# Drafting Financial Statements
(Singapore)

Paper T6(SGP)

**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**

**Certified Accounting Technicians (Singapore) Ltd**

**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 | Cr |
|---|---|---|
| | $000 | $000 |
| Bank | 50 | |
| Inventory at 1 June 2003 | 1,200 | |
| General expenses | 600 | |
| Electricity expenses | 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.
   (ii) 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% |
| Electricity expenses | 50% | 30% | 20% |
| Wages | 60% | 30% | 10% |

**Required:**

(a) **Prepare the following financial statements for the year ended 31 May 2004 for Sondaw in accordance with FRS 1 Presentation of Financial Statements:**

(i) **An income statement; and** (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 FRS 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 partnerships' 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 on 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 with limited 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**