# Drafting Financial Statements

(Singapore)

**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**

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 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 | | 2,100 | | 1,550 |
| 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 FRS 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) 2,000,000 shares are issued and outstanding as at 31 May 2006.

(iii) 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<br>$ | Cr<br>$ |
|---|---|---|
| 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 accounts.
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) Since 1 June 2004, Everpool's total share capital has consisted of 4,000,000 ordinary shares. The par value of the shares on 1 June 2004 was $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**