

Drafting Financial Statements

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 5 JUNE 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 balance sheet of Hadrian Ltd as at 31 May 2006 is provided below together with comparative figures for the previous year.

Hadrian Ltd				
Balance Sheets as at 31 May				
	2006		2005	
	£000	£000	£000	£000
Fixed assets		2,000		1,500
Current assets				
Stock	340		230	
Trade debtors	270		150	
Bank	4		70	
	614		450	
Current liabilities				
Trade creditors	(120)		(150)	
Taxation	(80)		(60)	
	(200)		(210)	
Net current assets		414		240
10% Debentures		2,414		1,740
		-		(60)
		2,414		1,680
Capital and reserves				
Ordinary share capital (shares of £1)		2,000		1,500
Share premium		100		50
Profit and loss account		314		130
		2,414		1,680

Additional Information

- (i) Interest paid was £6,000 during the year ended 31 May 2006.
- (ii) There was no over or under provision of corporation tax for the year ended 31 May 2005.
- (iii) Dividends paid were £100,000 during the year ended 31 May 2006.
- (iv) Depreciation of £300,000 was charged for the year ended 31 May 2006.
- (v) Fixed assets with a net book value of £80,000 were sold at a profit of £20,000 during the year ended 31 May 2006.

Required:

- (a) Calculate the operating profit of Hadrian Ltd for the year ended 31 May 2006. (3 marks)
- (b) Prepare a cash flow statement for Hadrian Ltd for the year ended 31 May 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) (20 marks)

Further Information

- (i) Sales for the year ended 31 May 2006 were £800,000.
- (ii) The latest average ratios for the industry in which Hadrian Ltd operates are as follows:

Return on capital employed	10%
Quick ratio	2:1
Debtors collection period	80 days
Earnings per share	15p

- (c) Calculate the following ratios for Hadrian Ltd for the year ended 31 May 2006 ONLY:**

- (i) Return on capital employed**
- (ii) Quick ratio**
- (iii) Debtors collection period**
- (iv) Earnings per share**

State the formula used for each ratio.

(6 marks)

- (d) Using information from your cash flow statement, the industry ratios and the ratios you calculated in (c) comment on the financial performance of Hadrian Ltd.**

(11 marks)

(40 marks)

2 Paul and Barry are in a business partnership. Their trial balance as at 31 May 2006 is given below:

	Dr £	Cr £
Sales		568,000
Returns inwards	5,100	
Purchases	375,600	
Rent	18,760	
Selling expenses	55,600	
General expenses	3,680	
Allowance for debtors at 1 June 2005		2,100
Bank	13,980	
Wages	18,000	
Creditors		41,300
Current accounts at 1 June 2005 – Paul		3,570
– Barry		2,190
Motor vehicles, at cost	30,000	
Fixtures and fittings, at cost	14,000	
Accumulated depreciation at 1 June 2005:		
– Motor vehicles		9,000
– Fixtures and fittings		7,000
Insurance	1,540	
Stock at 1 June 2005	39,200	
Motor vehicle expenses	9,300	
Debtors	47,500	
Discounts allowed	8,900	
Drawings – Paul	16,000	
– Barry	11,000	
Capital accounts at 1 June 2005 – Paul		20,000
– Barry		15,000
	668,160	668,160

The following additional information as at 31 May 2006 is available:

- 1 Paul and Barry share profits and losses in the ratio 2:1 respectively.
- 2 Stock was valued at £32,000.
- 3 During the year, Barry has taken some goods for his own use to the value of £450, but this has not yet been recorded in the accounting records.
- 4 Interest on drawings for the year were £420 for Paul and £180 for Barry.
- 5 Paul is entitled to a salary of £15,000 per annum before profits are shared.
- 6 Insurance of £900 has been paid in advance.
- 7 Depreciation is to be provided for as follows:
 - Motor vehicles at 20% using the reducing balance method
 - Fixtures and fittings at 15% using the straight line method
- 8 There are outstanding general expenses of £600.
- 9 Debts of £1,100 are to be written off and the allowance for debtors is to be adjusted to the equivalent of 5% of the remaining debtors, based on past experience.

Required:

Prepare the following statements for the partnership:

(a) the trading and profit and loss and appropriation account for the year ended 31 May 2006; (16 marks)

(b) the partners' current accounts for the year ended 31 May 2006; and (4 marks)

(c) the balance sheet as at 31 May 2006. (10 marks)

(30 marks)

- 3 The summarised profit and loss accounts of Liverton Ltd and Everpool Ltd for the year ended 31 May 2006 are provided below. Liverton Ltd acquired 3,000,000 ordinary shares in Everpool Ltd for £3,500,000 on 1 June 2004. At that time, the reserves of Everpool Ltd were £200,000.

Profit and loss accounts for the year ended 31 May 2006

	Liverton Ltd	Everpool Ltd
	£000	£000
Turnover	6,400	2,600
Cost of sales	(3,700)	(1,450)
	2,700	1,150
Gross profit		
Distribution costs	(1,100)	(490)
Administrative expenses	(700)	(320)
	900	340
Operating profit		
Dividends received from Everpool Ltd	150	–
	1,050	340
Profit before tax		
Tax	(400)	(80)
	650	260
Net profit for the period		

The following information is also available:

- (i) Everpool Ltd's total share capital consists of 4,000,000 ordinary shares of £1 each.
- (ii) Liverton Ltd's policy is to amortise goodwill equally over 5 years.
- (iii) During the year ended 31 May 2006 Liverton Ltd sold goods costing £110,000 to Everpool Ltd for £200,000. At 31 May 2006, 60% of these goods remained in Everpool Ltd's stock.

Required:

- (a) Calculate the goodwill arising on the acquisition of Everpool Ltd. (3 marks)
 - (b) Prepare the consolidated profit and loss account for Liverton Ltd for the year ended 31 May 2006. (8 marks)
 - (c) Explain the criteria that should be met for a company to be accounted for as an associate company. (4 marks)
- (15 marks)**

4 (a) **Define an adjusting event after the balance sheet date and a non-adjusting event after the balance sheet date and state how each should be accounted for.** (4 marks)

(b) Jilton Newl Ltd is a large manufacturing company. After the date of the balance sheet, but prior to the financial statements being authorised for issue, the following material events occurred:

(i) It was discovered that a debtor balance existing at the balance sheet date will not now be received.

(ii) Jilton Newl Ltd has announced a bid to take over another company.

(iii) Some material errors have been discovered which show the financial statements are incorrect.

(iv) The factory workforce at Jilton Newl Ltd has started strike action for an indefinite length of time.

Required:

For each of the events described above, state if they should be treated as an adjusting or non-adjusting event after the balance sheet date. (4 marks)

(c) **Define a 'contingent liability' and a 'contingent asset', and explain how each should be treated in the financial statements.** (7 marks)

(15 marks)

End of Question Paper