For Performance Measurement

ZIMBABWE SCHOOL EXAMINATIONS COUNCIL

General Certificate of Education Advanced Level

ACCOUNTING **6001/3**

PAPER 3 Problem Solving

JUNE 2019 SESSION 2 hours 30 minutes

Additional materials:
Answer paper

TIME 2 hours 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

All accounting statements are to be presented in good style. Workings should be shown.

You may use a calculator.

The businesses in this question paper are fictitious.

This question paper consists of 7 printed pages and 1 blank page.

Answer **all** questions

1 Karimba Limited provides the following information:

Statement of financial position extract on 1 April 2017.

Equity and liabilities

	$000
Ordinary shares of $0,50 each	1 200
Share premium	300
General reserve	200
Retained profit	947
	2 647
6% debentures	400
	3 047

Additional information

The following took place during the year ended 31 March 2018:

1. Profit for the year attributable to equity holders was $355 000.

2. During the year the directors transferred $200 000 to the general reserve and paid dividends of $300 000.

3. Buildings were revalued upwards by $700 000.

4. The directors made a bonus issue of one share for every six held, utilising share premium and revaluation reserve equally. This was then followed by a rights issue of one share for every five shares now held at $0,70 per share.

(a) Prepare a statement of changes in equity for the year ended 31 March 2018. [13]

(b) Explain the treatment of a proposed final dividend in the financial statement. Give the reason for this treatment. [3]

(c) Explain what is meant by a rights issue. [3]

Additional information

An impairment review was carried out and revealed that an item of machine with a carrying value of $100 000 could be sold for $65 000. Its value in use was $70 000. The directors are uncertain how this should be treated in the financial statements.

(d) What is the effect of the impairment review on the profit for the year and how much should be shown on the statement of financial position. [4]

2 The statements of financial position at 31 December 2017 and 2018 for Medals Limited are shown below:

	2018			2017		
	COST $(000)	**DEP $(000)**	**NBV $(000)**	**COST $(000)**	**DEP $(000)**	**NBV $(000)**
Non-current assets						
Land	1 500	-	1 500	1 200	-	1 200
Buildings	1 060	245	815	900	243	657
Vehicles	575	390	185	500	240	260
Machinery	1 100	450	650	850	340	510
	4 235	1 085	3 150	3 450	823	2 627
Current assets						
Inventory		470			400	
Trade receivables		280			200	
Cash and cash equivalents		190			-	
			940			600
			4 090			3 227
Equity and liabilities						
Ordinary shares of $1 each			1 500			1 000
Share premium			660			500
Revaluation reserve			300			-
Retained profit			1 265			1 199
			3 725			2 699
Non-current liability						
8% loan stock			200			300
Current liabilities						
Trade payables		135			130	
Taxation		30			50	
Cash and cash equivalents		-			48	
			165			228
			4 090			3 227

Additional information

1. Income statement extract for the year ended 31 December 2018.

	$
Operating profit	156 000
Interest	(28 000)
	128 000
Tax for the year	(30 000)
Profit attributable to equity holders	98 000

2. There were no additions to or disposals of land during the year ended 31 December 2018. It was revalued upwards by $300 000.

3. During the year ended 31 December 2018 buildings that had originally cost $240 000 were sold for $320 000 and a profit of $101 000 was realised.

4. More buildings and machinery were bought during the year.

5. During the year ended 31 December 2018 vehicles with an original cost of $75 000 were sold for $12 000. The accumulated depreciation for the vehicles sold was $58 000.

6. Loan stock was redeemed during the year.

7. A bonus issue of one ordinary share for every five held was made in May 2018. The share premium account was used for this purpose. A rights issue of one ordinary share for every four now held was made at a premium of $1,20 per share in July 2018.

8. Ordinary share dividend paid during the year was $32 000.

(a) Prepare a statement of cash flows in accordance with IAS7. [23]

(b) State **four** benefits of preparing statement of cash flows. [4]

3 Mr Reedy's financial year ends on 31 March 2016. Owing to staff shortages the usual inventory taking exercise was not undertaken until after the close of business on 10 April 2016, when inventory was valued at $312 500.

The selling price of all goods is based on cost plus 25% mark up.

The following transactions took place during the period 1 April 2016 to 10 April 2016.

(i) Goods with a sales value of $6 250, which had been invoiced and delivered to a customer before the financial year end were returned by the customer on 2 April 2016.

(ii) Goods included in the inventory valuation at cost price of $7 500 were damaged on 28 March 2016. They can only be sold for $1 500 after repairing them at a cost of $150.

(iii) On 4 April goods with a selling price of $15 000 were invoiced and despatched to a customer.

(iv) On 5 April goods with a cost price of $2 500 were ordered and received.

(v) On 27 March 2016 goods with a selling price of $12 500 were sent to a customer on a sale or return basis. The customer had not yet indicated whether he will buy the goods or not.

(vi) Unused stock of stationery material costing $3 500 had been included in the inventory figure on 10 April 2016.

(vii) Carriage inwards of $1 320 relating to purchases made on 25 March 2016 had been debited to carriage outwards account.

(viii) Goods sold during March 2016 for $1 680 were awaiting collection by a customer.

(ix) On 9 April 2016 Mr Reedy took goods worth $4 250 at selling price for own use.

(a) Prepare a statement to calculate the correct value of inventory on 30 March 2016. [17]

(b) State **two** advantages and **two** disadvantages of the following inventory valuation methods:

(i) FIFO (First In First Out)

(ii) AVCO (Weighted Average Cost)

[8]

4 Mbire Limited is considering expanding its business and has to decide between taking on Project A or Project B. Both projects have a life of four years. The machine is expected to have no scrap value.

Other information about the projects is as follows:

		Project A	Project B
Initial outlay		$180 000	$160 000
Increase in working capital		$ 15 000	$ 6 000
		$	$
Annual profits	Year 1	14 000	13 000
	Year 2	10 000	9 800
	Year 3	20 000	17 000
	Year 4	14 000	16 200

Mbire Limited uses a cost of capital of 10%.

Discount factors at:

	10%	20%
Year 1	0,909	0,833
Year 2	0,826	0,694
Year 3	0,751	0,579
Year 4	0,683	0,482

Using a cost of capital of 10% Project B has a net present value of $15 300 and an internal rate of return of 14,20%.

(a) Calculate:

(i) for Project A and B the accounting rate of return (ARR), correct to two decimal places, [4]

(ii) the net present value of Project A only, [10]

(iii) the internal rate of return for Project A only, correct to two decimal places. [4]

(b) State with reasons which project should be selected. [4]

(c) State **one** limitation of each of the following:

(i) accounting rate of return, [1]

(ii) the payback period, [1]

(iii) the net present value. [1]

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