ZIMBABWE SCHOOL EXAMINATIONS COUNCIL
General Certificate of Education Advanced Level

ACCOUNTING 6001/3
PAPER 3 Problem Solving

SPECIMEN PAPER 2018 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 intended to be fictitious.

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

Answer **all** questions

1. Chegutu Limited manufactures a single product. Finished goods are transferred from the factory to the sales department at a mark up of 20 %.

The following balances were extracted from the trial balance at 31 December 2017.

	$ 000
Revenue	9 100
Purchases of raw materials	2 030
Carriage inwards	182
Carriage outwards	105
Direct labour	2 345
Administrative expenses	1 499
Factory overheads	1 890
Non-current assets at cost	3 500
Accumulated depreciation on non-current assets	2 450

Additional information

1. Factory overheads of $ 98 000 are accrued on 31 December 2017.

2. Administrative expenses include prepaid expenses of $49 000.

3. Non-current assets are depreciated at 25 % using the reducing balance method. Depreciation is split between production and administration in the ratio 2:1.

4. Inventory details are as follows:

	1 January	31 December
	$ 000	**$ 000**
Raw materials	196	329
Work in progress	231	448
Finished goods	462	612

(a) For the year ended 31 December 2017, prepare:

(i) the manufacturing account, [9]

(ii) the income statement. [8]

(b) Explain why finished goods inventory is not shown at transfer price in the statement of financial position. [3]

Additional information

An impairment of non-current assets shows that an item of equipment with a cost of $95 000 and accumulated depreciation of $66 500 can now be sold for $25 000 after incurring selling costs of $500.

The value in use of this item of equipment over the next three years is expected to be $26 000.

(c) Discuss the impact of the impairment review on the profit for the year ended 31 December 2017. [4]

(d) Name the International Accounting Standard (IAS) which deals with impairment loss. [1]

2. The non-current asset register of Kadoma Textiles showed the following balances on 1 January 2017.

	Cost	**Accumulated depreciation**
	$	**$**
Property	40 000	3 200
Plant and equipment	24 000	10 500

Property is depreciated at 2 % per annum on cost and plant and equipment at 20% per annum on cost. A full year's depreciation is charged in the year of purchase and none in the year of disposal.

During the year ended 31 December 2017, the following transactions took place.

February 1	Purchased a new machine for $7 500.
March 14	Installed office equipment at a cost of $11 500.
April 1	Sold equipment for $2 000. It had been purchased on1 August 2013 at a cost of $6 000, which included $400 for insurance.
October 1	Carried out major repairs on some equipment costing $15 000. This included a new electric motor costing $5 000, which increased the efficiency of the equipment by 300 %.
December 31	Re-valued the property to $50 000 soon after recording the depreciation for the year.

(a) For the year ended 31 December 2017, prepare:

(i) the disposal account. [4]

(ii) a schedule of non-current assets as it would appear as a note in the published accounts. [14]

(b) Explain why a business depreciates its non-current assets. [2]

Additional information

Kadoma Textiles is listed on the Zimbabwe Stock Exchange and is required to produce audited accounts.

(c) **(i)** Explain the purpose of an end of year audit. [2]

(ii) Assess briefly the implications of a qualified audit report. [3]

3 Mashungu and Pashapa were in partnership, sharing profits and losses in the ratio 2 :1. They decided to retire and sell their business to Rukudzo Ltd on 31 December 2017. Their statement of financial position on that date is shown below.

Mashungu and Pashapa Statement of Financial position 31 December 2017

		$	$
Assets			
Property			150 000
Plant and machinery			120 000
Motor vehicles			36 000
Office equipment			15 000
Inventory			82 000
Trade receivables			94 000
Bank			40 000
			537 000
Equity and liabilities			
Capital accounts:	Mashungu	200 000	
	Pashapa	155 000	355 000
12% Loan from Mashungu			75 000
Trade payables			107 000
			537 000

Rukudzo Ltd agreed to take over all the assets, except the bank account, based on the following valuations:

	$ 000
Property	300 000
Plant and machinery	90 000
Motor vehicles	27 000
Office equipment	8 000
Inventory	60 000
Trade receivables	75 000

Rukudzo Ltd took over the trade payables at their book value.

The purchase consideration of $600 000 was settled as follows:

1. Mashungu received sufficient 10 % debentures in Rukudzo Ltd to ensure that he continued to receive the same amount of interest as he had been entitled to on his loan to the partnership.

2. Rukudzo Ltd. paid $120 000 to the partnership bank account.

3. The balance of the purchase price was settled in ordinary shares of $1 each in Rukudzo Ltd at a price of $1,30 per share.

The shares were distributed among the partners in the profit sharing ratio and the final balances on their capital accounts were settled in cash.

(a) Prepare the following accounts to close the books of the partnership:

(i) Realisation account [5]

(ii) Bank account [3]

(iii) Capital accounts in columnar form [8]

(b) Calculate

(i) the amount paid for goodwill by Rukudzo Ltd. [3]

(ii) the number of ordinary shares issued to Pashapa. [2]

(c) Suggest possible reasons why Rukudzo Ltd agreed to pay a substantial amount for goodwill. [4]

4 Mutoko Limited is preparing its master budget for 2018. Relevant data pertaining to its sales, production and purchases budgets are given below.

1. Sales for the year are expected to total 210 000 units. Quarterly sales are expected to be 15 %, 25 %, 35 % and 25 % of total sales respectively.

   The unit selling price will be $70 for the first three quarters and $75 starting in the fourth quarter.

   Sales in the first quarter of 2019 are expected to be 10 % higher than the budgeted sales volume for the first quarter of 2018.

2. Closing inventory of finished goods is maintained at 20 % of the next quarter's budgeted sales volume.

3. Each unit requires 2 kilograms of raw materials at a cost of $15 per kilogram. Management desires to maintain raw materials inventory at 10 % of the next quarter's production requirements.

Assume the production requirements for the first quarter of 2019 are 115 000 kilograms.

(a) Define a master budget. [1]

(b) For each quarter of 2018, prepare:

(i) the sales budget, stating the units and revenue. [4]

(ii) the production budget, stating the units. [8]

(iii) the purchases budget, stating the kilograms and cost. [7]

(c) Explain how a master budget contributes to good management. [5]

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