

Drafting Financial Statements

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 4 DECEMBER 2006

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 The following information has been extracted from the books of Tonson Ltd as at 31 October 2006.

	Dr £000	Cr £000
Cash	15	
Insurance	75	
Stock at 1 November 2005	350	
General expenses	60	
Energy expenses	66	
Marketing expenses	50	
Wages and salaries	675	
Discounts received		50
Share premium account		200
Profit and loss account at 1 November 2005		315
Allowance for debtors at 1 November 2005		40
Sales		5,780
Telephone expenses	80	
Property expenses	100	
Bank		94
Returns inward	95	
Trade creditors		290
Debenture interest	33	
Trade Debtors	900	
Purchases	3,570	
7% Debentures		470
Bad debts	150	
£1 Ordinary Shares		1,800
Accumulated depreciation at 1 November 2005		
Buildings		360
Motor Vehicles		80
Furniture and equipment		420
Land at cost	740	
Buildings at cost	1,500	
Motor vehicles at cost	240	
Furniture and equipment at cost	1,200	
	9,899	9,899

You have also been provided with the following information:

- 1 Stock at 31 October 2006 was valued at £275,000 based on its original cost. However, £45,000 of this stock has been in the warehouse for over two years and the directors have agreed to sell it in November 2006 for a cash price of £20,000.
- 2 The marketing expenses include £5,000 which relates to November 2006.
- 3 Based on past experience the allowance for debtors is to be increased to 5% of trade debtors.
- 4 There are wages and salaries outstanding of £40,000 for the year ended 31 October 2006.
- 5 Buildings are depreciated at 5% of cost. At 31 October 2006 the buildings were professionally valued at £1,800,000 and the directors wish this valuation to be incorporated into the accounts.
- 6 Depreciation is to be charged as follows:
 - (i) Motor vehicles at 20% of written down value.
 - (ii) Furniture and equipment at 20% of cost.
- 7 No dividends have been paid or declared.
- 8 Corporation tax of £150,000 is to be provided for the year.
- 9 During October 2006 a bonus (or scrip) issue of one for ten was made to ordinary shareholders. This has not been entered into the books. The share premium account was used for this purpose.

Required:

Prepare the following statements, FOR INTERNAL USE:

(a) the trading and profit and loss account for the year ended 31 October 2006; and (18 marks)

(b) the balance sheet as at 31 October 2006 (17 marks)

(35 marks)

- 2 You have been given the following information relating to H Marathon Ltd. The company is preparing its cash flow statement for the year ended 31 October 2006

H Marathon Ltd

Profit and loss account for the year ended 31 October 2006

	£000
Turnover	54,577
Cost of sales	(27,128)
Gross profit	27,449
Distribution costs	(9,146)
Administrative expenses	(5,766)
Operating profit	12,537
Interest receivable	101
Interest payable	(1,749)
Profit before tax	10,889
Taxation	(2,570)
Profit after tax	8,319

Balance sheets as at 31 October

	2006	2005
	£000	£000
Fixed assets		
Cost	133,152	124,252
Depreciation	(30,978)	(25,629)
	102,174	98,623
Current assets		
Stock	26,350	29,365
Trade debtors	13,412	16,446
Bank	2,955	3,036
	42,717	48,847
Creditors: amounts falling due within one year		
Bank overdraft	(6,869)	(7,842)
Trade creditors	(23,534)	(23,804)
Taxation	(2,101)	(1,926)
	(32,504)	(33,572)
Net current assets	10,213	15,275
Total assets less current liabilities	112,387	113,898
Creditors: amounts falling due after more than one year		
7% debentures	(5,743)	(22,632)
	106,644	91,266
Share capital and reserves		
Ordinary share capital	23,576	21,082
Share premium	11,982	10,245
Revaluation reserve	12,554	6,029
Profit and loss account	58,532	53,910
	106,644	91,266

Additional Information

- (i) During the year dividends paid were £3,697,000.
- (ii) There were no creditors or debtors in respect of interest payable or receivable as at either year end.
- (iii) Operating profit is stated after charging depreciation of £6,784,000.
- (iv) During the year, the company sold equipment for £5,667,000 realising a profit of £1,806,000. This equipment had never been revalued, and there were no other disposals of tangible fixed assets during the year.
- (v) The only revaluation of fixed assets was that of a piece of freehold land.

Required:

- (a) **Prepare a cash flow statement for H Marathon Ltd for the year ended 31 October 2006 in accordance with FRS1 – Cash Flow Statements, using the indirect method.**
(Note: The reconciliation of net cash flow to movement in debt and the analysis of changes in net funds are not required) (18 marks)
- (b) **Comment on the financial performance and position of H Marathon Ltd as shown by the cash flow statement you have prepared.** (8 marks)
- (c) **Why are cash flow statements sometimes considered more useful than profit statements?** (4 marks)

(30 marks)

- 3 Nyfe, Ork and Poon decide to dissolve their partnership on 1 December 2006 after being in business for many years. The balance sheet of the partnership as at 30 November 2006 was as follows:

Nyfe, Ork and Poon
Balance sheet as at 30 November 2006

	£	£
Fixed Assets		
Furniture and fittings		50,000
Motor vehicles		35,000
		85,000
Current assets		
Stock	25,000	
Debtors	42,000	
Bank	6,000	
	73,000	
Current Liabilities		
Creditors	(26,500)	
Net current assets		46,500
Net Assets		131,500
Loan		(18,000)
		113,500
Capital accounts		
Nyfe	45,000	
Ork	30,000	
Poon	15,000	
		90,000
Current accounts		
Nyfe	9,750	
Ork	7,450	
Poon	6,300	
		23,500
		113,500

Additional Information

- (a) The partnership agreement states that Nife, Ork and Poon share profits and losses in the ratio 3:2:1
- (b) The furniture and fittings were sold for £48,800.
- (c) Only £39,900 of outstanding debtors were recovered.
- (d) The creditors were settled for £25,440.
- (e) It was agreed between the partners that Poon could take a motor vehicle at a valuation of £9,000 in addition to his share of the profit. The motor vehicle had a net book value of £8,000. The other motor vehicles were sold for £29,500.
- (f) The stock was sold for £27,750.
- (g) The loan was repaid in full on 1 December 2006.
- (h) There were no outstanding interest payments on the loan.
- (i) Expenses incurred in dissolving the partnership were £1,000.

Required:

Prepare the following accounts on dissolution:

(i) **Partners' accounts** (4 marks)

(ii) **Realisation account** (10 marks)

(iii) **Cash and bank account** (6 marks)

(20 marks)

- 4 Binky Ltd and Smokey Ltd both trade in the same market. Their financial statements for the year ended 31 October 2006 are summarised below:

Profit and loss accounts for the year ended 31 October 2006

	Binky Ltd		Smokey Ltd	
	£000	£000	£000	£000
Sales		284		305
Cost of sales		(155)		(151)
Gross profit		<u>129</u>		<u>154</u>
Expenses:				
Administrative	(24)		(37)	
Selling and distribution	(35)		(53)	
Depreciation	(9)		(12)	
Debenture interest	—		(5)	
		<u>(68)</u>		<u>(107)</u>
Net profit		<u>61</u>		<u>47</u>

Balance sheets as at 31 October 2006

	Binky Ltd		Smokey Ltd	
	£000	£000	£000	£000
Fixed assets				
At cost	320		515	
Accumulated depreciation	(75)		(96)	
		<u>245</u>		<u>419</u>
Current assets				
Stock	91		293	
Debtors	46		75	
Bank	64		15	
	<u>201</u>		<u>383</u>	
Current liabilities	<u>(188)</u>		<u>(325)</u>	
Net current assets		13		58
10% Debenture Loans		—		(50)
		<u>258</u>		<u>427</u>
Share capital and reserves				
Share capital		150		250
Profit and loss account		108		177
		<u>258</u>		<u>427</u>

Required:

(a) Calculate the following ratios for Binky Ltd and Smokey Ltd:

(State the formulas used for calculating the ratios)

Profitability ratios:

Gross profit percentage

Net profit percentage

Asset turnover ratio

Liquidity ratios:

Current ratio

Quick ratio (acid test ratio)

Debtors collection period

(9 marks)

(b) Compare and comment on the performance of the companies as indicated by the ratios you have calculated in part (a).

(6 marks)

(15 marks)

End of Question Paper