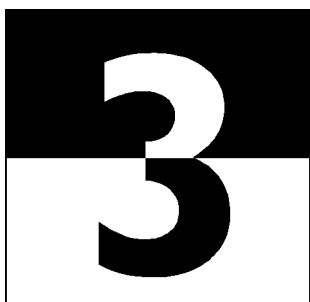


Certificate in

Accounting (IAS)



Level 3

Series 3 2004

(Code 3901)

Model Answers

Certificate in Accounting (IAS) Level 3

Series 3 2004

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.

© Education Development International plc 2004

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the Publisher. The book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover, other than that in which it is published, without the prior consent of the Publisher.

Certificate in Accounting (IAS) Level 3 Series 3 2004

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	<u>22,000</u>	
	<u>182,000</u>	<u>182,000</u>

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)**

Model Answer to Question 1

(a)	Appropriation Account for year ended 31 March 2004		
	\$		\$
Loss for the year:	22,000	Loss: George	7,775
Interest on Capital: George	4,500	Arthur	7,775
Arthur	3,000	Elizabeth	7,775
Elizabeth	1,000	Alan	7,775
Alan	600		
	<u>31,100</u>		<u>31,100</u>
(b)	Dissolution Account		
	\$		\$
Machinery (55,000 – 37,500)	17,500	Bank: Rent	1,450
Vehicles (63,000 – 35,600)	27,400	Receivables	18,390
Furniture (18,650 – 8,450)	10,200	Machinery	14,300
Receivables	18,450	Furniture	6,250
Rent	1,450	Vehicles	<u>7,300</u>
Insurance	640		47,690
Bank: costs	750		
	<u>76,390</u>	Capital:	
		George (Vehicle)	8,200
		Arthur (Vehicle)	4,300
		Loss c/d	<u>16,200</u>
			<u>76,390</u>
Loss b/d	16,200	Loss: George	4,050
		Arthur	4,050
		Elizabeth	4,050
		Alan	4,050
	<u>16,200</u>		<u>16,200</u>

Model Answer to Question 1 continued

(c) **Capital Account**

	George	Arthur	Elizabeth	Alan		George	Arthur	Elizabeth	Alan
	\$	\$	\$	\$		\$	\$	\$	\$
Current	–	–	830	1,980	Balance b/d	45,000	30,000	10,000	6,000
Approp.	7,775	7,775	7,775	7,775	Current	2,350	850	–	–
Dissol.	8,200	4,300	–	–	Approp.	4,500	3,000	1,000	600
Dissol.	4,050	4,050	4,050	4,050					
Bank	<u>31,825</u>	<u>17,725</u>	<u>–</u>	<u>–</u>	Bank	<u>–</u>	<u>–</u>	<u>1,655</u>	<u>7,205</u>
	<u>51,850</u>	<u>33,850</u>	<u>12,655</u>	<u>13,805</u>		<u>51,850</u>	<u>33,850</u>	<u>12,655</u>	<u>13,805</u>

(d) **Bank Account**

	\$		\$
		Balance b/d	600
		Electricity	2,400
Dissolution	47,690	Payables	3,250
Capital: Alan	7,205	Dissolution	750
Elizabeth	1,655	Capital: George	31,825
		Arthur	<u>17,725</u>
	<u>56,550</u>		<u>56,550</u>

SECTION A CONTINUED

QUESTION 2

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

Year ended 31 March	Company A		Company B	
	2003 \$000	2004 \$000	2003 \$000	2004 \$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 \$000	2004 \$000	2003 \$000	2004 \$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)

Model Answer to Question 2

(a)	Company A	2003	2004
(i) Current $(180 + 135 + 50)/(190 + 50)$		1.52:1	$(195 + 255)/(48 + 215 + 80)$ 1.31:1
(ii) Gross profit to Sales $(820/2,450 \times 100)$		33.47%	$(850/2,750 \times 100)$ 30.91%
(iii) Net profit to Sales $(142/2,450 \times 100)$		5.80%	$(148/2,750 \times 100)$ 5.38%
(iv) Return on capital employed $[(142/700 + 80) \times 100]$		18.21%	$[(148/700 + 148) \times 100]$ 17.45%
(v) P/E $(1.2/(142/700))$		5.92	$(1.15/(148/700))$ 5.44
(vi) Dividend Cover $(142/50)$		2.84	$(148/80)$ 1.85
	Company B	2003	2004
(i) Current $(95 + 120 + 60)/(55 + 40)$		2.89:1	$(90 + 110 + 105)/(40 + 40)$ 3.81:1
(ii) Gross profit to Sales $(460/1825 \times 100)$		25.21%	$(475/1,875 \times 100)$ 25.33%
(iii) Net profit to Sales $(125/1825 \times 100)$		6.85%	$(127/1,875 \times 100)$ 6.77%
(iv) Return on Capital employed $[(125/800 + 284) \times 100]$		11.53%	$[(127/800 + 371) \times 100]$ 10.85%
(v) P/E $(1.45/(125/800))$		9.28	$(1.55/(127/800))$ 9.76
(vi) Dividend Cover $(125/40)$		3.13	$(127/40)$ 3.18

- (b) (i) Company A has a higher return on capital employed, normally regarded as good.
- (ii) Company A has a lower dividend cover meaning less profit ploughed back into the company but a higher dividend.
- (iii) Company A has a lower P/E ratio suggesting higher risk or lower growth potential.

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)

Model Answer to Question 3

(a)		\$	\$
	Bank (500,000 - 200,000) Preferred Shares	300,000	300,000
	Bank (1/3 x 2,400,000 x (0.25 + 0.15)) Ordinary Share Capital Share Premium	320,000	200,000 120,000
	Share Premium Revaluation Reserve Accumulated profits Ordinary Shares	170,000 20,000 10,000	200,000
	Debentures Accumulated profits Bank	350,000 35,000	385,000
(b)	Bank Balance		\$
	Preferred Shares		300,000
	Ordinary Shares		320,000
	Debentures		<u>(385,000)</u>
	Net increase		<u>235,000</u>
(c)	Issued Share Capital and Reserves		\$
	4,000,000 Ordinary Shares of \$0.25		1,000,000
	500,000 7% Preferred Shares of \$1		500,000
	Accumulated profits		<u>495,000</u>
			<u>1,995,000</u>

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		<u>13,688</u>
	<u>287,343</u>	<u>287,343</u>

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)**

Model Answer to Question 4

- (a) Loss on office machinery scrapped
 $2,000 \times .8 \times .8 \times .8 = \$1,024$

(b)

**Brewstons
 Income Statement
 for year ended 31 March 2004**

	\$	\$
Revenue		185,450
Less: Office expenses	23,450	
Salaries	121,348	
Advertising	1,345	
Audit fee	1,250	
Loss on machinery	1,024	
Provision for depreciation on:		
Office machinery		
((32,400 – 2,000 - 16,400 + 976) x.2)	2,995	
Vehicles ((64,200 – 21,400) x.2)	8,560	
Office Furniture	<u>1,625</u>	<u>161,597</u>
Net profit		23,853
Proposed dividend (.08 x 40,000)		<u>3,200</u>
		20,653
Balance b/f		<u>13,688</u>
Balance c/f		<u>34,341</u>

(c)

**Brewstons
 Balance Sheet as at 31 March 2004**

	\$	\$	\$
ASSETS			
	Cost	Depreciation	Net
Non-current assets			
Office machinery	30,400	18,419	11,981
Office furniture	16,250	9,075	7,175
Vehicles	<u>64,200</u>	<u>29,960</u>	<u>34,240</u>
	<u>110,850</u>	<u>57,454</u>	53,396
Current Assets			
Receivables			<u>28,350</u>
Total Assets			<u>81,746</u>
EQUITY AND LIABILITIES			
Capital and reserves			
\$1 Ordinary shares			40,000
Accumulated profits			<u>34,341</u>
Equity			74,341
Current liabilities			
Trade payables		465	
Bank overdraft		2,490	
Proposed dividend		3,200	
Audit fee accrued		<u>1,250</u>	
			<u>7,405</u>
Total equity and liabilities			<u>81,746</u>

SECTION B CONTINUED

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	<u>178,460</u>	
	196,910	
Closing inventory	<u>17,410</u>	<u>179,500</u>
Gross profit		85,020
Less Interest	700	
Miscellaneous expenses	44,645	
Depreciation	10,600	
Loss on sale of machinery	<u>1,350</u>	<u>57,295</u>
Net profit		27,725
Proposed Dividend		<u>7,200</u>
Retained profit		20,525
Retained profit b/f		<u>13,650</u>
Retained profit c/f		<u>34,175</u>

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	<u>12,250</u>	<u>6,050</u>	<u>6,200</u>
	<u>86,450</u>	<u>33,050</u>	53,400
Current assets			
Inventory		17,410	
Receivables		<u>24,530</u>	
Total assets			<u>41,940</u> <u>95,340</u>
EQUITY AND LIABILITIES			
Capital and reserves			
\$1 ordinary shares			32,000
Accumulated profits			<u>34,175</u>
Equity			66,175
Current liabilities			
Payables		19,065	
Bank overdraft		400	
Proposed dividend		7,200	
Accruals		<u>2,500</u>	
Total equity and liabilities			<u>29,165</u> <u>95,340</u>

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)**

Model Answer to Question 5

(a)		\$	\$
	Profit from operations (27,725 + 700)		28,425
	Adjustments for		
	Depreciation	10,600	
	Loss on sale of machinery	<u>1,350</u>	<u>11,950</u>
	Operating cash flows before movements in working capital		40,375
	Decrease in inventories	1,040	
	Increase in receivables (24,530 – 22,670)	(1,860)	
	Decrease in payables (23,140 – 19,065 – 2,500)	<u>(1,575)</u>	<u>(2,395)</u>
	Cash generated by operations		<u>37,980</u>

(b)	Cash Flow Statement for year ended 31 March 2004		
		\$	\$
	Cash generated by operations		37,980
	Interest paid		<u>(700)</u>
	Net cash from operating activities		37,280
	Investing activities		
	Fixed assets purchased	(7,500)	
	Proceeds from sale of machine	<u>870</u>	
	Net cash used in investing activities		<u>(6,630)</u>
	Financing activities		
	Dividend paid	(6,000)	
	Repayment of loan	<u>(20,000)</u>	
	Net cash used in financing activities		<u>(26,000)</u>
	Net increase in cash		<u>4,650</u>

- (c) If the bank is still \$400 overdrawn after inflow of \$4,650 then the opening bank balance must have been an overdraft of \$5,050.

SECTION B CONTINUED

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)

Model Answer to Question 6

- (a) Opening inventory 400 units @ \$0.4 = \$160
 Total sales 2,000 units at \$0.60 = \$1,200
 Total purchases (600 x \$0.42) + (500 x \$0.43) + (800 x \$0.42) + (200 x \$0.44) = \$891
 Closing inventory (400 + 600 + 500 + 800 + 200 – 2,000) = 500 units

- (b) (i) **FIFO**
 Closing inventory (most recent purchases) priced at 200 @ \$0.44 + 300 @ \$0.42 = \$214
 Therefore gross profit 1,200 – (160 + 891 – 214) = \$363

(ii) **Perpetual AVCO**

	Units	Price \$	Value \$
Opening inventory	400	0.4	160
Purchase	600	0.42	252
	1000	0.412	412
Issue	500	0.412	206
	500	0.412	206
Purchase	500	0.43	215
Purchase	800	0.42	336
	1800	0.421	757
Issue	1000	0.421	421
	800	0.421	336
Purchase	200	0.44	88
	1000	0.424	424
Issue	500	0.424	212
Closing inventory	<u>500</u>	0.424	<u>212</u>

Gross profit 1,200 – (206 + 421 + 212) = \$361

(iii) **Period AVCO**

Closing inventory (160 + 891) ÷ (400 + 2,100) x 500 = \$210

Therefore gross profit 1,200 – (160+891-210) = \$359



**EXAMINATIONS
BOARD**

London Chamber of Commerce and Industry Examinations Board

Athena House 112 Station Road

Sidcup Kent DA15 7BJ United Kingdom

Facsimile: +44 (0) 20 8302 4169/+44 (0) 20 8309 5169

Website: www.lccieb.com

Customer Service Team Tel: +44 (0) 8707 202 909 email: custserv@lccieb.org.uk

© Education Development International plc 2004