 3

Friday 23 November

Subject Code: 3901

Time allowed: **3 hours 30 minutes**

INSTRUCTIONS FOR CANDIDATES

- Answer the **2 compulsory questions** (Questions 1 and 2 in Section A) and **3 other questions** from Section B.
- You must attempt the compulsory questions or you will not be eligible for a Pass.
- Study the "**REQUIRED**" section of each question carefully and extract from the information supplied the data required for your answers.
- All questions carry equal marks.
- Write your answers in blue or black ink/ballpoint. Pencil may be used only for graphs, charts, diagrams etc.
- Begin your answer to each question on a new page.
- All answers must be correctly numbered, but need not be in numerical order.
- Workings must be shown.
- You may use a calculator, provided the calculator gives no printout, has no word display facilities, is silent and cordless. The provision of batteries and their condition is your responsibility.

QUESTION 1

Pang, Tile and Gore are in partnership sharing profits/losses in the ratio 3:2:1 respectively, after allowing for a salary of $5,000 per year to Tile. From 1 July 2006, Pang became entitled to a salary of $3,000 per year.

After calculating the draft net profit for 2006, the following matters were discovered:

(i) Closing inventory had been included in the accounts as $17,200, when it should have been recorded as $12,700

(ii) On 31 December 2006, Pang had taken over a vehicle (net book value $4,800) at an agreed valuation of $5,000. This had been recorded by increasing sales and receivables by $5,000. The partnership does not record accumulated depreciation separately

(iii) No entries had been made in respect of accrued gas expense of $400 and prepaid rent expense of $720

(iv) In December 2006, a debt of $350, written off during 2006 as bad, was unexpectedly received in full. This had been recorded by debiting the bank and crediting the receivable, but no other entry had been made.

AFTER adjusting for the matters above, the net profit of the partnership for 2006 was $84,500.

REQUIRED

Prepare:

(a) journal entries, (without narratives), showing how matters (i) to (iv) above were corrected in the books of the partnership. (7 marks)

(b) a statement showing the draft net profit of the partnership for 2006 BEFORE the corrections shown in (a) above. (5 marks)

(c) the Appropriation Account of the partnership for the year ended 31 December 2006. (4 marks)

"Giving a salary to Pang will increase his motivation and increase the amount of profit available for Tile and Gore".

REQUIRED

(d) Briefly discuss the above statement. (4 marks)

(Total 20 marks)

QUESTION 2

The Consolidated Balance Sheet of Didcott, a public company, for the year ended 31 December 2006, prepared by an inexperienced accountant, was as follows:

			$000	$000
NON CURRENT ASSETS				
Tangible	-	Land and Buildings		2,000
	-	Plant and Machinery		400
Intangible	-	Goodwill		700
				3,100
CURRENT ASSETS				
Inventory			512	
Receivables			278	
Bank			14	804
				3,904
CAPITAL AND RESERVES				**$000**
Share Capital in $1 Ordinary Shares				1,500
Accumulated Profit				1,820
				3,320
MINORITY INTEREST				324
				3,644
CURRENT LIABILITIES				
Creditors and accruals				260
				3,904

Didcott purchased 80% of the Ordinary Shares in Parkway, a private company, (its only subsidiary) on 1 January 2003. Goodwill arising on the consolidation was $1,000,000 and is being written off evenly over 10 years.

The following matters require attention:

(1) No goodwill on consolidation was written off in respect of 2006
(2) No depreciation has been provided in respect of plant and machinery for 2006. Depreciation of $30,000 is necessary in the accounts of Didcott and $20,000 in the accounts of Parkway
(3) During 2006, Parkway sold goods to Didcott for $75,000. These goods were invoiced by Parkway at cost plus 25%. At 31 December 2006 two thirds (by value) of these goods were still in Didcott inventory valued at their cost to Didcott
(4) It has now been decided to set up a provision for bad debts equal to 2½% of Parkway receivables, which total $200,000
(5) It has been discovered that Didcott owed $3,000 for electricity at 31 December 2006
(6) Intercompany indebtedness of $8,000 has been included in both the consolidated receivables and the consolidated payables.

REQUIRED

(a) Calculate at 31st December 2006:

(i) the corrected Consolidated Accumulated Profit balance

(ii) the corrected Minority Interest balance. (10 marks)

(b) Prepare the corrected Consolidated Balance Sheet of Didcott at 31 December 2006. (10 marks)

(Total 20 marks)

QUESTION 3

Twyford, a private company, began trading on 1 April 2005, but decided to prepare its year end accounts at 31 December each year. The following information relates to the first 21 months of operation:

	Nine months ended 31 December 2005	Year ended 31 December 2006
	$	$
Sales	126,000	137,000
Cost of goods sold	104,000	110,000
Closing inventory	12,100	12,300
Closing trade receivables	15,200	19,600
Closing trade payables	13,900	14,600

All sales and purchases were on credit.

REQUIRED

(a) Calculate, to the nearest whole day and in respect of EACH of the two accounting periods, the following ratios:

(i) inventory turnover period
(ii) receivables' collection period
(iii) payables' settlement period. (10 marks)

It is often stated that companies should minimise the time that they take to collect money from receivables and maximise the time that they take to pay their payables.

REQUIRED

(b) Give two advantages and two disadvantages of minimising the time taken to collect receivables. (5 marks)

(c) Give two advantages and two disadvantages of maximising the time taken to pay payables. (5 marks)

(Total 20 marks)

QUESTION 4

Reading, a private company, imports model trains from China, paints them and puts them in attractive boxes before selling them to retail shops. The company imports three different models, whose financial details are as follows:

	STEAM $ per train	DIESEL $ per train	ELECTRIC $ per train
Purchase price before trade discount	5.20	5.90	7.20
Import taxes	0.52	0.59	0.72
Trade discount received	0.78	0.89	1.04
Settlement discount received	0.26	0.30	0.36
Painting	1.40	1.20	1.10
Boxes	0.60	0.70	0.40
Carriage outwards	0.50	0.55	0.60
Carriage inwards	0.30	0.20	0.22
Selling costs	0.40	0.35	0.60
Selling price	6.10	11.30	10.90
	UNITS	**UNITS**	**UNITS**
Trains in inventory at 30 June 2007	340	410	380

All trains in inventory had been boxed, ready for dispatch.

REQUIRED

(a) Calculate the amount which should appear in Reading's Balance Sheet at 30 June 2007 in respect of inventory.

(10 marks)

Reading purchased a new painting machine on 1 July 2006 for $10,000. This is expected to last 5 years and have a residual value of $2,000.

REQUIRED

(b) Calculate, to the nearest $, the depreciation charge for the painting machine for each of the 5 years ending 30 June 2007 to 2011, using each of the following methods:

(i) straight line
(ii) reducing balance at a rate of 50% per annum
(iii) sum of the years' digits. (7 marks)

Most companies have their inventory counted at their year end.

REQUIRED

© Give three reasons why it may also be beneficial to inspect and record fixed assets at the year end.

(3 marks)

(Total 20 marks)

QUESTION 5

The Balance Sheets of Cholsey, a private company, at 31 December 2005 and at 31 December 2006 were as follows:

	2005		2006	
	$	$	$	$
ASSETS				
Land and buildings		28,400		42,300
Plant and machinery		18,927		31,200
Fixtures and fittings		13,736		12,101
		61,063		85,601
CURRENT ASSETS				
Inventory	12,327		17,986	
Receivables	12,417		15,812	
Bank	4,176		-	
		28,920		33,798
TOTAL ASSETS		89,983		119,399
		$		$
EQUITY AND LIABILITIES				
CAPITAL AND RESERVES				
Ordinary Shares $1 each		10,000		30,000
Share premium		12,000		12,000
Revaluation (related to land and buildings)		-		12,400
General reserve		20,000		-
Accumulated Profits		16,783		17,636
EQUITY		58,783		72,036
TOTAL ASSETS				
NON CURRENT LIABILITIES				
10% Debentures (Issued 1 Jan 2006)		-		5,000
CURRENT LIABILITIES				
Payables	31,200		35,200	
Bank Overdraft	-		7,163	
		31,200		42,363
TOTAL EQUITY AND LIABILITIES		89,983		119,399

The following information is also available:

(1) The only sale of fixed assets during 2006 was of plant and machinery, with a net book value of $780, which was sold for $1,200
(2) Payables at 31 December 2006 include $1,200 owing for the purchase of fittings
(3) Depreciation charged in respect of 2006 was:

	$
Land and buildings	380
Plant and machinery	2,300
Fixtures and fittings	3,230

(4) A bonus (capitalisation) issue of shares was made from the general reserve during 2006
(5) The net profit for the year ended 31 December 2006 was $4,800 and a dividend was proposed and paid during the year.

REQUIRED

(a) Prepare the Cash Flow Statement of Cholsey for the year ended 31 December 2006, in accordance with IAS 7.

(Total 20 marks)

QUESTION 6

Banbury is a retailer of cabinets with a head office in Southam. On 1 January 2006, he opened a branch in Leamington. He set up the following system for the branch:

1. All double entry records would be kept in the head office books
2. Cabinets, all purchased by head office, would be invoiced to Leamington at a selling price set to earn a gross profit on sales of 20%
3. When purchase prices fell, the value of the existing inventory would be reduced to reflect this fall.

During the year ended 31 December 2006, the following occurred in relation to the Leamington branch:

(1) Head office purchased 1,200 cabinets for $120 each in the first nine months, and sent 90% of them to the Leamington branch
(2) Head office purchased 400 cabinets for $100 each in the last three months, and sent 80% of them to the Leamington branch
(3) Branch sales were 1,000 cabinets in the first nine months and 240 cabinets in the last three months
(4) Faulty cabinets returned to head office totalled 60 in the first nine months, and 40 in the last three months
(5) Head office made the following payments on behalf of the Leamington branch:
$4,200 rent for the first fifteen months
$20 per week for sundry expenses
$90 per week for staff salaries
$1,750 per month for the Branch Manager's salary
10% of salaries to a pension fund for staff and manager
(6) Staff were entitled to a commission of 1% of sales revenue. The manager did not share in this
(7) No inventory was lost or damaged during 2006.

REQUIRED

(a) Prepare the following Accounts, in respect of the Leamington branch of Banbury, for the year ended 31 December 2006, as they would appear in the head office books:

(i) Branch Inventory
(ii) Branch Inventory Adjustment
(iii) Branch Income Statement (18 marks)

(b) State two reservations that you might have about the arrangements for the commission.
(2 marks)

(Total 20 marks)

