Pearson LCCI

Tuesday 13 November 2018

Time: 3 hours	Paper Reference **ASE20101**

Certificate in Financial Accounting (VRQ)

Level 4

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 (b), (c) and (d).

Moheen plc provided the following information.

	31 August	
	2018 $000	2017 $000
8% debentures (2024–25)	100	-
Cash and cash equivalents	116	5
Development expenditure	80	36
Interest payable	6	2
Inventory	132	114
Plant and machinery at carrying value	566	640
Property at carrying value	290	380
Retained earnings	371	367
Revaluation reserve	-	50
Share capital (ordinary shares of $1 each)	800	800
Share premium	100	100
Taxation payable	22	18
Trade payables	115	106
Trade receivables	330	268

On 1 September 2017 property was revalued to $300 000

During the year ended 31 August 2018:

- plant and machinery was depreciated by $115 000
- there were no disposals of non-current assets
- development expenditure was impaired by $20 000
- an interim dividend of 5.5% was paid
- all taxation and interest owing at 31 August 2017 was paid
- the profit for the year was $78 000

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

Data for part (a).

Mallot plc provided the following information for the year ended 31 July 2018 in addition to the schedule of non-current assets on page 5 of your question paper.

Non-current asset	**Depreciation method**	**Transaction**
Land and buildings	Buildings: straight line to take account of an estimated useful life of 50 years. Land is not depreciated.	Buildings were revalued to \$1 200 000. The buildings were purchased on 1 August 2007. Land and buildings included land at a cost of \$500 000
Plant and machinery	10% per annum straight line.	Plant and machinery was purchased for \$38 000. This was part settled by a trade in of machinery, cost \$20 000 with a carrying value of \$12 000
Motor vehicles	25% per annum reducing balance.	A motor vehicle was sold for \$20 000. The motor vehicle had been purchased on 31 May 2015 for \$48 000
A full year's depreciation is charged in the year of purchase but none in the year of sale.		

Data for part (c).

The following balances were extracted from the statement of financial position of Mallot plc at 1 August 2017.

	\$
Share capital (ordinary shares of \$0.50 each)	120 000
Share premium	24 000
Retained earnings	33 000
Bank	16 200

The following transactions took place during the year ended 31 July 2018.

Date	**Transaction**
1 August 2017	A bonus issue of two ordinary shares for every 15 ordinary shares. The directors decided to leave the reserves in the most flexible form.
31 March 2018	A rights issue of one ordinary share for every 16 ordinary shares, issued at a premium of 50%. The issue was fully subscribed.

Data for part (d).

The directors of Bee plc provided the following ratios.

	31 July	
	2018	**2017**
Gross profit margin	30%	28%
Operating profit margin	12%	15%
Return on capital employed (ROCE)	8%	9%
Current ratio	1.35:1	2.15:1
Quick ratio (acid test)	0.79:1	1.12:1
Trade receivables collection period	42 days	34 days

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

On 1 September 2017, Pallow plc acquired 80% of the ordinary share capital of Stroth Ltd.

The following information was extracted from the financial statements at 31 August 2018.

	Pallow plc $000	Stroth Ltd $000
Cash and cash equivalents	20	10
Cost of sales	2 980	530
Finance costs	30	10
Interest receivable	4	-
Inventories	900	360
Investment in subsidiary	360	-
Property, plant and equipment	2 100	210
Retained earnings	220	200
Revaluation reserve	150	-
Share capital (ordinary shares of $1 each)	3000	250
Share premium	290	40
Taxation	70	30
Trade and other receivables	790	190

At 1 September 2017:

- the balance of retained earnings of Stroth Ltd was $30 000
- the fair value of the property, plant and equipment of Stroth Ltd was $30 000 more than the carrying value. No entry for the revaluation had been made in the books of Stroth Ltd
- Pallow plc loaned Stroth Ltd $50 000 at an interest rate of 8% per annum. Interest for the year ended 31 August 2018 had not yet been paid by Stroth Ltd.

During the year ended 31 August 2018:

- Pallow plc sold goods that had originally cost $60 000 to Stroth Ltd for $80 000. Stroth Ltd still had 25% of these goods in inventory at 31 August 2018. Stroth Ltd still owed Pallow plc $20 000 for some of the goods supplied
- the directors of Pallow plc are of the opinion that goodwill at 31 August 2018 had been impaired by 25%.

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

Deewal plc provided the following information.

At 1 October 2017

	$000
8% debentures (2022–24)	100
Allowance for doubtful debts	10
Development expenditure	16
Property, plant and equipment Cost Accumulated depreciation	 544 240
Retained earnings	38
Revaluation reserve	10

Draft profit for the year ended 30 September 2018 was $152 000 before taking into account the following errors and omissions.

- Administrative expenses of $1 000 were to be accrued.
- Distribution costs of $3 000 were prepaid.
- Development expenditure of $5 000 charged to administrative expenses should have been capitalised.
- Three months' debenture interest was owing.
- The allowance for doubtful debts was to be maintained at 2.5% of trade receivables, which were $160 000
- Property is to be revalued downwards by $14 000

During the year ended 30 September 2018 the following transactions took place.

Date	Transaction
31 December 2017	Made a bonus issue of one ordinary share for every five shares held at that date. The directors decided to leave the reserves in the most flexible form.
31 March 2018	Made a rights issue of one ordinary share for every 10 shares held at a premium of 50%. The issue was fully subscribed.
30 June 2018	Paid a dividend of $5 000

Resource for Question 5 – Part (c).

Myat wishes to invest in a company. He has identified two possible companies. Both businesses operate in the same industry sector and have similar turnover.

The following data is available.

	Wye plc	**Zed plc**
Return on capital employed (ROCE)	22.5%	19.8%
Gearing (Interest-bearing debt / equity + interest-bearing debt)	65%	38%
Interest cover	4.2 times	2.3 times
Dividend cover	1.3 times	3.6 times
Share price annual change	(14%)	5%

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