Drafting Financial Statements
(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 7 JUNE 2004

QUESTION PAPER

Time allowed **3 hours**

ALL FOUR questions are compulsory and MUST be answered

Paper T6(GBR)

The Association of Chartered Certified Accountants

ALL FOUR questions are compulsory and MUST be attempted

1 You have been provided with the following trial balance as at 31 May 2004 for Sondaw Ltd.

	Dr	Cr
	£000	£000
Bank	50	
Stock at 1 June 2003	1,200	
General expenses	600	
Heating and lighting	90	
Marketing and advertising expenses	248	
Wages and salaries	490	
Buildings at cost	5,000	
Motor vehicles at cost	160	
Plant and equipment at cost	700	
Profit and loss account at 1 June 2003		280
Trade debtors	438	
Purchases	2,200	
Debenture interest paid	30	
5% Debentures		600
Sales		5,876
Discounts received		150
Trade creditors		500
£1 Ordinary Shares		1,500
Accumulated depreciation at 1 June 2003		
Buildings		2,000
Motor vehicles		60
Plant and equipment		240
	11,206	11,206

The following notes are relevant:

1 Stock at 31 May 2004 was valued at £800,000.
2 Marketing and advertising expenses include £6,000 paid in advance for a marketing campaign that will begin in June 2004. Marketing and advertising expenses should be allocated to administrative expenses.
3 There are wages and salaries outstanding of £10,000 for the year ended 31 May 2004.
4 A customer has gone into liquidation owing the company £38,000; the debt is not expected to be recovered.
5 A provision for doubtful debts is to be established amounting to 5% of trade debtors.
6 Depreciation is to be provided for as follows:
   (i) buildings at 5% per annum on their original cost, allocated 50% to cost of sales, 20% to distribution costs and 30% to administrative expenses.
   (ii) motor vehicles at 25% per annum of their written down value, allocated to distribution costs.
   (iii) plant and equipment at 20% per annum of their written down value, allocated to cost of sales.
7 No dividends have been paid or declared.
8 Corporation tax of £250,000 is to be provided for the year.
9 The audit fee is estimated to be £20,000.
10 The expenses listed below should be apportioned as follows:

	Cost of Sales	Distribution Costs	Administrative Expenses
General expenses	10%	40%	50%
Heating and lighting	50%	30%	20%
Wages and salaries	60%	30%	10%

Required:

(a) Prepare the following financial statements for the year ended 31 May 2004 for Sondaw Ltd in accordance with the Companies Act 1985 and current accounting standards:

(i) A profit and loss account; (18 marks)

(ii) A balance sheet. (14 marks)

You are advised to show workings where appropriate.

(b) Briefly explain the purpose of providing for depreciation and identify the factors to be taken into account when deciding on which depreciation method to use. (3 marks)

(35 marks)

2 You have been given the following information relating to Nobrie plc. This company is preparing its financial statements for the year ended 31 May 2004.

Nobrie plc
Profit and loss account for the year ended 31 May 2004

	£000
Turnover	66,600
Cost of sales	(13,785)
Gross profit	52,815
Distribution costs	(7,530)
Administrative expenses	(2,516)
Operating profit	42,769
Interest receivable	146
Interest payable	(1,177)
Profit before tax	41,738
Taxation	(9,857)
Retained profit for the year	31,881
Retained profits brought forward at 1 June 2003	28,063
Retained profits carried forward at 31 May 2004	59,944

Nobrie plc
Balance Sheets as at 31 May

	2004		2003	
	£000	£000	£000	£000
Fixed Assets				
Cost		144,844		114,785
Accumulated depreciation		(27,433)		(26,319)
		117,411		88,466
Current Assets				
Stock	24,931		24,065	
Trade debtors	18,922		13,238	
Cash	3,689		2,224	
	47,542		39,527	
Creditors: amounts falling due within one year				
Bank overdraft	(5,533)		(6,973)	
Creditors	(16,699)		(20,324)	
Taxation	(7,989)		(7,323)	
	(30,221)		(34,620)	
Net current assets		17,321		4,907
		134,732		93,373
Creditors:amounts falling due after more than one year				
6% Debentures		(17,824)		(24,068)
		116,908		69,305
Capital and reserves				
Ordinary share capital		27,000		23,331
Share premium		14,569		10,788
Revaluation reserve		15,395		7,123
Profit and loss account		59,944		28,063
		116,908		69,305

Additional information

(i) During the year ended 31 May 2004, the company sold a piece of equipment for £3,053,000, realising a profit of £1,540,000. There were no other disposals of tangible fixed assets during the year.
(ii) Operating profit is stated after charging depreciation of £5,862,000.
(iii) There were no creditors or debtors in respect of interest payable or receivable as at 31 May 2003 or 2004.
(iv) There were no dividends paid or declared during the year.

Required:

Prepare a cash flow statement for Nobrie plc for the year ended 31 May 2004 in accordance with FRS 1 Cash Flow Statements.

(25 marks)

Note: A reconciliation of net cash flow to movement in net debt and an analysis of net debt are not required.

3 Angela, Brenda and Christine are in a partnership and share profits and losses in the ratio 4:2:1. They prepare their accounts to 31 May each year. At 1 June 2003 their capital and current accounts showed the following balances:

	Capital accounts	Current accounts
	£	£
Angela	500,000	60,000
Brenda	260,000	40,000
Christine	330,000	10,000

On 31 August 2003 Christine decided to leave the partnership due to ill health. Hannah joined the partnership on 1 September 2003 and introduced £250,000 as capital and also paid £210,000 for a 30% share of the goodwill. Goodwill, which is not to be reported in the balance sheet, is agreed to be worth £700,000. After Hannah's admission to the partnership it was agreed the profits and losses would be shared as follows:

Angela	40%
Brenda	30%
Hannah	30%

Before calculating the amount Christine is entitled to when she leaves the partnership the following adjustments need to be taken into account:

(a) The net profit for the partnership for the year ended 31 May 2004 was £800,000 before allowing for items (b) and (c) below. It was agreed that the profit accrued evenly throughout the year.
(b) A bad debt of £25,000 relating to a sale made in June 2003 is to be written off for the year ended 31 May 2004.
(c) Christine has decided to leave her final agreed capital balance in the partnership as a loan and receive interest at a rate of 5% per annum up to the year end. The loan interest was paid to her on 31 May 2004.
(d) The partnership's freehold property is to be revalued upwards by £350,000 and it is agreed that the freehold property will be carried at the revalued amount in the balance sheet.
(e) The partners' drawings during the year were:

	£	
Angela	60,000	(£20,000 before 31 August 2003 and the remainder afterwards)
Brenda	50,000	(£10,000 before 31 August 2003 and the remainder afterwards)
Christine	35,000	(All before 31 August 2003)
Hannah	30,000	(All after 31 August 2003)

Required:

Prepare a statement showing the final profit for the year ended 31 May 2004 and the share attributable to each partner, together with the capital and current accounts for all four partners.

(20 marks)

4 The financial statements of Egriff Ltd for the years ended 31 May 2003 and 31 May 2004 are summarised below.

Profit and loss accounts for the years ended

	31 May 2003		31 May 2004	
	£000	£000	£000	£000
Turnover		20,000		26,000
Cost of sales		(15,400)		(21,050)
Gross profit		4,600		4,950
Expenses:				
Administrative	(800)		(900)	
Selling and distribution	(1,550)		(1,565)	
Depreciation	(110)		(200)	
Debenture interest	–		(105)	
		(2,460)		(2,770)
Net profit		2,140		2,180

Balance sheets as at

	31 May 2003		31 May 2004	
	£000	£000	£000	£000
Fixed assets				
At cost	4,600		5,600	
Accumulated depreciation	(800)		(1,000)	
		3,800		4,600
Current assets				
Stock	6,000		6,700	
Debtors	4,400		6,740	
Bank	120		960	
	10,520		14,400	
Current liabilities	(3,200)		(4,200)	
Net current assets		7,320		10,200
7% Debenture Loans		–		(1,500)
		11,120		13,300
Share capital and reserves				
Issued share capital		8,000		8,000
Profit and loss account		3,120		5,300
		11,120		13,300

Additional Information

During 2003 Egriff Ltd issued debentures of £1,500,000 at 7% per annum to fund the expansion of the business. The additional cash was received on 1 June 2003.

Required:

(a) Calculate the following ratios for Egriff Ltd for both years.

Gross profit percentage;
Net profit percentage;
Return on equity;
Stock turnover;
Quick ratio;
Debtors collection period.

State the formulas used for calculating the ratios. (9 marks)

(b) Comment on the success of the business expansion as indicated by the ratios you have calculated in part (a). (7 marks)

(c) Briefly explain the factors Egriff Ltd should consider in deciding whether to raise finance by issuing debentures rather than issuing more shares. (4 marks)

(20 marks)

End of Question Paper