Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
4	
TOTAL	

General Certificate of Education
Advanced Level Examination
June 2015

Accounting ACCN3

Unit 3 Further Aspects of Financial Accounting

Monday 8 June 2015 9.00 am to 11.00 am

For this paper you must have:
- a calculator.

Time allowed
- 2 hours

Instructions
- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- All workings must be shown and clearly labelled; otherwise marks for method may be lost.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 90.
- Four of these marks will be awarded for:
  - using good English
  - organising information clearly
  - using specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

1 **Total for this question: 20 marks**

Green and Brown are in partnership. They did not have a formal partnership agreement.

The following balances were extracted from the books of account for the year ended 30 April 2015:

	£ Green	£ Brown
Capital accounts at 30 April 2015	73 800	58 900
Current accounts at 1 May 2014	8 865 Dr	7 092 Cr
Drawings for the year	22 000	18 000
Partner's loan account	8 000	-

Drawings accrue evenly throughout the year. Green made the loan to the partnership in 2013. No repayments have been made on the loan account.

From 1 August 2014, White was admitted into the partnership. White introduced £25 000 in cash and a motor vehicle valued at £18 800.

No adjustment is to be made for goodwill and there will be no revaluation of assets.

A partnership agreement was prepared on the introduction of White. The terms were as follows:

(1) Interest on capital accounts to be allowed at 4% per annum.
(2) Interest on drawings to be charged at 3% per annum.
(3) Interest on the loan account to be charged at 2% per annum and recorded in the current account.
(4) White to be paid an annual salary of £11 900.
(5) White not to take any drawings during the year ending 30 April 2015.
(6) Profits and losses to be split between Green, Brown and White in the proportion 40%, 35% and 25% respectively.

The draft profit for the year ended 30 April 2015 was £60 000 before interest was charged on Green's loan. Profits before interest accrue evenly throughout the year.

1 (a) Prepare the partnership appropriation account for the 9 month period 1 August 2014 to 30 April 2015.

[11 marks]

Workings

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Question 1(a) continues on the next page

Appropriation account for Green, Brown and White for the period 1 August 2014 to 30 April 2015

	£	£

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1 (b) Prepare the current account for Green for the year ended 30 April 2015.

[9 marks]

Workings

Dr **Green's current account** **Cr**

Details	£	Details	£

20

2 **Total for this question: 23 marks**

Farah, a retailer, did not keep a full set of accounting records for her business. However, the following information was obtained for the year ended 31 March 2015.

Balances at 1 April 2014:

	£
Insurance paid in advance	725
Inventory	6 750
Light and heat accrued	480
Non-current assets at net book value	22 670
Trade payables	1 960
Trade receivables	3 540

Dr **Bank account** **Cr**

Details	£	Details	£
Receipts from trade receivables	26 820	Bal b/d 1 April 2014	3 785
Proceeds from the disposal of non-current assets	4 275	Payments to trade payables	21 650
Bal c/d 31 March 2015	9 770	Insurance	7 735
		Light and heat	2 695
		Drawings	5 000
	40 865		40 865

Farah has started to prepare the financial statements for the year ended 31 March 2015. The following figures are available to be transferred to the income statement:

	£
Purchases	30 310
Insurance	8 290
Light and heat	3 460
Loss on disposal	375

Additional information:

(1) There were no additions of non-current assets during the year.
(2) Non-current assets are to be depreciated at 25% using the reducing balance method.
(3) All sales and purchases were on credit.
(4) No physical stocktake was carried out on 31 March 2015. However, inventory was valued at £8 100 on 5 April 2015.
(5) Between 31 March 2015 and 5th April 2015, the following transactions took place: goods were sold for £8 250; goods were purchased for £4 950.
(6) All sales are calculated at cost plus 20% mark-up.
(7) There was no other income and there were no other expenses during the year.

2 (a) Prepare the income statement for the year ended 31 March 2015.

[8 marks]

Workings

Question 2(a) continues on the next page

Farah
Income statement for the year ended 31 March 2015

	£	£

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Question 2 continues on the next page

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ANSWER IN THE SPACES PROVIDED

2 (b) Prepare a balance sheet for Farah at 31 March 2015.

[15 marks]

Workings

Farah
Balance sheet at 31 March 2015

	£	£

23

3 **Total for this question: 31 marks**

The balance sheets for Hickey Ltd at 31 May 2015 and 31 May 2014 are as follows:

Hickey Ltd
Balance sheet at 31 May 2015

	£ 31 May 2015	£ 31 May 2015	£ *31 May* *2014*	£ *31 May* *2014*
Non-current assets				
Property plant and equipment		347 500		*251 900*
Current assets				
Inventory	69 500		*50 380*	
Trade receivables	37 785		*52 125*	
Cash	-		*3 940*	
		107 285		*106 445*
Current liabilities				
Bank overdraft	2 865		-	
Trade payables	48 650		*35 266*	
Taxation	15 100		*14 200*	
		66 615		*49 466*
Net current assets		40 670		*56 979*
Total assets less current liabilities		388 170		*308 879*
Non-current liabilities				
8% debenture loans		125 000		*150 000*
		263 170		*158 879*
Equity				
Ordinary share capital	131 250		*131 250*	
Share premium account	26 250		*26 250*	
Revaluation reserve	49 625		*19 700*	
Retained earnings	56 045		*(18 321)*	
		263 170		*158 879*

Additional information:

(1) Ordinary shares have a nominal value of £1.75 each.
(2) Ordinary share dividends were paid during the year at a rate of 10.5p per share based on share capital at 31 May 2014.
(3) A non-current asset with a net book value of £25 470 was sold during the year at a loss of £5 094.
(4) A non-current asset was purchased during the year for £123 645.
(5) A debenture loan was repaid in full on 1 March 2015.
(6) Taxation on profit for the year ended 31 May 2015 was estimated to be £12 600.
(7) Land and buildings were revalued during the year.

3 (a) Prepare the statement of cash flows for the year ended 31 May 2015 in accordance with the requirements of IAS 7.

[21 marks]
[includes 2 marks for quality of presentation]

Workings

Question 3(a) continues on the next page

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The directors of Hickey Ltd are concerned that, despite making a profit, the business has experienced a decrease in cash resources.

3 (b) Explain how it is possible for a business to make a profit but have a decrease in cash resources. Use examples from the statement of cash flows to support your answer.

[10 marks]

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Extra space

31

Turn over for the next question

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4 **Total for this question: 16 marks**

Ternent plc is undertaking an expansion programme. As part of this growth, it is intending to acquire £1.12m of new plant and equipment to increase the production capacity.

An extract from the financial statements for the year ended 30 April 2015 is as follows:

	£
Non-current liabilities	
3.5% debenture loans 2035–2037	1 600 000
Equity	
Ordinary share capital at £1.25 each	5 500 000
Share premium account	660 000
Revaluation reserve	168 750
Retained earnings	71 250
	6 400 000

Additional information:

(1) All existing ordinary shares have been issued at the same price.
(2) The dividend policy has been to pay dividends at 3% of the nominal share price.

The directors of Ternent plc are considering two alternative options to raise the funding for the expansion.

Option 1:
Selling further ordinary shares at the same issue price as the existing shares.

Option 2:
Issuing further 3.5% debenture loans repayable in 2040.

4 Discuss the suitability of both options, considering both financial and any non-financial factors.
Recommend the most appropriate option and justify your decision.

[16 marks]
[includes 2 marks for quality of written communication]

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Extra space

16

END OF QUESTIONS