Drafting Financial Statements
(Singapore)

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

Paper T6(SGP)

The Association of Chartered Certified Accountants

Certified Accounting Technicians (Singapore) Ltd

ALL FOUR questions are compulsory and MUST be attempted

1 The following information has been extracted from the books of Tonson, a limited liability company, as at 31 October 2006.

	Dr $000	Cr $000
Cash	15	
Insurance	75	
Inventory at 1 November 2005	350	
General expenses	60	
Energy expenses	66	
Marketing expenses	50	
Wages and salaries	675	
Discounts received		50
Retained earnings at 1 November 2005		315
Allowance for receivables at 1 November 2005		40
Sales revenue		5,780
Telephone expenses	80	
Property expenses	100	
Bank		94
Returns inward	95	
Trade payables		290
Loan note interest	33	
Trade receivables	900	
Purchases	3,570	
7% Loan notes		470
Bad debts	150	
Ordinary share capital		2,000
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 Inventory at 31 October 2006 was valued at $275,000 based on its original cost. However, $45,000 of this inventory 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 receivables is to be increased to 5% of trade receivables.
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 Tax of $150,000 is to be provided for the year.

Required:

Prepare the following statements, FOR INTERNAL USE:

(a) the income statement for the year ended 31 October 2006; and (19 marks)

(b) the balance sheet as at 31 October 2006 (16 marks)

(35 marks)

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

H Marathon

Income statement for the year ended 31 October 2006	**$000**
Revenue	54,577
Cost of sales	(27,128)
Gross profit	27,449
Distribution costs	(9,146)
Administrative expenses	(5,766)
Profit from operations	12,537
Interest received	101
Finance cost	(1,749)
Profit before tax	10,889
Taxation	(2,570)
Profit for the period	8,319

Balance sheets as at 31 October	**2006**	**2005**
Assets	**$000**	**$000**
Non-current assets		
Cost	133,152	124,252
Accumulated depreciation	(30,978)	(25,629)
	102,174	98,623
Current assets		
Inventory	26,350	29,365
Trade receivables	13,412	16,446
Bank	2,955	3,036
	42,717	48,847
Total assets	144,891	147,470
Equity and liabilities		
Capital and reserves		
Ordinary share capital	35,558	31,327
Revaluation reserve	12,554	6,029
Retained earnings	58,532	53,910
	106,644	91,266
Non-current liabilities		
7% loan notes	5,743	22,632
Current liabilities		
Bank overdraft	6,869	7,842
Trade payables	23,534	23,804
Taxation	2,101	1,926
	32,504	33,572
Total equity and liabilities	144,891	147,470

Additional Information

(i) During the year dividends paid were $3,697,000.

(ii) There were no amounts outstanding 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 non-current assets during the year.

(v) The only revaluation of non-current assets was that of a piece of freehold land.

Required:

(a) Prepare a cash flow statement for H Marathon for the year ended 31 October 2006 in accordance with FRS 7 – Cash Flow Statements, using the indirect method. (18 marks)

(b) Comment on the financial performance and position of H Marathon 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

Assets		
Non-current assets	$	$
Furniture and fittings		50,000
Motor vehicles		35,000
		85,000
Current assets		
Inventory	25,000	
Receivables	42,000	
Bank	6,000	73,000
Total assets		158,000
Capital and liabilities		
Partners' capital accounts		
Nyfe	45,000	
Ork	30,000	
Poon	15,000	
		90,000
Partners' current accounts		
Nyfe	9,750	
Ork	7,450	
Poon	6,300	
		23,500
Loan		18,000
Current Liabilities		
Payables		26,500
Total capital and liabilities		158,000

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 receivables were recovered.
(d) The payables 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 inventory 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 Two companies Binky and Smokey trade in the same market. Their financial statements for the year ended 31 October 2006 are summarised below:

Income statements for the year ended 31 October 2006

	Binky		Smokey	
	$000	$000	$000	$000
Sales revenue		284		305
Cost of sales		(155)		(151)
Gross profit		129		154
Expenses:				
Administrative	(24)		(37)	
Selling and distribution	(35)		(53)	
Depreciation	(9)		(12)	
Loan note interest	–		(5)	
		(68)		(107)
Net profit		61		47

Balance sheets as at 31 October 2006

	Binky		Smokey	
Assets	$000	$000	$000	$000
Non-current assets				
At cost	320		515	
Accumulated depreciation	(75)		(96)	
		245		419
Current assets				
Inventory	91		293	
Receivables	46		75	
Bank	64	201	15	383
Total assets		446		802
Equity and liabilities				
Share capital and reserves				
Share capital		150		250
Retained earnings		108		177
10% Loan note		–		50
Current liabilities		188		325
Total equity and liabilities		446		802

Required:

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

(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)
Receivables 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