

Drafting Financial Statements

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION
ADVANCED LEVEL
MONDAY 6 DECEMBER 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and **MUST** be answered

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

Paper T6(GBR)



ALL FOUR questions are compulsory and MUST be attempted

1 Kevin and David are in partnership together and trade under the name Guyridge. They have just completed their second year of trading and have asked for your help in preparing their final accounts for the year ended 31 October 2004.

The business has expanded rapidly. Consequently, the partners have not had time to maintain the accounting records properly. However, they are able to provide you with the following information.

At 1 November 2003 the business had the following balances:

	Dr £	Cr £
Capital accounts: Kevin		80,000
David		50,000
Current accounts: Kevin		23,000
David		21,000
Vehicles at cost	32,000	
Equipment at cost	60,000	
Provisions for depreciation:		
Vehicles		8,000
Equipment		12,000
Prepayments:		
Advertising	2,000	
Insurance	4,000	
Accruals:		
Heating and lighting		3,000
Rent and rates		1,000
Cash at bank	10,000	
Stock	25,000	
Trade creditors		15,000
Trade debtors	80,000	
	213,000	213,000
	213,000	213,000

The business also made payments during the year for the following:

	£
Carriage inwards	4,500
Vehicle running expenses	13,500
Insurance	5,000
Heating and lighting	7,000
Telephone	3,500
Advertising	2,250
Rent and rates	15,000
Office supplies	1,250
Suppliers	200,000
	252,000
	252,000

Additional Information

- Stock as at 31 October 2004 was valued at £37,000.
- The business owed £10,000 to suppliers as at 31 October 2004.
- Insurance of £1,000 was paid in advance at 31 October 2004.
- During the year bad debts of £15,000 were written off.
- Interest on capital account balances is to be allowed at 10%.
- Receipts from customers were £400,000 and there was £55,000 outstanding from customers at 31 October 2004.
- Settlement discounts of £5,000 were given to customers.
- Invoices totalling £2,250 relating to heating and lighting were unpaid at 31 October 2004.
- Depreciation on vehicles is to be provided at 25% of their written down value.

- Depreciation on equipment is to be provided at 20% on its original cost.
- Cash drawings during the year were: Kevin £60,000; David £30,000.
- Interest on drawings is to be charged as follows: Kevin £2,000; David £1,000.
- Kevin and David have an agreement to share the profits in the ratio 2:1.

Required:

Prepare the following statements for the partnership:

- (a) the trading, profit and loss and appropriation account for the year ended 31 October 2004;** (23 marks)
- (b) the partners' current accounts for the year ended 31 October 2004; and** (5 marks)
- (c) the balance sheet as at 31 October 2004.** (12 marks)

(You are advised to show any necessary supporting workings)

(40 marks)

2 The following are the financial statements of Black Ltd and its subsidiary Bury Ltd.

Profit and loss accounts for the year ended 31 October 2004

	Black Ltd £000	Bury Ltd £000
Turnover	245,000	95,000
Cost of sales	(140,000)	(52,000)
Gross profit	105,000	43,000
Distribution costs	(12,000)	(10,000)
Administrative expenses	(55,000)	(13,000)
Operating profit	38,000	20,000
Dividend income from Bury Ltd	7,000	–
Profit on ordinary activities before taxation	45,000	20,000
Tax on profit on ordinary activities	(13,250)	(5,000)
Profit on ordinary activities after taxation	31,750	15,000
Dividends	(20,000)	(10,000)
Retained profit for the year	<u>11,750</u>	<u>5,000</u>

Balance Sheets as at 31 October 2004

	Black Ltd		Bury Ltd	
	£000	£000	£000	£000
Fixed assets				
Tangible assets at net book value		110,000		40,000
Investments:				
21,000,000 £1 ordinary shares in Bury Ltd at cost		24,000		–
		<u>134,000</u>		<u>40,000</u>
Current assets				
Stock, at cost	13,360		3,890	
Debtors and dividend receivable	14,640		6,280	
Bank	3,500		2,570	
	<u>31,500</u>		<u>12,740</u>	
Creditors: amounts falling due within one year:				
Creditors	9,000		2,460	
Dividends	20,000		10,000	
	<u>29,000</u>		<u>12,460</u>	
Net current assets		<u>2,500</u>		<u>280</u>
		<u>136,500</u>		<u>40,280</u>
Capital and Reserves				
£1 Ordinary shares		100,000		30,000
General reserve		9,200		1,000
Profit and loss account		27,300		9,280
		<u>136,500</u>		<u>40,280</u>

The following information is also available:

- (a) Black Ltd purchased its £1 ordinary shares in Bury Ltd on 1 November 1999. At that date the balance on Bury Ltd's general reserve was £0.5 million and the balance on the profit and loss account was £1.5 million.
- (b) Black Ltd's policy is to amortise goodwill on a straight-line basis over 10 years.
- (c) During the year ended 31 October 2004 Black Ltd sold goods which originally cost £12 million to Bury Ltd. Black Ltd invoiced Bury Ltd at cost plus 40%. Bury Ltd still has 30% of these goods in stock at 31 October 2004.
- (d) Bury Ltd owed Black Ltd £1.5 million at 31 October 2004 for some of the goods Black Ltd supplied during the year.

Required:

- (a) **Calculate the goodwill arising on the acquisition of Bury Ltd.** (3 marks)
- (b) **Prepare the following financial statements, in accordance with UK GAAP, for Black Ltd:**
 - (i) **the consolidated profit and loss account for the year ended 31 October 2004;** (10 marks)
 - (ii) **the consolidated balance sheet as at 31 October 2004.** (17 marks)

Disclosure notes are not required.

(30 marks)

- 3 Nicola is thinking of investing in Tressven Plc. She has asked for your help to calculate some of the ratios she needs to decide whether or not to invest. She has given you the summarised financial statements of Tressven Plc which are shown below:

Tressven Plc
Profit and loss account for the year ended 31 October 2004

	£000
Turnover	23,420
Cost of sales	<u>(8,245)</u>
Gross profit	15,175
Expenses	<u>(2,460)</u>
Profit before interest	12,715
Interest payable	<u>(50)</u>
Profit before tax	12,665
Tax on profit	<u>(1,515)</u>
Profit after tax	11,150
Dividends	<u>(10,000)</u>
Retained profit	<u><u>1,150</u></u>

Tressven Plc
Balance sheet as at 31 October 2004

	£000	£000
Fixed assets		31,000
Current assets		
Stock	1,450	
Debtors	2,500	
Cash	<u>50</u>	
	<u><u>4,000</u></u>	
Current liabilities		
Creditors	(860)	
Tax	<u>(620)</u>	
	<u><u>(1,480)</u></u>	
Net current assets		<u>2,520</u>
Debentures		<u>33,520</u> <u>(1,000)</u>
		<u><u>32,520</u></u>
Capital and Reserves		
50p Ordinary Shares		25,000
Reserves		<u>7,520</u>
		<u><u>32,520</u></u>

Additional information

- (i) The market share price for Tressven Plc is £1.50.
- (iii) Tressven Plc's main competitor is Hilladay Plc which has the following ratios:

Dividend per share	10p
Dividend cover	5 times
Earnings per share (EPS)	20p
Price earnings ratio	13.4
Debt/equity ratio	15%
Interest cover	100 times

Required:

- (a) Calculate the following ratios for Tressven Plc:**

- (i) Dividend per share;
- (ii) Dividend cover;
- (iii) Earnings per share (EPS);
- (iv) Price earnings ratio (PE ratio);
- (v) Debt/equity ratio;
- (vi) Interest cover.

Show all workings (9 marks)

- (b) Prepare notes for Nicola that comment on the ratios you have calculated. Use the ratios for Hilladay Plc as a comparator.** (6 marks)

(15 marks)

4 Required:

- (a) Explain the main purposes of the Accounting Standards Board's 'Statement of Principles'.** (5 marks)

- (b) Identify any four user groups of financial statements and explain what information they are likely to want from them.** (10 marks)

(15 marks)

End of Question Paper