

Drafting Financial Statements

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 5 DECEMBER 2005

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 Lewis and Aaron are in partnership trading as Wisaron. The trial balance for Wisaron as at 31 October 2005 was as follows:

	Dr £	Cr £
Purchases	215,300	
Selling expenses	17,500	
Carriage inwards	1,150	
Returns inwards	3,600	
Rent	13,000	
Sales		302,200
Bank	1,450	
General expenses	1,900	
Creditors		22,600
Current accounts at 1 November 2004 – Lewis		2,560
– Aaron		1,370
Debtors	25,700	
Insurance	800	
Stock at 1 November 2004	23,500	
Motor vehicle expenses	6,000	
Allowance for debtors at 1 November 2004		700
Settlement discounts allowed	1,340	
Wages	9,090	
Drawings – Lewis	6,500	
– Aaron	5,600	
Capital accounts at 1 November 2004 – Lewis		12,000
– Aaron		6,000
Motor vehicles, at cost	16,000	
Fixtures and fittings, at cost	8,000	
Accumulated depreciation at 1 November 2004:		
– Motor vehicles		6,000
– Fixtures and fittings		3,000
	356,430	356,430

The following additional information as at 31 October 2005 is available:

- 1 Lewis and Aaron share profits and losses in the ratio 3:2 respectively.
- 2 Lewis has taken some goods for his own use during the year to the value of £900, but this has not yet been recorded in the accounts.
- 3 Interest on drawings for the year is £270 for Lewis and £210 for Aaron.
- 4 Aaron is entitled to a salary of £8,500 per annum before profits are shared.
- 5 On 1 May 2005 it was agreed that £5,000 should be transferred from Lewis' capital account to a loan account bearing 8% interest per annum. However, no entries have yet been recorded in the accounts for the transfer.
- 6 Rent of £1,000 has been paid in advance.
- 7 Stock was valued at £19,000.
- 8 Bank charges of £75 have not been entered into the accounts.
- 9 There are outstanding wages of £400.
- 10 Debts of £400 are to be written off and the allowance for debtors to be adjusted, based on past events, to the equivalent of 5% of the remaining debtors.
- 11 Depreciation is to be provided for as follows:
 - Motor vehicles at 25% using the reducing balance method.
 - Fixtures and fittings at 10% using the straight line method.

Required:

Prepare the following statements for the partnership:

- (a) the trading, profit and loss account and appropriation account for the year ended 31 October 2005. (19 marks)
 - (b) the partners' current accounts for the year ended 31 October 2005; and (7 marks)
 - (c) the balance sheet as at 31 October 2005. (14 marks)
- (40 marks)**

2 The draft balance sheets of Spyder Ltd and its subsidiary company Phly Ltd at 31 October 2005 are as follows:

	Spyder Ltd		Phly Ltd	
	£000	£000	£000	£000
<i>Fixed Assets</i>				
Tangible assets:				
Land and buildings		315,000		278,000
Plant		285,000		220,000
		<u>600,000</u>		<u>498,000</u>
Investment:				
Shares in Phly Ltd at cost		660,000		
<i>Current assets</i>				
Stock	357,000		252,000	
Debtors	525,000		126,000	
Bank	158,000		30,000	
	<u>1,040,000</u>		<u>408,000</u>	
<i>Creditors: amounts falling due within one year</i>				
	<u>(220,000)</u>		<u>(94,000)</u>	
Net current assets		820,000		314,000
		<u>2,080,000</u>		<u>812,000</u>
<i>Capital and reserves</i>				
£1 Ordinary shares		1,500,000		600,000
Reserves		580,000		212,000
		<u>2,080,000</u>		<u>812,000</u>

The following information is also available:

- (1) Spyder Ltd purchased 480 million shares in Phly Ltd some years ago, when Phly Ltd had a credit balance of £95 million in reserves. All the purchased goodwill has now been written off.
- (2) At the date of acquisition the freehold land of Phly Ltd was revalued at £70 million in excess of its book value. The revaluation was not recorded in the accounts of Phly Ltd.
- (3) Phly Ltd's stock includes goods purchased from Spyder Ltd at a price that includes a profit to Spyder Ltd of £12 million.
- (4) At 31 October 2005 Phly Ltd owes Spyder Ltd £25 million for goods purchased during the year.

Required:

- (a) Calculate the goodwill on acquisition. (4 marks)
- (b) Prepare the consolidated balance sheet for Spyder Ltd as at 31 October 2005. (15 marks)
(Show clearly any workings)
- (c) Explain the accounting treatment of intra-group trading and inter-company balances when preparing consolidated accounts. Use the transactions between Spyder Ltd and Phly Ltd to illustrate your answer. (6 marks)

(25 marks)

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Question 3 begins on page 6.**

- 3 Aber Ltd and Cromby Ltd are two retail businesses trading in the leisurewear market. Your manager has asked you to review the performance of both businesses from the financial statements which are provided below.

**Profit and loss accounts
for the year ended 31 October 2005**

	Aber Ltd	Cromby Ltd
	£000	£000
Sales	5,500	7,200
Cost of sales	(4,400)	(5,040)
Gross profit	<u>1,100</u>	<u>2,160</u>
Expenses	(610)	(1,685)
Operating profit	<u>490</u>	<u>475</u>
Interest	(15)	(15)
Profit on ordinary activities before tax	<u>475</u>	<u>460</u>
Tax on profit	(200)	(180)
Profit on ordinary activities after tax	<u><u>275</u></u>	<u><u>280</u></u>

**Balance sheets
as at 31 October 2005**

	Aber Ltd	Cromby Ltd
	£000	£000
<i>Fixed assets</i>	3,750	7,200
<i>Current assets</i>		
Stock	125	360
Debtors	500	190
Cash	30	0
	<u>655</u>	<u>550</u>
<i>Current liabilities</i>		
Creditors	200	205
Overdraft	0	5
Tax	50	20
	<u>250</u>	<u>230</u>
Net current assets	<u>405</u>	<u>320</u>
Debtentures	4,155	7,520
	(75)	(110)
	<u>4,080</u>	<u>7,410</u>
<i>Capital and Reserves</i>		
£1 Ordinary Shares	3,000	7,000
Reserves	1,080	410
	<u>4,080</u>	<u>7,410</u>

Required:

(a) Calculate the following ratios for BOTH Aber Ltd and Cromby Ltd.

- (i) Gross profit percentage;**
- (ii) Return on capital employed;**
- (iii) Earnings per share.**

(Show all workings)

(6 marks)

(b) Comment on the performance of the businesses as indicated by each of the ratios you have calculated in part (a).

(9 marks)

(c) Explain the limitations of using ratios as a basis for analysing business performance.

(5 marks)

(20 marks)

4 (a) Explain the following accounting terms:

- (i) Going concern concept**
- (ii) Accruals concept**
- (iii) Reliability**
- (iv) Understandability**

(8 marks)

(b) State the arguments for and against having accounting standards as a basis for preparing financial statements.

(7 marks)

(15 marks)

End of Question Paper