Drafting Financial Statements
(International Stream)

Paper T6(INT)

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

ALL FOUR questions are compulsory and MUST be attempted

1 The balance sheet of Hadrian, a limited liability company, as at 31 May 2006 is provided below together with comparative figures for the previous year.

Hadrian
Balance Sheets as at 31 May

	2006		2005	
	$000	$000	$000	$000
Assets				
Non-current assets		2,000		1,500
Current assets				
Inventory	340		230	
Trade receivables	270		150	
Bank	4	614	70	450
		2,614		1,950
Equity and liabilities				
Capital and reserves				
Ordinary share capital (shares of $1)		2,000		1,500
Share premium		100		50
Retained earnings		314		130
		2,414		1,680
Non-current liabilities				
10% Loan note		–		60
Current liabilities				
Trade payables	120		150	
Taxation	80	200	60	210
Total equity and liabilities		2,614		1,950

Additional Information

(i) Interest paid was $6,000 during the year ended 31 May 2006.

(ii) There was no over or under provision of 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) Non-current 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 profit before interest and tax of Hadrian for the year ended 31 May 2006. (3 marks)

(b) Prepare a cash flow statement for Hadrian for the year ended 31 May 2006 in accordance with IAS 7 – Cash Flow Statements, using the indirect method. (20 marks)

Further Information

(i) Sales revenue for the year ended 31 May 2006 was $800,000.

(ii) The latest average ratios for the industry in which Hadrian operates are as follows:

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

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

(i) Return on capital employed;
(ii) Quick ratio;
(iii) Receivables 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 have calculated in (c), comment on the financial performance of Hadrian. (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 revenue		568,000
Returns inwards	5,100	
Purchases	375,600	
Rent	18,760	
Selling expenses	55,600	
General expenses	3,680	
Allowance for receivables at 1 June 2005		2,100
Bank	13,980	
Wages	18,000	
Trade payables		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	
Inventory at 1 June 2005	39,200	
Motor vehicle expenses	9,300	
Trade receivables	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 Inventory 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 receivables is to be adjusted to the equivalent of 5% of the remaining trade receivables, based on past experience.

Required:

Prepare the following statements for the partnership:

(a) the income statement 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 income statements of two companies, Liverton and Everpool, for the year ended 31 May 2006 are provided below. Liverton acquired 3,000,000 ordinary shares in Everpool for $3,500,000 on 1 June 2004. At that time, the retained earnings of Everpool were $200,000.

Income statements for the year ended 31 May 2006

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

The following information is also available:

(i) Everpool's total share capital consists of 4,000,000 ordinary shares of $1 each.

(ii) At 31 May 2005 Liverton had valued the goodwill arising from the acquisition of Everpool at $200,000. An impairment review of this goodwill at 31 May 2006 valued it at $130,000.

(iii) During the year ended 31 May 2006 Liverton sold goods costing $110,000 to Everpool for $200,000. At 31 May 2006, 60% of these goods remained in Everpool's inventory.

Required:

(a) Calculate the goodwill arising on the acquisition of Everpool. (3 marks)

(b) Prepare the consolidated income statement for Liverton 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 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 receivables balance existing at the balance sheet date will not now be received.

(ii) Jilton Newl 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 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