



SEPTEMBER 2015

ACCOUNTING III

Instructions to candidates:

- a) Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
- b) Answer ALL questions in Part A and any ONE question in Part B
- c) Part A carries 85% of the marks and Part B carries 15% of the marks. Marks for each question are shown in []
- d) Non-programmable calculators are permitted in this exam

PART A

1. The following trial balance has been extracted from the books of Mancunium Ltd for the year ended 31 August 2015:

	DR	CR
	£000	£000
Bank	100	
Administration expenses	800	
Distribution costs	650	
5% Debentures		700
Interest paid	40	
Non-current assets (net)	1,550	
Retained earnings (01/09/14)		460
Purchases	1,800	
Sales (all on credit)		4,000
Equity share capital (£1 ords.)		1,200
Inventory (stock) (01/09/14)	180	
Accounts receivable (debtors)	1,400	
Accounts payable (creditors)		160
	-----	-----
	6,520	6,520
	=====	=====

NOTES at 31 August 2015:

- Stock (inventory) was valued at £200,000
- Corporation tax is estimated to be £150,000
- The directors have declared an ordinary dividend of 25p per share
- The market price of a single equity (ordinary share) was £9.00

TASKS

- a) Prepare the income statement (profit and loss account) for the year ended 31 August 2015. [3]
 - b) Prepare the position statement (balance sheet) as at 31 August 2015. [6]
 - c) Calculate the following ratios:
 - i The gearing percentage
 - ii The operating profit (PBIT) as a percentage of sales
 - iii The EPS
 - iv The PE ratio [4]
 - d) Comment on the financial performance of Mancunium Ltd. Mention any weaknesses. [7]
- 2.
- a) Explain how goodwill may arise when a partner retires and a new partnership is formed. What are the bookkeeping entries to reflect the creation of goodwill? If the new partnership do not wish to show goodwill in their accounts how will the adjustment be made? [10]
 - b) Explain how an entity can have control over another entity when it does not own over 50% of the voting share capital. [5]
 - c) Clarify the differences between finance leases and operating leases. [5]

continued overleaf

3. You are presented with the following information from the Withington group of companies for the year to 31 August 2015:

	Withington plc £000	Gray plc £000	Landy plc £000
Tangible fixed assets	<u>650</u>	<u>400</u>	<u>290</u>
Investments:			
Shares in Gray plc	500		
Shares in Landy plc	<u>280</u>		
	<u>780</u>		
Current assets			
Stocks	350	250	100
Debtors	400	200	70
Bank	<u>20</u>	<u>10</u>	<u>5</u>
	<u>770</u>	<u>460</u>	<u>175</u>
Current liabilities			
Creditors	<u>(340)</u>	<u>(280)</u>	<u>(90)</u>
Net current assets	<u>430</u>	<u>180</u>	<u>85</u>
Total net assets	<u>1,860</u>	<u>580</u>	<u>375</u>
	=====	=====	=====
Capital and reserves			
Ordinary shares (£1)	1,200	400	300
Profit and loss account	<u>660</u>	<u>180</u>	<u>75</u>
	<u>1,860</u>	<u>580</u>	<u>375</u>
	=====	=====	=====

Additional information:

- A Withington plc purchased 300,000 shares in Gray plc on 23 April 2015, when Gray's profit and loss account balance stood at £80,000.
- B Withington plc purchased 180,000 shares in Landy plc on 11 November 2014, when Landy's profit and loss account balance stood at £40,000.
- C During the year ended 31 August 2015 Gray plc had sold goods to Landy plc for £8,000. These goods had cost Gray plc £6,000. Half these goods are still in stock. Minority interests are not charged with their share of unrealised stock profits.
- D Included in the respective creditor balances were the following inter-company debts:
- Gray plc owed Withington plc £8,000
 - Withington plc owed Landy plc £7,000
 - Gray plc owed Landy plc £4,000
- E Withington plc writes off any goodwill arising on consolidation to reserves.

TASK

Prepare the Withington plc's group balance sheet as at 31 August 2015. Your workings should be included.

[25]

4. The following are the recent final accounts of Curreys plc:

Income statement (profit and loss) extract year to 31 August:

	2014	2015
	£000	£000
Income (all credit sales)	7,000	9,500
Cost of sales	(3,600)	(4,300)
	-----	-----
Gross profit	3,400	5,200
Total expenses	(3,000)	(3,900)
	-----	-----
PBIT (operating profit)	400	1,300
Interest paid	-	(50)
	-----	-----
Profit before tax	400	1,250
Provision for tax	(85)	(260)
	-----	-----
Profit after tax	315	990
Dividend declared	(120)	(360)
	-----	-----
Retained profit	195	630
	=====	=====

Summarised position statement (balance sheet) as at 31 August:

	2014	2015
ASSETS		
Non-current assets (net)	1,800	2,900
	-----	-----
	1,800	2,900
	-----	-----
Current assets		
Stock (inventory)	600	1,500
Debtors (accounts receivable)	650	1,375
Bank	20	-
	-----	-----
	1,270	2,875
	-----	-----
TOTAL ASSETS	3,070	5,775
	=====	=====
Equity and liabilities		
Equities (£1 ordinary shares)	1,200	1,500
Retained earnings (profits)	1,345	1,975
	-----	-----
	2,545	3,475
	-----	-----
Non-current liabilities		
Bank loans	-	800
	-----	-----
	-	800
	-----	-----
Current liabilities		
Creditors (accounts payable)	320	870
Overdrafts	-	90
Tax owing	85	210
Dividends owing	120	330
	-----	-----
	525	1,500
	-----	-----
TOTAL CAPITAL & LIABILITIES	3,070	5,775
	=====	=====

TASKS

- a) Calculate gross profit:sales, net profit after tax:sales, and ROCE for EACH year. [6]
- b) Calculate the current ratio and the asset test ratio for BOTH years. [4]
- c) Calculate the asset turnover and the inventory turnover ratios for EACH year. [4]
- d) Comment on the financial performance of Curreys plc. [6]

continued overleaf

PART B

5. During the year to 31 August 2015 Cedric plc issued 200,000 4% preference shares of £1 each, payable 10% on application, 30% on allotment, 30% on the first call and 30% on the second call. Applications were received for 420,000 shares. A refund of money is made in respect of 20,000 shares, while for the remaining 400,000 applied for, an allotment is made on the basis of one share for every two applied for. The excess application monies are set off against the allotment monies asked for. The remaining instalments are all paid in full.

TASKS

Record the above transactions in the following ledger accounts:

- a) Application and allotment account
- b) 4% preference share capital account
- c) First call account
- d) Second call account
- e) Forfeited shares account
- f) Bank

[15]

6. Write notes on THREE of the following:

- a) Bills of exchange
- b) Valuation of inventories
- c) Capital instruments
- d) IAS's

[5 each]