Drafting Financial Statements
(International Stream)

Paper T6(INT)

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

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 a limited liability company called Sondaw.

	Dr $000	Cr $000
Bank	50	
Inventory at 1 June 2003	1,200	
General expenses	600	
Heating and lighting	90	
Marketing and advertising expenses	248	
Wages	490	
Buildings at cost	5,000	
Motor vehicles at cost	160	
Plant and equipment at cost	700	
Accumulated profits at 1 June 2003		280
Trade receivables	438	
Purchases	2,200	
Loan note interest paid	30	
5% Loan note		600
Revenue		5,876
Discounts received		150
Trade payables		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 Inventory at 31 May 2004 was valued at $800,000.
2 Marketing and advertising expenses include $6,000 paid in advance for a marketing campaign which will begin in June 2004. Marketing and advertising expenses should be allocated to administrative expenses.
3 There are wages outstanding of $10,000 for the year ended 31 May 2004.
4 A customer ceased trading owing the company $38,000; the debt is not expected to be recovered.
5 An allowance for doubtful debts is to be established amounting to 5% of trade receivables.
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 Income 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 in accordance with IAS 1 Presentation of Financial Statements:

(i) An income statement; (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 a limited liability company called Nobrie. This company is preparing its financial statements for the year ended 31 May 2004.

Nobrie
Income statement for the year ended 31 May 2004

	$000
Revenue	66,600
Cost of sales	(13,785)
Gross profit	52,815
Distribution costs	(7,530)
Administrative expenses	(2,516)
Profit from operations	42,769
Investment income	146
Finance cost	(1,177)
Profit before tax	41,738
Tax	(9,857)
Net profit for the period	31,881
Accumulated profits brought forward at 1 June 2003	28,063
Accumulated profits carried forward at 31 May 2004	59,944

Nobrie
Balance Sheets as at 31 May

	2004		2003	
Assets	$000	$000	$000	$000
Non-current assets				
Cost		144,844		114,785
Accumulated depreciation		(27,433)		(26,319)
		117,411		88,466
Current Assets				
Inventory	24,931		24,065	
Trade receivables	18,922		13,238	
Cash	3,689	47,542	2,224	39,527
Total assets		164,953		127,993
Equity and liabilities				
Capital and reserves				
Ordinary share capital	27,000		23,331	
Share premium	14,569		10,788	
Revaluation reserve	15,395		7,123	
Accumulated profits	59,944	116,908	28,063	69,305
Non-current liabilities				
6% loan note		17,824		24,068
Current Liabilities				
Bank overdraft	5,533		6,973	
Trade payables	16,699		20,324	
Taxation	7,989	30,221	7,323	34,620
Total equity and liabilities		164,953		127,993

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 non-current assets during the year.

(ii) Profit from operations is stated after charging depreciation of $5,862,000.

(iii) There were no amounts outstanding 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 for the year ended 31 May 2004 in accordance with IAS 7 Cash Flow Statements.

(25 marks)

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, a company limited by liability, for the years ended 31 May 2003 and 31 May 2004 are summarised below.

Income statements for the years ended

	31 May 2003		31 May 2004	
	$000	$000	$000	$000
Revenue		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)	
Loan note 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
Non current assets				
At cost	4,600		5,600	
Accumulated depreciation	(800)	3,800	(1,000)	4,600
Current assets				
Inventory	6,000		6,700	
Receivables	4,400		6,740	
Bank	120	10,520	960	14,400
		14,320		19,000
Capital and reserves				
Issued share capital		8,000		8,000
Accumulated profit		3,120		5,300
		11,120		13,300
Non-current liabilities				
7% Loan notes		–		1,500
Current liabilities		3,200		4,200
		14,320		19,000

Additional Information

During 2003 Egriff issued loan notes 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 for both years.

Gross profit percentage
Net profit percentage
Return on equity
Inventory turnover
Quick ratio
Receivables 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 should consider in deciding whether to raise finance by issuing loan notes rather than issuing more shares. (4 marks)

(20 marks)

End of Question Paper