

Drafting Financial Statements

(UK Stream)

ACCA CERTIFIED ACCOUNTING TECHNICIAN EXAMINATION

ADVANCED LEVEL

MONDAY 4 JUNE 2007

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 You are provided with the following financial statements for Biceps Ltd and its subsidiary Triceps Ltd:

Profit and loss accounts for the year ended 31 May 2007

	Biceps Ltd	Triceps Ltd
	£000	£000
Turnover	135,000	74,000
Cost of sales	(70,000)	(30,000)
Gross profit	65,000	44,000
Distribution costs	(7,500)	(6,200)
Administrative expenses	(19,000)	(7,784)
Operating profit	38,500	30,016
Income from Triceps Ltd: Debenture Interest	4	–
Dividends	6,400	–
Interest payable	–	(16)
Profit before tax	44,904	30,000
Tax	(10,000)	(9,000)
Profit for the period	<u>34,904</u>	<u>21,000</u>

Balance Sheets as at 31 May 2007

	Biceps Ltd		Triceps Ltd	
	£000	£000	£000	£000
Fixed assets				
Tangible assets at net book value		80,000		39,050
Investments:				
£1 ordinary shares in Triceps Ltd at cost		24,000		–
Triceps Ltd debentures		50		–
		<u>104,050</u>		<u>39,050</u>
Current assets				
Stock, at cost	10,630		4,498	
Debtors	18,460		12,230	
Bank	3,400		1,344	
	<u>32,490</u>		<u>18,072</u>	
Creditors: amounts falling due within one year				
Creditors	6,000		1,922	
Tax	11,000		7,000	
Dividends payable	12,000		8,000	
	<u>29,000</u>		<u>16,922</u>	
Net current assets		3,490		1,150
Creditors: amounts falling due after more than one year				
8% Debentures		–		(200)
		<u>107,540</u>		<u>40,000</u>
Capital and Reserves				
£1 Ordinary shares		70,000		25,000
Profit and loss account		37,540		15,000
		<u>107,540</u>		<u>40,000</u>

The following information is also available:

- (i) Biceps Ltd purchased 80% of the £1 ordinary shares in Triceps Ltd on 1 June 2006. At that date Triceps Ltd's profit and loss account was £2,000,000.
- (ii) Biceps Ltd's policy is to amortise goodwill over four years.
- (iii) During the year ended 31 May 2007 Biceps Ltd sold goods which originally cost £8,000,000 to Triceps Ltd for £12,000,000. Triceps Ltd still had 25% of these goods in stock at 31 May 2007.
- (iv) Triceps Ltd owed Biceps Ltd £1,800,000 at 31 May 2007 for some of the goods Biceps Ltd supplied during the year.
- (v) Biceps Ltd owns £50,000 of Triceps Ltd's debentures. The interest is paid annually in arrears at 31 May. Interest for the year ended 31 May 2007 is included in Triceps Ltd's creditors. Biceps Ltd has also included the interest in its debtors.
- (vi) All dividends were declared, but not paid prior to the year end.

Required:

- (a) Calculate the goodwill arising on the acquisition of Triceps Ltd.** (3 marks)
- (b) Prepare the following financial statements for Biceps Ltd:**
 - (i) the consolidated profit and loss account for the year ended 31 May 2007.** (10 marks)
 - (ii) the consolidated balance sheet as at 31 May 2007.**
Note: A working should be included for the profit and loss account reserve. Disclosure notes are not required. (19 marks)
- (c) Explain the accounting treatment of intra-group trading in consolidated accounts.** (3 marks)

(35 marks)

- 2 J Moor and P Croft have been trading independently as sole traders. They have decided to form a partnership called Moorcroft from their existing businesses. The future profit sharing ratio in the new business will be 2:1 to J Moor and P Croft respectively.

The balance sheets of the sole trader businesses at the date of the formation of the partnership were as follows:

Balance sheets as at 31 May 2007

	J Moor		P Croft	
	£	£	£	£
<i>Fixed assets</i>				
Property		25,000		–
Plant and machinery		14,000		16,000
Motor vehicle		–		7,000
		<u>39,000</u>		<u>23,000</u>
<i>Current assets</i>				
Stock	5,000		4,000	
Trade debtors	1,500		1,300	
Cash at bank	1,000		3,000	
	<u>7,500</u>		<u>8,300</u>	
<i>Current liabilities</i>				
Trade creditors	(7,000)	500	(8,000)	300
Loan from Dodd		(4,500)		–
		<u>35,000</u>		<u>23,300</u>
<i>Capital accounts</i>				
Moor		35,000		–
Croft		–		23,300
		<u>35,000</u>		<u>23,300</u>

Additional information

At the date of formation of the partnership:

- (i) the property belonging to J Moor was revalued at £30,000.
- (ii) the motor vehicle was retained by P Croft and not transferred to Moorcroft.
- (iii) J Moor's stock was revalued at £4,500.
- (iv) the plant and machinery belonging to P Croft was revalued at £14,500.
- (v) J Moor agreed to take personal responsibility for the loan from Dodd.
- (vi) goodwill was agreed to be £12,000 for J Moor and £9,000 for P Croft.
- (vii) all the trade creditors and trade debtors were taken over by Moorcroft at their book values.

Required:

- (a) Prepare the following accounts for both J Moor and P Croft as they would appear on the closing of their sole trader businesses:

(i) Revaluation accounts; (5 marks)

(ii) Capital accounts. (5 marks)

- (b) Prepare the balance sheet of Moorcroft immediately following the formation of the partnership.

Note: goodwill is not carried in the balance sheet.

(10 marks)

- (c) Explain briefly how partnership goodwill is calculated and why it needs to be recalculated when a new partner joins a partnership. (5 marks)

(25 marks)

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Question 3 begins on page 6.**

3 Acoms Ltd is a small company. Its summarised financial results are given below:

Acoms Ltd
Profit and loss account for the year ended 31 May 2007

	£000
Sales	375
Cost of sales	(280)
	<hr/>
Gross profit	95
Distribution & administrative expenses	(45)
	<hr/>
Operating profit	50
Interest	(5)
	<hr/>
Profit before taxation	45
Taxation on profit	(15)
	<hr/>
Profit for the year	<u>30</u>

Acoms Ltd
Balance sheet as at 31 May 2007

	£000	£000	£000
<i>Fixed assets</i>			410
<i>Current assets</i>			
Stock	96		
Trade debtors	34		
Cash and bank	3	133	
	<hr/>		
<i>Current liabilities</i>			
Trade creditors	88		
Taxation	15	103	30
	<hr/>	<hr/>	<hr/>
Total assets less current liabilities			440
Loans: 10% Debentures			(50)
			<hr/>
<i>Net assets</i>			<u>390</u>
			<hr/> <hr/>
<i>Capital and reserves</i>			
£1 Ordinary shares			300
Profit and loss account			90
			<hr/>
			<u>390</u>
			<hr/> <hr/>

Additional Information

The following are ratios for Acoms Ltd for the year to 31 May 2006 and the industry average ratios for 2007:

Ratio	Acoms Ltd	Industry Average
	2006	2007
Gross profit percentage (%)	34.7	30.0
Net profit percentage (%)	17.7	20.0
Current ratio	1.5	1.5
Acid test (Quick) ratio	1.1	1.0
Debtors collection period (days)	16.0	20.0

Required:

- (a) Calculate the following ratios for Acoms Ltd for the year ended 31 May 2007. State clearly the formula used for each ratio.
- (i) Gross profit percentage
 - (ii) Net profit percentage
 - (iii) Current ratio
 - (iv) Acid test (Quick) ratio
 - (v) Debtors collection period (5 marks)
- (b) Use the information given and the ratios you calculated in part (a) to comment on the performance of Acoms Ltd. (10 marks)
- (c) State five limitations of ratio analysis. (5 marks)
- (20 marks)**

4 Required:

- (a) State the role of each of the following bodies:
- (i) Financial Reporting Council (FRC)
 - (ii) Accounting Standards Board (ASB)
 - (iii) Urgent Issues Task Force (UITF)
 - (iv) Financial Reporting Review Panel (FRRP) (4 marks)
- (b) Identify and explain the four qualitative characteristics of financial information that are currently included in the ASB's Statement of Principles for Financial Reporting. (10 marks)
- (c) Discuss the problems with using historical cost accounting during a period of rising prices and explain how these problems may be overcome. (6 marks)
- (20 marks)**

End of Question Paper