



ICM

MARCH 2016

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 Collumbo Ltd for the year ended 29 February 2016:

	DR	CR
	£000	£000
Bank		100
Administration expenses	760	
Distribution costs	600	
5% Debentures		1,000
Interest paid	60	
Non-current assets (net)	1,550	
Retained earnings (01/03/15)		420
Purchases	1,800	
Sales (all on credit)		4,200
Equity share capital (£1 ords.)		500
Inventory (stock) (01/03/15)	200	
Accounts receivable (debtors)	1,400	
Accounts payable (creditors)		150
	-----	-----
	6,370	6,370
	=====	=====

NOTES at 29 February 2016:

- Stock (inventory) was valued at £220,000
- Corporation tax is estimated to be £210,000
- The directors have declared an ordinary dividend of 50p per share
- The market price of a single equity (ordinary share) was £19.00

TASKS

- a) Prepare the income statement (profit and loss account) for the year ended 29 February 2016. [3]
 - b) Prepare the position statement (balance sheet) as at 29 February 2016. [5]
 - 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 Collumbo Ltd. Mention any weaknesses. [8]
2. a) Describe the **money measurement concept** and state its limitations. [7]
- b) Comment on the view that the prudence concept results in financial statements that understate profits thereby understating the value for capital. [8]

continued overleaf

3. You are presented with the following information from the ABC group of companies for the year to 29 February 2016:

	ABC plc £000	Odean plc £000	Empire plc £000
Tangible fixed assets	<u>850</u>	<u>500</u>	<u>350</u>
Investments:			
Shares in Odean plc	500		
Shares in Empire plc	<u>350</u>		
	<u>850</u>		
Current assets			
Stocks	320	230	90
Debtors	400	200	150
Bank	<u>20</u>	<u>10</u>	<u>20</u>
	<u>740</u>	<u>440</u>	<u>260</u>
Current liabilities			
Creditors	<u>(340)</u>	<u>(240)</u>	<u>(110)</u>
Net current assets	<u>400</u>	<u>200</u>	<u>150</u>
Total net assets	<u>2,100</u>	<u>700</u>	<u>500</u>
	=====	=====	=====
Capital and reserves			
Ordinary shares (£1)	1,500	500	400
Profit and loss account	<u>600</u>	<u>200</u>	<u>100</u>
	<u>2,100</u>	<u>700</u>	<u>500</u>
	=====	=====	=====

Additional information:

- A ABC plc purchased 350,000 shares in Odean plc on 17 March 2015, when Odean's profit and loss account balance stood at £100,000.
- B ABC plc purchased 240,000 shares in Empire plc on 30 November 2015, when Empire's profit and loss account balance stood at £60,000.
- C During the year ended 29 February 2016 Odean plc had sold goods to Empire plc for £12,000. These goods had cost Odean plc £8,000. 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:
- Odean plc owed ABC plc £9,000
 - ABC plc owed Empire plc £6,000
 - Odean plc owed Empire plc £8,000
- E ABC plc writes off any goodwill arising on consolidation to reserves.

TASK

Prepare the ABC plc's group balance sheet as at 29 February 2016. Your workings should be included.

[25]

4. The position statements (balance sheets) of Krackoff Ltd at 28/29 February were as follows:

	2015		2016	
	£000	£000	£000	£000
FIXED ASSETS				
Buildings		700		1,000
Equipment	600		700	
Less depn.	(300)	300	(400)	300
Vehicles	150		300	
Less depn.	(100)	50	(150)	150
		1,050		1,450
CURRENT ASSETS				
Stock	400		420	
Debtors	430		400	
Bank/cash	-	830	10	830
CURRENT LIABILITIES				
Creditors	(240)		(300)	
Overdraft	(20)		-	
Dividend owing	(60)		(90)	
Tax owing	(30)	(350)	(50)	(440)
		1,530		1,840
LONG-TERM LOAN		(400)		-
		1,130		1,840
		=====		=====
CAPITAL AND RESERVES				
£1 shares		600		1,000
Retained profit		530		840
		1,130		1,840
		=====		=====

NOTE: Interest on the loan paid in year ended 29 February 2016 was £10,000.

TASKS

- a) Calculate the profit (before interest and tax) for the year ended 29 February 2016. [4]
- b) Prepare the cash flow statement for the year ended 29 February 2016. [13]
- c) Identify and comment on the principal cash movements in the past year, and explain the changes in capital structure of the business. [8]

PART B

5. During the year to 29 February 2016 Auckland plc issued 300,000 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 three shares for every four 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) Bank [15]

6. A company with its headquarters in Dorset opened a branch in Plymouth. The following transactions took place in the first month:
- Opened a bank account in Plymouth by transferring £20,000 from the Dorset bank account
 - Bought premises in Plymouth, by cheque drawn on the Dorset bank account, £150,000
 - Plymouth bought a motor van, paying £10,000 from its own bank account
 - Plymouth bought fixtures on credit from Bengée Ltd, £25,000
 - Dorset supplied Plymouth with a machine valued at £10,000 from its own machinery
 - Plymouth bought goods for resale, paying by cheque from its own account, £5,000
 - Plymouth's cash sales banked immediately in its own account, £25,000
 - Goods invoiced at cost to Plymouth during the month by Dorset (no cash or cheques being paid specifically for these goods by Plymouth), £35,000
 - A cheque is paid to Dorset by Plymouth as a return of funds, £10,000
 - Goods returned to Dorset by Plymouth – at cost price, £1,000

TASK

You are required to show how these transactions would be recorded in **The Branch Records (in Plymouth)**.

[15]