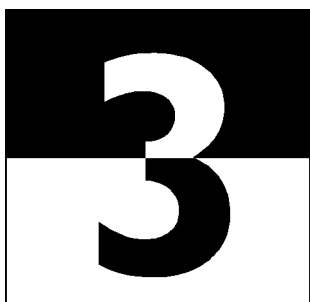


Certificate in

Accounting



Level 3

Series 3 2003

(Code 3001)

Model Answers

Certificate in Accounting Level 3

Series 3 2003

How to use this booklet

Model Answers have been developed by LCCIEB to offer additional information and guidance to Centres, teachers and candidates as they prepare for LCCIEB examinations. 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.

The London Chamber of Commerce and Industry Examinations Board provides Model Answers to help candidates gain a general understanding of the standard required. The Board accepts that candidates may offer other answers that could be equally valid.

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Certificate in Accounting Level 3 Series 3 2003

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 |
| Debtors/Creditors | 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 |
| | <u>289,850</u> | <u>289,850</u> |

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.

SECTION A CONTINUED

QUESTION 1 CONTINUED

- (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.

REQUIRED

- (a) **Prepare the Profit & Loss Account for the year to 31 March 2003.** (7 marks)
 - (b) **Prepare the Profit & Loss Appropriation Account for the six month period up to 30 September 2002.** (8 marks)
 - (c) **Prepare the Profit & Loss 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)**

Model Answer to Question 1

(a) **Profit & Loss Account Year ended 31 March 2003**

| | £000 | £000 |
|--|--------------|---------------|
| Sales of services | | 125,000 |
| <i>Less</i> | | |
| General expenses | 14,350 | |
| Salaries | 22,650 | |
| Light heat and power | 3,500 | |
| Advertising | 1,450 | |
| Travel | 2,650 | |
| Interest (10,400 x .10 x .5) | 520 | |
| Depreciation: | | |
| Premises (85,000 x .02) | 1,700 | |
| Equipment fixtures and fittings (80,000 x .10) | 8,000 | |
| Vehicles [(37,500 – 15,500) x .25] | <u>5,500</u> | <u>60,320</u> |
| Profit before adjustments | | <u>64,680</u> |

(b) **Workings**

| | £000 | £000 |
|--|-------------|---------------|
| Net profit as above | | 64,680 |
| <i>Add</i> Interest | | 520 |
| Derek's salary | | <u>10,000</u> |
| | | <u>75,200</u> |
| Profit for 6 months before interest and salary (.5 x 75,200) | | 37,600 |
| <i>Less</i> Derek's salary | | <u>10,000</u> |
| | | 27,600 |

Appropriation Account for 6 months ended 30 September 2002

| | | | |
|---------------------|-------------------------------|--------------|---------------|
| Interest on Capital | – Alan (.12 x .5 x 35,000) | 2,100 | |
| | – Barry (.12 x .5 x 40,000) | 2,400 | |
| | – Charles (.12 x .5 x 35,000) | <u>2,100</u> | <u>6,600</u> |
| | | | <u>21,000</u> |
| Profit share | – Alan | 7,000 | |
| | – Barry | 7,000 | |
| | – Charles | <u>7,000</u> | <u>21,000</u> |

Model Answer to Question 1 continued

(c) **Workings**

| | |
|-----------------------------------|---------------|
| | £000 |
| Profit before interest and salary | 37,600 |
| Less interest | <u>520</u> |
| | <u>37,080</u> |

Appropriation Account for 6 months ended 31 March 2003

| | | | |
|--------------|-----------------------------|--------------|---------------|
| Profit share | – Barry (40/100 x 37,080) | 14,832 | |
| | – Charles (35/100 x 37,080) | 12,978 | |
| | – Derek (25/100 x 37,080) | <u>9,270</u> | <u>37,080</u> |

(d) **Amount payable to Alan in April 2003**

| | |
|------------------------|--------------|
| | £000 |
| Interest on loan | 520 |
| Interest on capital | 2,100 |
| Profit share | <u>7,000</u> |
| | 9,620 |
| Less | |
| Drawings | <u>4,800</u> |
| Amount payable to Alan | <u>4,820</u> |

SECTION A CONTINUED

QUESTION 2

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

| Company | A | B | C |
|---------------------------------------|-------------|-------------|-------------|
| | £000 | £000 | £000 |
| Sales | 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 |
| Fixed Asset (book value) | 200 | 380 | 250 |
| Stock | 60 | 90 | 20 |
| Debtors | 50 | 60 | nil |
| Bank | 40 | (46)* | 116 |
| Creditors | 40 | 70 | 20 |
| Proposed dividend | 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) Stock 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)

Model Answer to Question 2

| (a) | Company | | |
|--|---------|------------------------------|-------------|
| (i) Gross profit as a percentage of cost of sales | A | $120/(600 - 120) \times 100$ | = 25.0% |
| | B | $135/(900 - 135) \times 100$ | = 17.6% |
| | C | $120/(400 - 120) \times 100$ | = 42.9% |
| (ii) Net profit to sales | A | $30/600 \times 100$ | = 5.0% |
| | B | $54/900 \times 100$ | = 6.0% |
| | C | $32/400 \times 100$ | = 8.0% |
| (iii) Return on capital employed | A | $30/(200 + 100) \times 100$ | = 10.0% |
| | B | $54/(350 + 50) \times 100$ | = 13.5% |
| | C | $32/(200 + 150) \times 100$ | = 9.1% |
| (iv) Current | A | $(60 + 50 + 40)/(40 + 10)$ | = 3.00:1 |
| | B | $(90 + 60)/(46 + 70 + 14)$ | = 1.15:1 |
| | C | $(20 + 116)/(20 + 16)$ | = 3.78:1 |
| (v) Stock turnover | A | $365/(600 - 120)/x 60$ | = 45.6 days |
| | B | $365/(900 - 135)/x 90$ | = 42.9 days |
| | C | $365/(400 - 120)/x 20$ | = 26.0 days |

- (b) Results from previous years
 The industry in which each company operates
 The market value of the shares
 A breakdown of the fixed assets

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 stock 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)

Model Answer to Question 3

(a) **Cash Budget for the period July to September**

| | £ July | £ Aug | £ Sept | £ Oct | £ Nov | £ Dec |
|-----------------------|---------------|----------------|-----------------|-----------------|----------------|---------------|
| Previous sales | 36,500 | — | — | — | — | — |
| Sales A | — | 18,000 | 18,000 | 18,000 | 27,000 | 27,000 |
| Sales B Deposit | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 | 2,500 |
| 1st pay | — | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| 2nd pay | — | — | 10,000 | 10,000 | 10,000 | 10,000 |
| 3rd pay | — | — | — | 10,000 | 10,000 | 10,000 |
| Total receipts | 39,000 | 30,500 | 40,500 | 50,500 | 59,500 | 59,500 |
| Labour A | 2,800 | 2,800 | 4,200 | 4,200 | 4,200 | 4,200 |
| Labour B | 4,500 | 4,500 | 4,500 | 4,500 | 4,500 | 4,500 |
| Material A | 10,800 | 16,200 | 16,200 | 16,200 | 16,200 | 16,200 |
| Material B | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 | 23,000 |
| Overheads | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Machine | — | — | 6,000 | — | — | — |
| Total payments | 42,600 | 48,000 | 55,400 | 49,400 | 49,400 | 49,400 |
| Opening Balance | 15,000 | 11,400 | (6,100) | (21,000) | (19,900) | (9,800) |
| Add receipts | <u>39,000</u> | <u>30,500</u> | <u>40,500</u> | <u>50,500</u> | <u>59,500</u> | <u>59,500</u> |
| | 54,000 | 41,900 | 34,400 | 29,500 | 39,600 | 49,700 |
| Less payments | <u>42,600</u> | <u>48,000</u> | <u>55,400</u> | <u>49,400</u> | <u>49,400</u> | <u>49,400</u> |
| Closing Balance | <u>11,400</u> | <u>(6,100)</u> | <u>(21,000)</u> | <u>(19,900)</u> | <u>(9,800)</u> | <u>300</u> |

(b) Short-term finance is needed of up to at least £21,000.

In making this calculation we have ignored any drawings that George might make.

SECTION B CONTINUED

QUESTION 4

The following is the most recent Balance Sheet of Fredrick Ltd:

| Tangible Fixed Assets | Cost £000 | Depreciation £000 | Net £000 |
|---|----------------------|------------------------------|---------------------|
| Buildings | 120 | 24 | 96 |
| Machinery | 480 | 250 | 230 |
| Vehicles | <u>60</u> | <u>30</u> | <u>30</u> |
| | <u>660</u> | <u>304</u> | <u>356</u> |
| Current Assets | | | |
| Stock | 120 | | |
| Debtors | 230 | | |
| Bank | <u>105</u> | 455 | |
| Less Liabilities due within one year | | | |
| Creditors | 180 | | |
| Proposed Dividend | <u>40</u> | <u>220</u> | <u>235</u> |
| | | | <u>591</u> |
| Authorised Share Capital | | | |
| 2,000,000 Ordinary Shares of 50p | | | <u>1,000</u> |
| Issued Share Capital | | | |
| 1,000,000 Ordinary Shares of 50p | | | 500 |
| Profit & Loss Balance b/f | | 51 | |
| Add Current Year's retained profit | | <u>40</u> | <u>91</u> |
| | | | <u>591</u> |

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 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 debtors 2 months to pay, which should increase sales to £4,000,000.
- (4) Increase administration costs by £15,000.
- (5) Keep stock and creditors 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 fixed assets, payment of dividend, investment in stock and debtors and the increase in creditors. (8 marks)

(Total 20 marks)

Model Answer to Question 4

| | |
|---|------------------|
| | £ |
| (a) Gross profit (2,760,000 x 60/160) | 1,035,000 |
| Net profit is (40,000 + 40,000) | 80,000 |
| Expenses in the year just ended | <u>955,000</u> |
| | |
| (b) Budgeted gross profit (4,000,000 x 55/155) | <u>1,419,355</u> |
| | £ |
| Expenses from (a) above | 955,000 |
| Additional Depreciation on new machinery (400,000 x .2) | 80,000 |
| | |
| Vehicle depreciation [($.25 \times (30,000 + 30,000) - (.25/.75 \times 30,000)$)] | 5,000 |
| Additional administration expenses | 15,000 |
| Total expenses for the next year | <u>1,055,000</u> |
| | |
| Net profit (1,419,355 - 1,055,000) = | <u>364,355</u> |
| | |
| (c) | £ |
| Increase by new shares (1,000,000 x .50) | + 500,000 |
| Cost of new machinery | - 400,000 |
| Cost of new vehicle | - 30,000 |
| Increase in debtors (($1/6 \times 4,000,000$) - 230,000) | - 436,667 |
| Increase in stock [($120,000 \times 4,000/2,760$) - 120,000] | - 53,913 |
| Increase in creditors [($180,000 \times 4,000/2,760$) - 180,000] | + 80,870 |
| Dividend paid | <u>- 40,000</u> |
| Net change in bank balance | <u>- 379,710</u> |

SECTION B CONTINUED

QUESTION 5

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

| | Holdings Ltd | | |
|---|---------------------|---------------------|--------------|
| | Cost | Depreciation | Net |
| | £000 | £000 | £000 |
| Fixed Assets | | | |
| Land and Buildings | 924 | 85 | 839 |
| Machinery | 2,145 | 452 | 1,693 |
| Vehicles | <u>327</u> | <u>57</u> | <u>270</u> |
| | <u>3,396</u> | <u>594</u> | 2,802 |
| Investment in Bretax | | | 792 |
| Current Assets | | | |
| Stock | 124 | | |
| Debtors | <u>76</u> | 200 | |
| Less liabilities due within one year | | | |
| Creditor | 143 | | |
| Bank Overdraft | <u>87</u> | <u>230</u> | <u>-30</u> |
| | | | <u>3,564</u> |
| Capital and Reserves | | | £000 |
| £1 Ordinary Shares | | | 3,000 |
| Profit & Loss Balance | | | <u>564</u> |
| | | | <u>3,564</u> |
| | | | |
| | Bretax Ltd | | |
| | Cost | Depreciation | Net |
| | £000 | £000 | £000 |
| Fixed Assets | | | |
| Land and Buildings | 200 | 30 | 170 |
| Machinery | 1,568 | 920 | 648 |
| Vehicles | <u>45</u> | <u>18</u> | <u>27</u> |
| | <u>1,813</u> | <u>968</u> | 845 |
| Current Assets | | | |
| Stock | 86 | | |
| Debtors | 57 | | |
| Bank | <u>24</u> | 167 | |
| Less Liabilities due within one year | | | |
| Creditor | | <u>37</u> | <u>130</u> |
| | | | <u>975</u> |
| Capital and Reserves | | | £000 |
| Ordinary Shares £1 | | | 800 |
| Profit & Loss Balance | | | <u>175</u> |
| | | | <u>975</u> |

Notes

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

SECTION B CONTINUED

QUESTION 5 CONTINUED

REQUIRED

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

- (i) Goodwill arising on consolidation** (4 marks)
- (ii) Consolidated retained earnings** (4 marks)
- (iii) Minority interest.** (1 mark)

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

(Total 20 marks)

Model Answer to Question 5

| | | |
|---------|-----------------------------------|-------------|
| (a) (i) | Goodwill | £000 |
| | Cost | 792 |
| | Less [(64/80 x (800 + 115))] | <u>732</u> |
| | Goodwill on acquisition | 60 |
| | Less written-off (2/5 x 60) | <u>24</u> |
| | | <u>36</u> |
| (ii) | Retained earnings | £000 |
| | Holdings Ltd | 564 |
| | Bretax Ltd [(.8 x (175 – 115))] | <u>48</u> |
| | | 612 |
| | Less unrealised profit (1/3 x 18) | <u>6</u> |
| | | 606 |
| | Less goodwill written-off | <u>24</u> |
| | | <u>582</u> |
| (iii) | Minority interest | £000 |
| | (.2 x 975) | <u>195</u> |

(b) **Consolidated Balance Sheet of Holdings Ltd
at 31 March 2003**

| | Cost £000 | Depreciation £000 | Net £000 |
|---|----------------------|------------------------------|---------------------|
| Fixed Assets | | | |
| Land and Buildings | 1,124 | 115 | 1,009 |
| Machinery | 3,713 | 1,372 | 2,341 |
| Vehicles | <u>372</u> | <u>75</u> | <u>297</u> |
| | <u>5,209</u> | <u>1,562</u> | 3,647 |
| Goodwill | | | 36 |
| Current Assets | | | |
| Stock (124 + 86 - 6) | 204 | | |
| Debtors (57 + 76 - 15) | 118 | | |
| Bank | <u>24</u> | 346 | |
| Less Liabilities due within one year | | | |
| Creditors (37 + 143 - 15) | 165 | | |
| Bank overdraft | <u>87</u> | <u>252</u> | <u>94</u> |
| | | | <u>3,777</u> |
| Capital and Reserves | | | |
| £1 Ordinary Shares | | | 3,000 |
| Profit & Loss | | | <u>582</u> |
| | | | 3,582 |
| Minority Interest | | | <u>195</u> |
| | | | <u>3,777</u> |

SECTION B CONTINUED

QUESTION 6

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

Balance Sheet at 31 March 2002

| | Cost £000 | Depreciation £000 | Net £000 |
|---|----------------------|------------------------------|---------------------|
| Fixed Assets | | | |
| Buildings | 230 | 46 | 184 |
| Machinery | 985 | 255 | 730 |
| Vehicles | <u>125</u> | <u>50</u> | <u>75</u> |
| | <u>1,340</u> | <u>351</u> | <u>989</u> |
| | | | |
| Current Assets | | | |
| Stock | 257 | | |
| Debtors | 348 | | |
| Bank | <u>105</u> | 710 | |
| | | | |
| <i>Less Liabilities due within one year</i> | | | |
| Creditors | 419 | | |
| Proposed dividend | <u>250</u> | <u>669</u> | <u>41</u> |
| | | | 1,030 |
| | | | |
| <i>Less 10% Debenture</i> | | | <u>200</u> |
| | | | <u>830</u> |
| | | | |
| Capital | | | |
| £1 Ordinary Shares | | | 600 |
| Retained Profits | | | <u>230</u> |
| | | | <u>830</u> |

SECTION B CONTINUED

QUESTION 6 CONTINUED

Balance Sheet at 31 March 2003

| | £000 | £000 | £000 |
|---|--------------|---------------------|--------------|
| Fixed Assets | Cost | Depreciation | Net |
| Buildings at valuation | 350 | – | 350 |
| Machinery | 1,250 | 455 | 795 |
| Vehicles | <u>125</u> | <u>75</u> | <u>50</u> |
| | <u>1,725</u> | <u>530</u> | 1,195 |
| Current Assets | | | |
| Stock | 317 | | |
| Debtors | <u>312</u> | 629 | |
| Less Liabilities due within one year | | | |
| Creditors | 389 | | |
| Bank overdraft | 85 | | |
| Proposed dividend | <u>150</u> | <u>624</u> | <u>5</u> |
| | | | <u>1,200</u> |
| Capital | | | |
| £1 Ordinary shares | | | 900 |
| Retained Profits | | | <u>300</u> |
| | | | <u>1,200</u> |

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 maximum use of any non-distributable reserves.
- (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 plc
- (ii) the net cash inflow from operating activities.

(13 marks)

(b) Prepare the Cash Flow Statement of Pelagir plc for the year ended 31 March 2003 in accordance with FRS1 (Revised).

(7 marks)

(Total 20 marks)

Model Answer to Question 6

| | |
|---|-------------|
| (a) (i) Operating Profit | £000 |
| Growth in retained profits (300 – 230) | 70 |
| Bonus issue [(900 – 600) – (350 – 184)] | 134 |
| Provision for dividend | 150 |
| Premium on debentures (200 x 0.5) | 10 |
| Debenture Interest (.5 x 10 x 200) | <u>10</u> |
| | <u>374</u> |

| | |
|---|-------------|
| (ii) Cash inflow from operating activities | £000 |
| Operating Profit as above | 374 |
| Profit on machinery disposal (8 – 10) | (2) |
| Depreciation on machinery [(455 – (255 + 34 – 8)] | 226 |
| Depreciation on vehicles (75 – 50) | 25 |
| Increase in stock (317 – 257) | (60) |
| Decrease in debtors (348 – 312) | 36 |
| Decrease in creditors (419 – 389) | <u>(30)</u> |
| | <u>569</u> |

(b) **Pelagic Cash Flow Statement for year ended 31 March 2003**

| | £000 | £000 |
|---|-------------|--------------|
| Net cash flow from operating activities | | 569 |
| Return on investment and servicing of finance | | |
| Interest paid | | (10) |
| Capital expenditure: | | |
| Purchase of machinery [(1,250 – (985 – 34)] | (299) | |
| Proceeds of sale | <u>10</u> | (289) |
| Equity dividends paid | | <u>(250)</u> |
| | | 20 |
| Financing | | |
| Redemption of Debenture (200 x 1.05) | | <u>(210)</u> |
| Decrease in cash (105 + 85) | | <u>(190)</u> |



**EXAMINATIONS
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