Pearson LCCI

Certificate in Accounting (VRQ)

Level 3

Wednesday 7 September 2016
Time: 3 hours

Paper Reference
ASE20104

Complete the details below in block capitals.

Candidate name

Centre Code

Candidate Number

Candidate ID Number

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen
  – *pencil can only be used for graphs, charts, diagrams, etc.*
- **Fill in the boxes** at the top of this page with your name, candidate number, centre code and your candidate ID number.
- Answer **all** questions.
- Answer the questions in the spaces provided
  – *there may be more space than you need.*
- You must show your workings.

Information

- The total mark for this paper is 115.
- The marks for **each** question are shown in brackets
  – *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ▶

1/1/1/1

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PEARSON

Answer ALL questions. Write your answers in the spaces provided.

1 (a) State **one** reason why each of the following stakeholders may be interested in the financial statements of a business.

(2)

Government

....

....

Trade unions

....

....

(b) State **three** methods of funding the acquisition of non-current assets.

(3)

1 ....

....

2 ....

....

3 ....

....

(c) State **three** reasons why a company would maintain a non-current assets register.

(3)

1 ....

....

2 ....

....

3 ....

....

Pradip is considering investing \$100 000 in a new machine. It is expected that income will be generated from the investment over a five-year period. Depreciation is charged at 20% using the reducing (diminishing) balance method.

Year	**1**	**2**	**3**	**4**	**5**
Net cash inflow (\$000)	40	50	75	60	45

(d) Calculate the accounting rate of return.

(8)

(e) State **two** advantages of each of the following methods of investment appraisal.

(4)

Payback

1 ....

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2 ....

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Net present value

1 ....

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2 ....

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(Total for Question 1 = 20 marks)

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2 (a) Explain how ordinary share dividends are treated in the financial statements of a limited company.

(6)

Jameson plc provided the following information at 31 August 2015.

	$000
Share capital ($1 ordinary shares)	200
Share premium	50
General reserve	30
Retained earnings	85
Non-current assets (cost)	245
Non-current assets (accumulated depreciation)	35

- All non-current assets, except land, are depreciated at 15% per annum using the reducing (diminishing) balance method. The land had cost $120 000 and during the year was revalued upwards by 20%.
- On 31 December 2015 a rights issue of 2 ordinary shares for every 5 shares held was made at $1.20 per share. The issue was fully subscribed.
- On 31 March 2016 an interim dividend of $0.05 per share was paid.
- On 30 June 2016 an amount of $10 000 was transferred to the general reserve.
- The draft profit for the year ended 31 August 2016, before accounting for depreciation, was $32 500.

(b) Prepare the statement of changes in equity for Jameson plc for the year ended 31 August 2016 on page 7.

(11)

Jameson plc – Statement of changes in equity for the year ended 31 August 2016

	Share Capital ($)	Share Premium ($)	General Reserve ($)	Revaluation Reserve ($)	Retained Earnings ($)	Total ($)

(c) State **three** of the fundamental principles of professional ethics.

(3)

1 ....

....

2 ....

....

3 ....

....

(Total for Question 2 = 20 marks)

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3 Sachin, a sole trader, trades in only one product. He provided the following information for the year ended 31 August 2016.

	1 September 2015	**31 August 2016**
Inventory	$87 500	To be calculated
Trade receivables	$31 000	$27 900
Trade payables	$26 000	$23 400

During the year ended 31 August 2016:

- 20% of sales were paid by cash
- 15% of purchases were paid for by cash
- the mark-up on all goods sold was 25%
- Sachin received $245 000 from his trade receivables
- Sachin paid $215 100 to his trade payables
- the warehouse was destroyed by a fire and none of the inventory could be saved except for a small batch of 560 units valued at $5 600.

(a) Prepare the trading section of the statement of profit or loss for the year ended 31 August 2016.

(15)

Sachin is considering merging with another sole trader, Verat, to form a partnership. He has been provided with the following information about both businesses for the year ended 31 August 2016.

Ratio	**Sachin**	**Verat**
Gross profit margin	20%	25%
Net profit percentage	8%	6%
Return on capital employed	15%	20%
Current ratio	0.75:1	2.10:1
Quick ratio (acid test)	0.60:1	0.90:1

(b) Evaluate the profitability and liquidity of both businesses and advise Sachin whether he should proceed with this merger.

(10)

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(Total for Question 3 = 25 marks)

4 On 1 April 2015 Bilic plc purchased 48 000 shares in Wenger plc.

On 31 March 2016 the statements of financial position were:

	Bilic plc	Wenger plc
Assets	**$**	**$**
Non-current assets	130 000	55 000
Investment in Wenger plc	68 000	–
	198 000	55 000
Current assets		
Inventories	25 550	3 750
Trade and other receivables	11 480	8 950
Cash and cash equivalents	1 900	875
	38 930	13 575
Total assets	236 930	68 575
Equity and liabilities		
Equity		
Share capital	120 000	30 000
Share premium	30 000	10 000
Retained earnings	49 750	16 500
Total equity	199 750	56 500
Non-current liabilities		
Loan	25 000	6 000
Current liabilities		
Trade and other payables	10 694	5 688
Tax liabilities	1 486	387
	12 180	6 075
Total liabilities	37 180	12 075
Total equity and liabilities	236 930	68 575

- The share capital of both Bilic plc and Wenger plc consists of ordinary shares of $0.50 each. Share capital and share premium balances for both companies remained the same throughout the year.
- The retained earnings of Wenger plc grew by 10% during the year.
- The fair value of the tangible non-current assets of Wenger plc at 1 April 2015 was $45 000 and the carrying value at that date was $40 000. The revaluation has not been recorded in the books of Wenger plc.

Prepare the consolidated statement of financial position at 31 March 2016.

(20)

(Total for Question 4 = 20 marks)

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5 Rita Patel's budgeted sales and purchases for 2017 are expected to be:

	January ($)	**February ($)**	**March ($)**	**April ($)**	**May ($)**
Sales	400 000	420 000	350 000	380 000	430 000
Purchases	280 000	290 000	240 000	260 000	250 000

- 30% of sales are cash and these customers receive a 10% discount. The remainder are credit sales.
- 80% of credit sales are paid in the following month and receive a 5% discount. The balance is received in the second month after sale.
- 60% of purchases are cash, for which Rita receives a 5% discount. The balance is paid in the following month.
- Inventories held on 1 March 2017 are budgeted to be $300 000 and are expected to have fallen by 15% at 31 May 2017.
- Wages and salaries are expected to be $80 000 per month with a 10% increase in May 2017, and are paid in the month incurred.
- Rita's cash drawings are expected to be $180 000 per annum and these are drawn on an equal monthly basis.
- The current monthly depreciation charge is $200.
- On 1 April 2017 a new delivery van will be purchased costing $20 000. A 10% deposit will be paid on that date. The balance will be paid over three years on an interest free scheme with equal monthly payments commencing in the month after purchase. Depreciation is to be charged on a monthly basis at the rate of 15% per annum on a straight line basis.
- General expenses are expected to be $10 000 in January 2017 and to rise by 10% every month thereafter.
- The bank balance at 1 March 2017 is expected to be $15 500.

Use this space for your workings in Question 5.

(a) Prepare a cash budget for **each** of the three months March to May 2017.

(22)

Rita Patel – Cash budget for March–May 2017

	\$	**\$**	**\$**

(b) Prepare a budgeted statement of profit or loss for the three months ending 31 May 2017.

(8)

Rita Patel – Budgeted statement of profit or loss for the three months ending 31 May 2017

(Total for Question 5 = 30 marks)

TOTAL FOR PAPER = 115 MARKS

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