Pearson LCCI

Tuesday 4th December 2018

Time: 3 hours | Paper Reference **ASE20104**

Certificate in Accounting (VRQ)

Level 3

Resource Booklet
Do not return this Resource Booklet with the question paper.

Instructions

- All workings and answers **must** be given in the question paper.
- Please note that any workings and answers written in the Resource Booklet will **not** be marked.

Turn over

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Resource for Question 1 – Parts (a) and (b).

Jung plc provided the following information for the year ended 30 June 2018.

At 1 July 2017

	$
10% bank loan (2020)	400 000
Share capital (ordinary shares of $1 each)	800 000
Share premium	80 000
Retained earnings	137 235

On 1 December 2017 a rights issue of one ordinary share for every four ordinary shares held was made at a premium of $0.25 per share.

On 1 March 2018 a bonus issue of one ordinary share for every 10 ordinary shares held was made. The directors decided to leave the reserves in the most flexible form.

At 30 June 2018

	$
Allowance for doubtful debts	23 550
Cash at bank	27 495
Cash in hand	5 725
Inventory	690 000
Other payables 10% bank loan (2020) interest Advertising	 20 000 12 450
Other receivables	21 550
Tax liability	17 800
Trade payables	287 550
Trade receivables	250 000

Profit from operations for the year ended 30 June 2018 was $129 585 **after the following adjustments.**

- Inventory, $690 000, had been valued at selling price. The goods were sold at a 50% mark up.
- Depreciation charge

Non-current asset	**At 1 July 2017**		**Depreciation method**	**Adjustments**
	Cost **$**	**Accumulated depreciation** **$**		
Land and buildings	1 000 000	75 000	5% per annum straight line on buildings **only**	Land costing $500 000 was revalued upwards to $800 000
Machinery	500 000	135 000	10% per annum reducing (diminishing) balance	A machine costing $200 000 was purchased. This was partly funded by a trade in allowance of $75 000 against a machine originally costing $100 000, with accumulated depreciation of $19 000
A full year's depreciation is charged in the year of acquisition and none in the year of disposal.				

Resource for Question 2 – Parts (a) and (b).

On 1 April 2017 Parellel plc acquired 80% of the shares of Seconmary Ltd.

The following information has been extracted from the financial statements.

Summarised statements of profit or loss for the year ended 31 March 2018

	Parellel plc $000	Seconmary Ltd $000
Revenue	150 000	60 000
Cost of sales	(75 000)	(30 000)
Gross profit	75 000	30 000
Operating expenses	(40 000)	(15 000)
Profit from operations	35 000	15 000
Dividend received from Seconmary Ltd	1 000	-
Profit before tax	36 000	15 000
Tax	(12 000)	(5 000)
Profit for the year	24 000	10 000

During the year Seconmary Ltd sold goods costing $250 000 to Parellel plc for $350 000. All the goods were sold by Parellel plc at the year end.

Summarised statements of financial position at 31 March 2018

	Parellel plc $000	Seconmary Ltd $000
Investment in Seconmary Ltd	12 000	-
Total assets	54 000	28 000
Share capital (ordinary shares of $1 each)	20 000	10 000
Retained earnings	34 000	13 000
Total liabilities	12 000	5 000

At 1 April 2017 the fair value of the non-current assets of Seconmary Ltd was $2 000 000 more than the carrying value. This revaluation has not been recorded in the books of Seconmary Ltd.

During the year ended 31 March 2018 there were no changes in the share capital of either company.

Resource for Question 3 – Parts (a) and (c).

Chang Li provided the following information in addition to the extended trial balance extract at 30 September 2018 on **page 9** of the question paper.

- Inventory was originally valued on a first-in, first-out (FIFO) basis.
- The allowance for doubtful debts was to be maintained at 10% of trade receivables.
- Carriage inwards of \$520 was recorded as \$250 in carriage outwards.
- The purchase of a motor vehicle costing \$5 000 financed by a loan had been debited to both motor vehicles account and motor expenses account. No other entries had been made.

Resource for Question 4 – Parts (b), (c) and (d).

Data for parts (b) and (c).

On 1 September 2018 Hirarra started manufacturing goods.

The business manufactures 5 000 units every month.

Total costs	$
Direct materials	10 000
Direct labour	12 000
Fixed overheads	7 500

During September 2018 Hirarra sold 4 000 units, and in October 2018 6 000 units, at a selling price of $8 per unit.

Data for part (d).

Hirarra is considering buying another manufacturing business to expand his business and has obtained the following information.

Ratio	Business A	Business B
Gross profit percentage/margin	20%	25%
Profit for the year as a percentage of revenue	10%	12%
Current ratio	1.7:1	2:1
Quick ratio (acid test)	1:1	0.8:1

Resource for Question 5 – Parts (b) and (c).

On 1 January 2019 Christina plans to start a new business with a loan of $30 000 at an interest rate of 5% per annum.

She provided the following forecasts for 2019.

- **Sales**

	January	**February**	**March**
Units	2 000	4 200	5 000

Selling price $22 per unit.

She expects 40% of sales will be on a cash basis and 60% of sales will be on a credit basis.

The credit customers will be paying one month after sale.

It is expected that 5% of the credit sales will be irrecoverable.

- **Purchases**

	January	**February**	**March**
Units	4 500	4 600	5 500

Purchase price $15 per unit.

All suppliers will be paid one month after purchase.

- Annual rent of $24 000 will be paid in two equal instalments on 1 January and 1 July.
- On 1 January office equipment costing $20 000 will be purchased with a cash deposit of $4 000, and the balance being paid in eight instalments starting from 1 February.
- The depreciation policy will be to charge depreciation monthly using the straight line method at 12% per annum.
- Administration expenses of $21 950 will be paid monthly.
- The 5% loan will be repaid in full after 12 months with interest.

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