TEACHER RESOURCE BANK

GCE Accounting

Additional Sample Questions and Mark Schemes

- New/Modified Topics: ACCN3
- First issue 2010

ACCN3 Additional Specimen Questions

Task 1 **Total for this task: 25 marks**

Denton and Steel Ltd have provided the following balance sheet.

Denton and Steel Ltd

Balance sheet	**31 December 2009**		**31 December 2008**	
	£	**£**	**£**	**£**
Assets				
Non-current (fixed) assets		215 364		125 530
Current assets				
Inventory (stock)	22 194		18 495	
Trade receivables (debtors)	12 216		15 270	
Cash and cash equivalents (cash at bank and cash in hand)	-		2 291	
		34 410		36 056
Total assets		249 774		161 586
Equity and liabilities				
Equity				
Ordinary share capital	120 000		85 000	
Share premium account	30 900		25 500	
Revaluation reserve	8 000		-	
Retained earnings	5 046		(12 459)	
Total equity		163 946		98 041
Non-current liabilities				
Debentures	60 000	60 000	50 000	50 000
Current liabilities				
Bank overdraft	9 164		-	
Trade payables (creditors)	10 994		8 795	
Tax liabilities	5 670		4 750	
		25 828		13 545
Total liabilities		85 828		63 545
Total liabilities and equity		249 774		161 586

The following additional information has been provided by the directors of Denton Steel Ltd for the year ending 31 December 2009.

(1) Land and buildings were revalued at £85 000 on 1 January 2009.

(2) Non-current (fixed) assets were purchased during the year at a total cost of £139 491.

(3) Non-current (fixed) assets with a net book value of £37 659 were sold during the year for £39 542.

(4) A 5% debenture loan for £50 000 matured on 30 June 2009. A 4% debenture loan was negotiated from 1 July 2009.

(5) Dividends of £6375 were paid during the year.

(6) The nominal par value of ordinary share capital is 50p per share.

(7) On 1 March 2009, a bonus issue of shares was made on the basis of 1 for every 5 shares held. The revaluation reserve was used to fund this transaction.

(8) A further issue of shares took place on 25 May 2009. No share redemptions took place during the year.

0 1 Prepare a statement of cash flows for the year ended 31 December 2009, in accordance with the requirements of IAS7. *(25 marks)*

Task 2 **Total for this task: 25 marks**

Paul, Stuart and Dave were in partnership sharing profits and losses in the ratio 3:2:2 respectively. The partnership balance sheet at 31 January 2010 was as follows.

Paul, Stuart and Dave
Balance sheet at 31 January 2010

	£	£	£
Non-current (fixed) assets			125 000
Current assets			
Inventory (stock)	16 500		
Trade receivables (debtors)	11 950		
Cash and cash equivalents at bank (cash and cash in hand)	3 070	31 520	
Current liabilities			
Trade payables (creditors)	9 560		
Accrued expenses	1 434	10 994	
Net current assets			20 526
Non-current (long term) liabilities			
Dave loan account			7 160
			138 366
Capital accounts			
Paul		51 000	
Stuart		34 000	
Dave		34 000	119 000
Current accounts			
Paul		18 390	
Stuart		(5 257)	
Dave		6 233	19 366
			138 366

The partnership was dissolved on 1 February 2010 after the following transactions had taken place.

(1) Paul took a motor vehicle with a net book value of £19 750 in part settlement. All other non-current (fixed) assets were sold for £110 000, paid by cheque.

(2) Stuart took inventory (stock) in part settlement at cost price. This inventory (stock) had a normal selling price of £5800 (including a 20% gross profit margin). The remaining inventory (stock) was sold at 75% of the original cost price, and was paid for by cheque.

(3) Trade receivables (debtors) were settled in full by cheque after deducting 4% for bad debts that could not be recovered.

(4) Trade payables (creditors) and accrued expenses were paid in full the sum of £9005. This was a final settlement paid by cheque.

(5) Dissolution costs of £7050 were paid by cheque.

(6) Dave's loan account was created on 31 July 2008 with an interest rate of 5% per annum. However, no interest had been paid or accrued since the loan was negotiated. The outstanding loan and accrued interest were adjusted for in Dave's capital account.

0 2 Prepare a realisation account on 1 February 2010 to record the transactions on the dissolution of the partnership. *(9 marks)*

0 3 Prepare the partners' capital accounts on 1 February 2010 to record the transactions on the dissolution of the partnership. *(11 marks)*

0 4 Prepare the bank account for the partnership on 1 February 2010 to record the transactions on the dissolution of the partnership. *(5 marks)*

Task 3 **Total for this task: 19 marks**

The directors of Waugh Ltd have provided the following extract from the balance sheet at 31 January 2009.

	Cost	**Depreciation**	**NBV**
	£	**£**	**£**
Property plant and equipment			
Land and buildings	250 000	93 750	156 250
Plant and machinery	75 000	36 600	38 400
Fixtures and fittings	18 000	12 150	5 850
	343 000	142 500	200 500

During the year ended 31 January 2010 the following transactions took place.

(1) A review of the land and buildings on 1 February 2009 showed that the assets were impaired and had a recoverable amount of £135 000.

(2) Plant and machinery was purchased on 1 May 2009 at a cost of £26 200.

(3) Plant and machinery with an original cost of £18 750 was sold on 30 April 2009. On 1 February 2009, it had a net book value of £9600.

(4) Fixtures and fittings were purchased at a cost of £7200 on 30 November 2009.

The following is an extract from the company's statement of accounting policies.

(1) Land and buildings are depreciated using the straight-line method at 2.5% per annum.

(2) Plant and machinery are depreciated using the reducing balance method at 20% per annum.

(3) Fixtures and fittings are depreciated at 15% per annum on cost less 10% residual scrap value.

All fixed assets are depreciated using a time apportioned method.

0 5 Prepare a schedule of non-current (fixed) assets at 31 January 2010 (a total column is not required). *(19 marks)*

Task 4 **Total for this task: 16 marks**

The directors of Wiles Ltd are unsure about how to treat the following situations in the financial statements for the business for the year ended 30 October 2009.

(1) A proposal has been made to change the depreciation policy from the reducing balance to the straight-line method for all classes of non-current (fixed) asset.

(2) On 15 November 2009 the company experienced a flood in the factory which damaged several machines. It is anticipated that this will lead to a significant disruption to production capacity in the short-term future.

(3) The business is being restructured and it is anticipated that this will result in some management redundancies.

(4) The continued impact of the economic downturn has resulted in the market value of the land and buildings being reduced.

0 6 Identify and explain the relevant IAS which would apply to each of the situations (1) to (4).

(16 marks)

END OF QUESTIONS

ACCN3 Additional Specimen Questions - Mark Scheme

Statement of cash flows

Task 1 **Total for this task: 25 marks**

Denton and Steel Ltd have provided the following balance sheet.

Denton and Steel Ltd

Balance sheet	**31 December 2009**		**31 December 2008**	
	£	**£**	**£**	**£**
Assets				
Non-current (fixed) assets		215 364		125 530
Current assets				
Inventory (stock)	22 194		18 495	
Trade receivables (debtors)	12 216		15 270	
Cash and cash equivalents (cash at bank and cash in hand)	-		2 291	
		34 410		36 056
Total assets		249 774		161 586
Equity and liabilities				
Equity				
Ordinary share capital	120 000		85 000	
Share premium account	30 900		25 500	
Revaluation reserve	8 000		-	
Retained earnings	5 046		(12 459)	
Total equity		163 946		98 041
Non-current liabilities				
Debentures	60 000	60 000	50 000	50 000
Current liabilities				
Bank overdraft	9 164		-	
Trade payables (creditors)	10 994		8 795	
Tax liabilities	5 670		4 750	
		25 828		13 545
Total liabilities		85 828		63 545
Total liabilities and equity		249 774		161 586

The following additional information has been provided by the directors of Denton Steel Ltd for the year ending 31 December 2009.

(1) Land and buildings were revalued at £85 000 on 1 January 2009.

(2) Non-current (fixed) assets were purchased during the year at a total cost of £139 491.

(3) Non-current (fixed) assets with a net book value of £37 659 were sold during the year for £39 542.

(4) A 5% debenture loan for £50 000 matured on 30 June 2009. A 4% debenture loan was negotiated from 1 July 2009.

(5) Dividends of £6375 were paid during the year.

(6) The nominal par value of ordinary share capital is 50p per share.

(7) On 1 March 2009, a bonus issue of shares was made on the basis of 1 for every 5 shares held. The revaluation reserve was used to fund this transaction.

(8) A further issue of shares took place on 25 May 2009. No share redemptions took place during the year.

0 1 Prepare a statement of cash flows for the year ended 31 December 2009, in accordance with the requirements of IAS7.

Statement of Cash Flows for Denton and Steel Ltd for the year ended 31 December 2009

	£	£	
Profit from operations **(W1)**		32 000	**(6)**
Depreciation **(W2)**	36 998		**(5)**
Profit on disposal of a non-current asset	(1 883)		**(1)**
Increase in inventories (stocks)	(3 699)		**(1*)**
Decrease in trade receivables (debtors)	3 054		**(*)**
Increase in trade payables (creditors)	2 199	36 669	**(*)**
Cash from operations		68 669	
Interest paid		(2 450)	**(1)**
Income taxes paid		(4 750)	**(1)**
Net cash from operating activities		61 469	
Cash flow from investing activities:			
Purchase of non current (fixed) assets	(139 491)		**(1)**
Proceeds from the sale of non-current (fixed) assets	39 542		**(1)**
Net cash used in investing activities		(99 949)	
Cash flow from financing activities			
Proceeds from the issue of share capital **(W3)**	23 400		**(3)**
Proceeds from long term borrowing	60 000		**(1)**
Repayment of long term borrowing	(50 000)		**(1)**
Dividends paid	(6 375)		**(1)**
Net cash from financing activities		27 025	
Net decrease in cash and cash equivalents		(11 455)	
Cash and cash equivalents at the beginning of the year		2 291	**(1)**
Cash and cash equivalents at the end of the year		(9 164)	**(1OF)**

(W1) Profit from operations:

	£	
Retained earnings c/d	**5 046**	
Dividends paid	**6 375**	**(1)**
Retained earnings b/d	**(12 459)**	**(1)**
Retained profit for the year	**23 880**	
Corporation tax	**5 670**	**(1)**
Finance costs	**2 450**	**(2)**
Profit from operations	**32 000**	**(1OF)**

(*) interest paid:
50 000 x 5% x 6/12 = £1 250 (1)
60 000 x 4% x 6/12 = <u>£1 200</u> (1)
£ 2 450

(W2) Depreciation:

	£	
NBV c/d	**215 364**	
NBV b/d	**(125 530)**	**(1)**
Revaluation of non current (fixed) assets	**(25 000)**	**(1)**
Purchase of non current (fixed) assets	**(139 491)**	**(1)**
NBV of disposed non current (fixed) assets	**37 659**	**(1)**
Depreciation chare for the year	**36 998**	**(1OF)**

(W3) Extract from statement of changes in equity:

	£		£		£
	Ordinary shares		**Share premium**		**Revaluation**
Balance c/d	**120 000**		**30 900**		**8 000**
Balance b/d	**(85 000)**		**(25 500)**		**-**
Revaluation	**-**		**-**		**(25 000)**
Bonus issue	**(17 000)**	**(1)**	**-**		**17 000**
New share issue	**18 000**	**(1OF)**	**5 400**	**(1)**	

<u>25 marks</u>

Task 2 **Total for this task: 23 marks**

Paul, Stuart and Dave were in partnership sharing profits and losses in the ratio 3:2:2 respectively. The partnership balance sheet at 31 January 2010 was as follows.

Paul, Stuart and Dave
Balance sheet at 31 January 2010

	£	£	£
Non-current (fixed) assets			125 000
Current assets			
Inventory (stock)	16 500		
Trade receivables (debtors)	11 950		
Cash and cash equivalents at bank (cash and cash in hand)	3 070	31 520	
Current liabilities			
Trade payables (creditors)	9 560		
Accrued expenses	1 434	10 994	
Net current assets			20 526
Non-current (long term) liabilities			
Dave loan account			7 160
			138 366
Capital accounts			
Paul		51 000	
Stuart		34 000	
Dave		34 000	119 000
Current accounts			
Paul		18 390	
Stuart		(5 257)	
Dave		6 233	19 366
			138 366

The partnership was dissolved on 1 February 2010 after the following transactions had taken place.

(1) Paul took a motor vehicle with a net book value of £19 750 in part settlement. All other non-current (fixed) assets were sold for £110 000, paid by cheque.

(2) Stuart took inventory (stock) in part settlement at cost price. This inventory (stock) had a normal selling price of £5800 (including a 20% gross profit margin). The remaining inventory (stock) was sold at 75% of the original cost price, and was paid for by cheque.

(3) Trade receivables (debtors) were settled in full by cheque after deducting 4% for bad debts that could not be recovered.

(4) Trade payables (creditors) and accrued expenses were paid in full the sum of £9 005. This was a final settlement paid by cheque.

(5) Dissolution costs of £7 050 were paid by cheque.

(6) Dave's loan account was created on 31 July 2008 with an interest rate of 5% per annum. However, no interest had been paid or accrued since the loan was negotiated. The outstanding loan and accrued interest were adjusted for in Dave's capital account.

0 2 Prepare a realisation account on 1 February 2010 to record the transactions on the dissolution of the partnership.

	£			£	
Non-current (fixed) assets	**125 000**	**(1)**	**Bank**	**110 000**	**(*)**
Inventory (stock)	**16 500**	**(1)**	**Bank**	**8 895**	**(*)**
Bad debts	**478**	**(1)**	**Creditor unpaid**	**1 989**	**(*)**
Dissolution costs	**7 050**	**(1)**	**Paul (motor vehicle)**	**19 750**	**(1**)**
Loan account interest	**537**	**(1)**	**Stuart (stock)**	**4 640**	**(**)**
			Paul's capital account (W1)	**1 839**	**(1OF)**
			Stuart's capital account (W2)	**1 226**	**(1OF)**
			Dave's capital account (W2)	**1 226**	**(1OF)**
	149 565			**149 565**	

9 marks

(*) 1 mark for both numbers in each line entry

(**) 1 mark for Paul and Stuart

(W1) Paul: £4 291 x 3/7 = £1 839

(W2) Stuart and Dave: £4 291 x 2/7 = £1 226

0 3 Prepare the partners' capital accounts on 1 February 2010 to record the transactions on dissolution of the partnership.

DR **CR**

	Paul	Stuart	Dave			Paul	Stuart	Dave	
	£	£	£			£	£	£	
Current accounts	-	5 257	-	(1)	Balance b/d	51 000	34 000	34 000	(1*)
Realisation account	1 839	1 226	1 226	(1*)	Current accounts	18 390	-	6 233	(1*)
Motor vehicle	19 750	-	-	(1)	Loan account	-	-	7 160	(1)
Inventory (stock)	-	4 640		(1)	Loan interest	-	-	537	(1)
Bank	47 801	22 877	46 704	(1OF*)					(1*)
	69 390	34 000	47 930			69 390	34 000	47 930	(1*)

(*) 1 mark for all entries in each line.

11 marks

0 4 Prepare the bank account for the partnership on 1 February 2010 to record the transactions on dissolution of the partnership.

DR **CR**

	£			£	
Balance b/d	3 070		Realisation account: dissolution costs	7 050	(1**)
Realisation account: non current (fixed) assets	110 000	(1*)	Realisation account: Trade payables (creditors) & accrued expenses	9 005	(**)
Realisation account: inventory (stock)	8 895	(*)	Paul's capital account	47 801	(1)
Realisation account: trade receivables (debtors)	11 472	(*)	Stuart's capital account	22 877	(1)
			Dave's capital account	46 704	(1)
	133 437			133 437	

5 marks

Task 3 **Total for this task: 19 marks**

The directors of Waugh Ltd have provided the following extract from the balance sheet at 31 January 2009.

	Cost	**Depreciation**	**NBV**
	£	**£**	**£**
Property plant and equipment			
Land and buildings	250 000	93 750	156 250
Plant and machinery	75 000	36 600	38 400
Fixtures and fittings	18 000	12 150	5 850
	343 000	142 500	200 500

During the year ended 31 January 2010 the following transactions took place.

(1) A review of the land and buildings on 1 February 2009 showed that the assets were impaired and had a recoverable amount of £135 000.

(2) Plant and machinery was purchased on 1 May 2009 at a cost of £26 200.

(3) Plant and machinery with an original cost of £18 750 was sold on 30 April 2009. On 1 February 2009, it had a net book value of £9 600.

(4) Fixtures and fittings were purchased at a cost of £7 200 on 30 November 2009.

The following is an extract from the company's statement of accounting policies.

(1) Land and buildings are depreciated using the straight-line method at 2.5% per annum.

(2) Plant and machinery are depreciated using the reducing balance method at 20% per annum.

(3) Fixtures and fittings are depreciated at 15% per annum on cost less 10% residual scrap value.

All fixed assets are depreciated using a time apportioned method.

0 5 Prepare a schedule of non-current (fixed) assets at 31 January 2010 (a total column is not required).

Property plant and equipment

	Land and buildings		Plant and machinery		Fixtures and fittings	
	£		£		£	
Cost:						
As at 1 February 2009	250 000		75 000		18 000	
Additions at cost			26 200	(1)	7 200	(1)
Disposals			(18 750)	(1)		
Impairment	(115 000)	(1)				
As at 31 January 2010	135 000	(1OF)*	82 450*		25 200*	
Depreciation:						
As at 1 February 2009	93 750		36 600		12 150	
Charge for the year	3 375	(1)	10 170	(4)(W1)	2 592	(3)(W2)
Eliminated on disposal		-	(9 630)	(3)(W3)		-
Eliminated on impairment	(93 750)	(1)		-		-
As at 31 January 2010	3 375	(1OF)**	37 140**		14 742**	
Net book value as at 31 January 2010	131 625	(1OF)***	45 310***		10 458***	

19 marks

(W1) Plant and machinery depreciation:

		£
On disposed asset	£9 600 x 20% x 3/12	480 (1)
On remaining assets	£38 400 - £9 600 x 20%	5 760 (1)
On asset purchased	£26 200 x 20% x 9/12	3 930 (1)
	Total	10 170 (1OF)

(W2) Fixtures and fittings depreciation:

		£
On remaining assets	£18 000 - £1 800 x 15%	2 430 (1)
On asset purchased	£7 200 - £720 x 15% x 2/12	162 (1)
	Total	2 592 (1OF)

(W3) Eliminated on disposal depreciation:

		£
At 1 February 2009	£18 750 - £9 600	9 150 (1)
During year to disposal date	£9 600 x 20% x 3/12	480 (1)
	Total	9 630 (1OF)

Task 4 **Total for this task: 16 marks**

The directors of Wiles Ltd are unsure about how to treat the following situations in the financial statements for the business for the year ended 30 October 2009.

(1) A proposal has been made to change the depreciation policy from the reducing balance to the straight-line method for all classes of non-current (fixed) asset.

(2) On 15 November 2009 the company experienced a flood in the factory which damaged several machines. It is anticipated that this will lead to a significant disruption to production capacity in the short-term future.

(3) The business is being restructured and it is anticipated that this will result in some management redundancies.

(4) The continued impact of the economic downturn has resulted in the market value of the land and buildings being reduced.

0 6 Identify and explain the relevant IAS which would apply to each of the situations (1) to (4)

Situation 1:

IAS 8 Accounting policies, changes in accounting estimates and errors (1).

A change in the depreciation method would usually be against the concept of consistency and so would not be recommended (1). However, if the change would lead to more reliable and relevant information, then the change would be appropriate in this circumstance (1). The previous year's figures and this year's figures in the financial statements would need to be restated to assist with comparability (1). This would affect the depreciation charge both in the income statement (profit and loss account) (1) and the statement of financial position (balance sheet) (1).

Max 4 marks

Situation 2:

IAS 10 Events after the reporting period (1).

The flood happened after the year end date and so would be classified as a non-adjusting event (1) even though the financial statements may not have been approved by the board of directors (1). No adjustment is therefore made to the financial statements for the year end (1). However, if the impact of the event is deemed to be material then the event details will be disclosed in the notes to the financial statements (1). In this case, the event nature and an estimate of the financial impact will be shown (1).

Max 4 marks

Situation 3:

IAS 37 Provisions, contingent liabilities and contingent assets.

The restructuring represents a current obligation as a result of a past event (1). Provided that a reliable estimate can be made of the probable outflow of economic benefits (1) then the change needs to be recognised in the financial statements as a liability (1), due to the fact that there is more than a 50% likelihood of the event occurring (1). The cost of the restructuring would therefore be shown as a cost in the income statement (profit and loss account) (1) and also as a liability in the statement of financial position (balance sheet) (1).

Max 4 marks

Situation 4:

IAS 36 Impairment of assets.

A fall in the market value of the land and buildings is due to an external indication that impairment has occurred (1). If the market value, which is the recoverable amount (1), is less than the carrying amount or net book value (1) then an impairment loss exists (1). The non-current (fixed) assets are reduced to this recoverable amount in the statement of financial position (balance sheet) (1) and is also recognised as an expense in the income statement (profit and loss account) (1).

Max 4 marks

Overall max 16 marks