

Drafting Financial Statements (Singapore)

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

Certified Accounting Technicians (Singapore) Ltd

Paper T6(SGP)



CATS

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	
Accumulated depreciation		
Vehicles		8,000
Equipment		12,000
Prepayments:		
Advertising	2,000	
Insurance	4,000	
Accruals:		
Utilities		3,000
Rent		1,000
Cash at bank	10,000	
Inventory	25,000	
Trade payables		15,000
Trade receivables	80,000	
	<u>213,000</u>	<u>213,000</u>

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

	\$
Freight inwards	4,500
Vehicle running expenses	13,500
Insurance	5,000
Utilities	7,000
Telephone	3,500
Advertising	2,250
Rent	15,000
Office supplies	1,250
Suppliers	200,000
	<u>252,000</u>

Additional Information

- Inventory 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.
- 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 utilities were unpaid at 31 October 2004.
- Depreciation on vehicles is to be provided at 25% of their net book 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.
- Interest on capital account balances is to be allowed at 10%.
- 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 income statement 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 relating to Black, a limited liability company, and its subsidiary company Bury.

Income statements for the year ended 31 October 2004

	Black \$000	Bury \$000
Sales revenue	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)
Profit from operations	38,000	20,000
Dividend income from Bury	7,000	–
Profit before tax	45,000	20,000
Tax	(13,250)	(5,000)
Net profit for the period	31,750	15,000

Balance Sheets as at 31 October 2004

	\$000	Black \$000	\$000	Bury \$000
Assets				
Non-current assets				
Property, plant and equipment		110,000		40,000
Investments:				
21,000,000 \$1 ordinary shares in Bury at cost		24,000		–
		134,000		40,000
Current assets				
Inventory, at cost	13,360		3,890	
Trade receivables and dividend receivable	14,640		6,280	
Bank	3,500	31,500	2,570	12,740
Total assets		165,500		52,740
Equity and liabilities				
Capital and Reserves				
\$1 Ordinary shares		100,000		30,000
General reserve		9,200		1,000
Accumulated profits		27,300		9,280
		136,500		40,280
Current liabilities				
Payables	9,000		2,460	
Dividend	20,000	29,000	10,000	12,460
Total equity and liabilities		165,500		52,740

The following information is also available:

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

Required:

- (a) **Calculate the goodwill arising on the acquisition of Bury.** (3 marks)
 - (b) **Prepare the following financial statements for Black:**
 - (i) **the consolidated income statement 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 a limited liability company called Tressven. 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 which are shown below:

Tressven	
Income statement for the year ended 31 October 2004	
	\$000
Sales revenue	23,420
Cost of sales	(8,245)
Gross profit	15,175
Expenses	(2,460)
Profit from operations	12,715
Finance cost	(50)
Profit before tax	12,665
Income tax expense	(1,515)
Net profit for the period	11,150

Tressven		
Balance sheet as at 31 October 2004		
	\$000	\$000
Assets		
Non-current assets		31,000
Current assets		
Inventory	1,450	
Trade receivables	2,500	
Cash	50	4,000
Total assets		35,000
Equity and liabilities		
Capital and Reserves		
\$0.50 Ordinary Shares		25,000
Reserves		7,520
		32,520
Current liabilities		
Trade payables	860	
Tax	620	1,480
Loan notes		1,000
Total equity and liabilities		35,000

Additional information

- (i) During the year Tressven paid dividends of \$10 million.
- (ii) The market share price for Tressven is \$1.50.
- (iii) Tressven's main competitor is a company called Hilladay which has the following ratios:

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

Required:

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

- (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 as a comparator.**

(6 marks)

(15 marks)

4 Required:

- (a) Explain the main purposes of the Council on Corporate Disclosure and Governance's (CCDG) *'Framework for the Preparation and Presentation of Financial Statements'*.**

(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