CIMA INTERIM ASSESSMENT

Financial Operations

November 2011

Paper F1

Time allowed

Reading and planning: 20 minutes

Writing: 3 hours

All questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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SECTION A

Answer ALL 8 sub-questions in this section

QUESTION 1

1.1 Robbie has employment income of $100,000 and currently pays taxation of $20,000. Doris has employment income of $40,000 and currently pays taxation of $8,000. This is an example of what type of taxation?

A Progressive tax

B Regressive tax

C Proportional tax

D Direct tax **(2 marks)**

1.2 Close Ltd is a UK resident company owning 100% of the shares of a foreign company called Distant Ltd.

During the year Distant Ltd had the following results:

	$
Profit before taxation	160,000
Taxation	(40,000)
Profits after taxation	120,000

Distant Ltd decided to pay out a dividend of $30,000 out of profit after tax to Close Ltd. The dividend is subject to withholding tax of 10%.

What is the total foreign tax suffered on the dividend? **(3 marks)**

1.3 Cascade tax is a type of taxation that.......

A allows the business to claim back a refund on taxes paid

B charges taxation at one stage of production

C does not allow refunds on taxes paid

D charges taxation on wealth **(2 marks)**

1.4 What is the IASB?

A International Accounting Standards Board

B International Accounting Standards Body

C Internal Accounting Standards Board

D Internal Accounting Standards Body **(2 marks)**

1.5 Alex sold a house during April 2011 for $100,000 that he had purchased during April 2000 as an investment property for $25,000. During May 2003 he spent $20,000 on an extension and $5,000 on repairs to the roof. He spent $500 on legal fees to purchase the house and $1,000 on estate agent fees to enable him to make the sale. Indexation (compensation for inflation) is estimated at 30% from April 2000 to April 2011 and 20% from May 2003 to April 2011.

Calculate the capital gain on the disposal. **(3 marks)**

1.6 The Framework states that reliable information should be free from material error, have faithful representation and have three other qualities. What are these three other qualities?

A Neutral, Complete and Prudent

B Neutral, Complete and Understandable

C Complete, Prudent and Understandable

D Prudent, Relevant and Neutral **(2 marks)**

1.7 List three of the rights an auditor has to enable them to carry out their duties.

(3 marks)

1.8 List the three different types of tax base**.** **(3 marks)**

(Total: 20 marks)

SECTION B

Answer ALL six sub-questions in this section

QUESTION 2

(a) CIMA's code of ethics describes five fundamental principles that form the basis of the code.

Briefly explain these five principles. **(5 marks)**

(b) The IASB has developed a conceptual framework, which lays out the broad principles that should be applied when developing accounting standards and when determining an appropriate accounting treatment. This conceptual framework is called the *Framework for the Preparation and Presentation of Financial Statements.*

Briefly discuss the purpose of the framework. **(5 marks)**

(c) The following summarised statements of financial position are provided for Hamill and Beggs as at 31 December 2011:

	Hamill	*Beggs*
	$000	$000
Non-current assets		
Property, plant and Equipment	4,000	1,000
Investment in Beggs	3,800	
Current assets	400	1,600
	8,200	2,600
Equity and reserves		
Share capital ($1 ordinary shares)	6,000	600
Retained earnings	2,000	1,800
Current liabilities	200	200
	8,200	2,600

Hamill purchased 600,000 shares in Beggs on 1 January 2010 for $3.8m when Beggs reserves were $1m. It is estimated that the non-current assets of Beggs possessed a fair value of $1.4m on 1 January 2010. This relates to land and therefore does not include a depreciation adjustment.

There was no goodwill impairment at the reporting date.

Required:

Prepare the consolidated statement of financial position at 31 December 2011.
(5 marks)

(d) Shire Ltd receives a dividend of $360,000, which is net of withholding tax of 10% from a foreign company based in France. This French company produces profits before tax of $600,000 and tax on profits of $150,000. The UK tax rate is 30%.

Required:

Calculate the withholding and underlying tax on the dividend and apply double tax relief to calculate the amount of tax due to be paid in the UK. (5 marks)

(e) Country A has the following tax regulations in force for the years 2010 and 2011 (each year January to December):

Corporate income is taxed at the following rates:

- $1 to $10,000 at 0%;
- $10,001 to $20,000 at 10%;
- $20,001 and over at 25%.

When calculating corporate income tax, Country A does **not** allow the following types of expenses to be charged against taxable income:

- entertaining expenses
- political donations
- accounting depreciation of non-current assets.

Tax relief on capital expenditure is available at the following rates:

- buildings at 3% per annum on straight line basis
- all other non-current tangible assets are allowed tax depreciation at 20% per annum on reducing balance basis.

Corkscrew Ltd commenced business on 1 January 2010 when all assets were purchased. No first year allowances were available for 2010.

Non-current assets cost at 1 January 2010

	$
Land	20,000
Buildings	140,000
Plant and equipment	160,000

On 1 January 2011, Corkscrew Ltd purchased another machine for $40,000. This machine qualified for a first year tax allowance of 40%.

Corkscrew's Income statement for the year to 31 December 2011

	$
Gross profit	320,000
Administrative expenses	162,000
Entertaining	1,200
Political donation	1,900
Depreciation on buildings	3,200
Depreciation on plant and equipment	40,000
Distribution costs	20,000
	91,700
Finance cost	3,900
Profit before tax	87,800

Required:

Calculate Corkscrew's corporate income tax due for the year 2011. **(5 marks)**

(f) Wead Ltd has the following transactions for the year ended 28/02/11:

Standard rated sales (inclusive of sales tax)	$460,000
Zero rated sales (inclusive of sales tax)	$40,000
Exempt sales	$65,000
Standard rated purchases for standard rated sales (exclusive of sales tax)	$240,000
Standard rated purchases for zero rated sales (exclusive of sales tax)	$60,000
Standard rated purchases for exempt sales (exclusive of sales tax)	$20,000
Zero rated purchases	$11,000
Exempt purchases	$15,000

Sales tax is charged at 15%

Required:

Calculate the amount of sales tax that is due to be paid/repaid by Wead Ltd and the amount of profit or loss that would be shown the accounts. Assume Wead operates a multi stage tax system where they can claim back sales tax on purchases. (5 marks)

(Total: 30 marks)

SECTION C

Answer both questions in this section

QUESTION 3

Marlon Ltd is a quoted catering enterprise. The company produces and sells a variety of products sold to nearby pubs and restaurants. Its finished products are stored in a nearby warehouse until ordered by customers. Marlon has been re-organising the business to improve performance due to a decline in the market due to the recession.

The trial balance for Marlon Ltd at 31 March 2009 was as follows:

	$	$
7% loan notes (redeemable 2017)		18,000
Retained earnings at 31 March 2008		23,345
Administrative expenses	6,020	
Cash and cash equivalents	56,250	
Cost of goods produced in the year to 31 March 2009 (excluding depreciation)	84,000	
Distribution costs	5,060	
Ordinary dividends paid	1,000	
Dividends received		1,200
Equity shares: $1 each fully paid		20,000
5% Preference shares $1 each fully paid		10,000
Interest paid	630	
Inventory at 31 March 2008	6,850	
Plant and equipment at cost 31 March 2008	40,315	
Provision for depreciation at 31 March 2008:		
Plant and equipment		7,060
Vehicles		2,670
Allowance for trade receivables		600
Redundancy costs	12,000	
Sales revenue		154,900
Irrecoverable debt expenses	700	
Share premium		500
Trade payables		18,120
Trade receivables	29,850	
Vehicles at cost 31 March 2008	13,720	
	256,395	256,395

Additional information provided:

(i) Non-current assets are being depreciated as follows:

- Plant and equipment 20% per annum straight line
- Vehicles 25% per annum reducing balance.

Depreciation of plant and equipment is considered to be part of cost of sales, while depreciation of vehicles should be included under distribution costs.

During the year Marlon sold some catering equipment for $2,500. This related to equipment that originally cost $5,000 and had been depreciated by $2,600. No entries have been made at all in the trial balance for this disposal.

(ii) Current tax due for the year to 31 March 2009 is estimated at $15,000.

(iii) The closing inventory at 31 March 2009 was $5,800.

(iv) A dividend of 5 cents per ordinary share was paid in February 2009.

(v) The 7% loan notes were issued on 1 April 2008 and are loans due for repayment by 31 March 2017. Interest is paid half yearly on 1 September and 1 April.

(vi) The redundancy costs in the trial balance represent the cost of the initial phase of a major fundamental restructuring of the enterprise to improve competitiveness and future profitability.

(vii) On 1 October 2008, AZ issued 1,000 equity shares at $1.50 each. All money had been received and correctly accounted for by the year end.

Required:

Prepare Marlon's income statement for the year to 31 March 2009, a statement of financial position at that date, and a statement of changes in equity for the year. These should be in a form suitable for presentation to the shareholders, in accordance with the requirements of International Accounting Standards.

Notes to the financial statements are NOT required, but all workings must be clearly shown.

(Total: 20 marks)

You May contact QQ:139169828 MSN: q7jw00001@hotmail.com For More Information !

QUESTION 4

The statements of financial position of Salt and its investee companies Pepper and Vinegar at 31 December 2008 are given below:

	Salt	*Pepper*	*Vinegar*
	$000	$000	$000
Income Statements			
Revenue	6,000	4,500	4,200
Cost of sales	(3,000)	(2,250)	(2,100)
Gross profit	3,000	2,250	2,100
Other operating expenses	(900)	(450)	(420)
Profit from operations	2,100	1,800	1,680
Investment income	930	250	
Interest payable	(1,170)	(225)	(210)
Profit before tax	1,860	1,825	1,470
Taxation	(760)	(550)	(480)
Profit for the year	1,100	1,275	990

Statements of financial position at 31 December 2008

		Salt		*Pepper*		*Vinegar*
	$000	$000	$000	$000	$000	$000
Non-current assets						
Property, plant and equipment		2,900		2,760		620
Investments		2,700		–		–
		5,600				
Current assets						
Inventories	600		420		550	
Receivables	350		200		750	
Cash and cash equivalents	55		320		60	
		1,005		940		1,360
		6,605		3,700		1,980

Equity						
Share capital ($1 ordinary shares)		2,200		600		1,000
Reserves		2,145		2,200		520
		4,325		2,800		1,520
Non-current liabilities						
Loans		1,000		500		–
Current liabilities						
Bank overdraft	860		100		–	
Trade payables	400		300		460	
		1,260		400		460
		6,605		3,700		1,980

Additional information

(i) Salt acquired 600,000 ordinary shares in Pepper on 1 January 2004 for $2,300,000 when the reserves of Pepper were $500,000.

(ii) At the date of acquisition of Pepper, the fair value of its net assets was the same as their book value with the exception of some property, whose market value was $300,000 more than its book value. This property is still held by Pepper at 31 December 2008 and has a useful life of 10 years. Property is depreciated on a straight line basis.

(iii) Salt acquired 300,000 ordinary shares in Vinegar on 1 January 2007 for $400,000 when the reserves of Vinegar were $150,000.

(iv) Salt manufactures a component used by both Pepper and Vinegar. Salt consistently earns a gross profit margin of 25% on these transfers. During the year Salt sold goods worth $300,000 to Pepper and $200,000 to Vinegar. Pepper held $100,000 inventories of these components at 31 December 2008 but Vinegar had sold all goods.

(v) The receivables of Salt include $50,000 in respect of amounts owing by Pepper and $40,000 in respect of amounts owing by Vinegar. Both Pepper and Vinegar sent a cheque to Salt in full settlement of the amounts owed on 30 December 2008. Salt received and recorded these payments on 12 January 2009.

(vi) The impairment test on goodwill of Pepper is impaired by 20% at 31 December 2008. There has been no impairment on the goodwill for Vinegar.

Required:

Prepare the consolidated income statement and consolidated statement of financial position of the Salt group at 31 December 2008. **(Total: 30 marks)**