Pearson LCCI

Certificate in Financial Accounting (VRQ)

Level 4

Tuesday 3 April 2018

Resource Booklet

Paper Reference

ASE20101

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).

The following balances have been extracted from the books of account of Hiflo plc.

1 April 2017	**$000**
Intangible assets	1 200
Inventory	9 100
Retained earnings	680
Motor vehicles Cost Accumulated depreciation	 4 800 2 280
Plant and machinery Cost Accumulated depreciation	 11 600 5 680
Share capital (ordinary shares of $1 each)	3 400
Share premium	200

31 March 2018	**$000**
8% debentures (2028–29)	6 000
Administrative expenses	4 760
Bank	1 660 Cr
Distribution costs	3 420
Finance costs	120
Purchases	28 900
Revenue	47 540
Taxation payable	20
Trade payables	3 150
Trade receivables	6 710

Additional information

- On 30 June 2017, the company paid a final dividend of $0.05 per share. The dividend was included in administrative expenses.
- On 1 July 2017, the 8% debentures (2028–29) were issued. Interest is payable annually on 30 June.
- On 28 March 2018, goods with a selling price of $80 000 were invoiced and delivered to a customer on a sale or return basis. The goods were sold with a mark-up of 25%. The directors were unsure whether the goods would be returned.
- On 31 March 2018:
  - Inventory was counted and valued at $9 600 000
  - The directors agreed to create an allowance for doubtful debts of $55 000
  - An impairment review indicated that the intangible assets had a value of $900 000 and a remaining useful life of three years.
  - The directors estimated that the taxation liability on the current year's profits will be $1 490 000
- Depreciation policy

Non-current asset	**Basis**	**Charged to**
Motor vehicles	20% per annum on a straight line basis	80% distribution costs 20% administrative expenses
Plant and machinery	10% per annum on a reducing balance basis	Cost of sales

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

Data for part (a).

On 31 January 2017, the directors of Blay plc provided the following information.

	$000
Share capital (ordinary shares of $0.50 each)	1 600
Share premium	340
Revaluation reserve	50
Retained earnings	580
4% debentures (2022–23)	120
Land Cost	 250
Buildings Valuation Accumulated depreciation	 160 20

During the year ended 31 January 2018

30 April 2017	Paid a final dividend of $0.08 per share.
31 May 2017	Made a rights issue of two ordinary shares for every five shares held at a price of $0.80 per share. The issue was fully subscribed.
31 October 2017	Made a bonus issue of three ordinary shares for every eight shares held. The directors decided to leave the reserves in the most flexible form.
30 November 2017	Paid an interim dividend of $0.05 per share.
31 January 2018	Buildings, original cost $110 000, were revalued at $130 000

The profit for the year ended 31 January 2018 was $650 000

Data for part (c).

The directors also provided the following data.

	2018	**2017**
Turnover	$5 450 000	$6 210 000
Gross profit margin	35%	38%
Profit for the year as a percentage of revenue	14%	11%
Payables turnover	31 days	43 days
Receivables turnover	36 days	49 days

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

The following information has been extracted from the statements of financial position of Paren plc and Sloe Ltd at 31 December 2017.

Extract from the statements of financial position at 31 December 2017

	Paren plc $000	Sloe Ltd $000
Property, plant and equipment	9 200	840
Investment in Sloe Ltd	850	
Inventories	3 500	220
Trade receivables	1 800	280
Cash and cash equivalents	250	20
Share capital	8 600	800
Share premium	1 300	195
Revaluation reserve	1 550	–
Retained earnings	1 650	220
Long-term loans	1 300	20
Trade payables	1 020	110
Taxation payable	180	15

Additional information

On 1 January 2017, Paren plc acquired 60% of the ordinary share capital of Sloe Ltd. At that date the retained earnings of Sloe Ltd were $45 000. Property, plant and equipment included land at a cost of $180 000 with a fair value of $240 000. No entry for the revaluation of this had been made in the books of Sloe Ltd.

On 31 October 2017, Sloe Ltd purchased goods from Paren plc for $78 000. These goods had been invoiced at cost plus 30%. On 31 December 2017, one half of these goods were unsold and Sloe Ltd still owed $25 000 of this invoice to Paren plc.

On 30 November 2017, Paren plc invoiced Sloe Ltd with administrative expenses of $40 000. On 31 December 2017, this amount remained unpaid.

On 31 December 2017, the directors of Paren plc were of the opinion that goodwill had been impaired by 10%.

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

The following information has been extracted from the financial statements of Salfirm Ltd for each of the two years ended 31 March 2018 and 31 March 2017.

	2018 $000	**2017 $000**
Profit from operations	572	650
Finance costs	(37)	(35)
Taxation charge	(26)	(145)
Profit for the year	509	470

	2018 $000	**2017 $000**
6% debentures (2021–22)	320	550
Bank	62 Cr	40
Cash	16	12
Development expenditure	140	150
Goodwill	96	120
Interest payable	12	8
Inventories	405	320
Property, plant and equipment at carrying value	2 860	2 380
Retained earnings	1 040	619
Revaluation reserve	60	40
Share capital (ordinary shares of $1 each)	2 200	1 600
Share premium	50	410
Taxation payable	85	160
Trade payables	598	560
Trade receivables	910	925

Additional information

On 30 April 2017, the company made a bonus issue of one ordinary share for every four shares held.

On 30 September 2017, the company made a rights issue of one ordinary share for every 10 shares held, at a premium of $0.20 per share. The issue was fully subscribed.

During the year ended 31 March 2018:

- ordinary share dividends of $88 000 were paid
- additional development expenditure of $40 000 was capitalised
- plant and equipment with a carrying value of $30 000 was sold for $35 000
- plant and equipment was purchased for $915 000
- property was revalued upwards by $20 000

Resource for Question 5 – Part (d).

The following information is available for two companies, Ewe plc and Vee plc, at 28 February 2018.

Ratio	Ewe plc	Vee plc
Gearing (Interest-bearing debt / equity + interest-bearing debt)	65%	36%
Return on capital employed (ROCE)	14%	11%
Quick ratio (acid test)	0.8:1	1.2:1
Interest cover	3.4 times	2.2 times
Dividend cover	2.8 times	1.9 times