Certified Accounting Technician Examination
Advanced Level

Drafting Financial Statements (International Stream)

Monday 3 December 2007

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FOUR questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper T6 (INT)

ALL FOUR questions are compulsory and MUST be attempted

1 You are presented with the following trial balance of Malright, a limited liability company, at 31 October 2007:

	Dr $000	Cr $000
Buildings at cost	740	
Buildings, accumulated depreciation, 1 November 2006		60
Plant at cost	220	
Plant, accumulated depreciation, 1 November 2006		110
Land at cost	235	
Bank balance		50
Revenue		1,800
Purchases	1,105	
Discounts received		90
Returns inwards	35	
Wages	180	
Energy expenses	105	
Inventory at 1 November 2006	160	
Trade payables		250
Trade receivables	320	
Administrative expenses	80	
Allowance for receivables, at 1 November 2006		10
Director's remuneration	70	
Retained earnings at 1 November 2006		130
10% Loan notes		50
Dividend paid	30	
$1 Ordinary shares		650
Share premium account		80
	3,280	3,280

Additional information as at 31 October 2007:

(i) Closing inventory has been counted and is valued at $75,000.

(ii) The items listed below should be apportioned as indicated:

	Cost of Sales	Distribution Costs	Administrative Expenses
Discounts received	–	–	100%
Energy expenses	40%	20%	40%
Wages	40%	25%	35%
Director's remuneration	–	–	100%

(iii) An invoice of $15,000 for energy expenses for October 2007 has not been received.

(iv) Loan note interest has not been paid for the year.

(v) The allowance for receivables is to be increased to 5% of trade receivables.

(vi) Plant is depreciated at 20% per annum using the reducing balance method. The entire charge is to be allocated to cost of sales.

(vii) Buildings are depreciated at 5% per annum on their original cost, allocated 30% to cost of sales, 30% to distribution costs and 40% to administrative expenses.

(viii) Tax has been calculated as $45,000 for the year.

(ix) The current share price of Malright is $1·30 per share.

Required:

(a) Prepare the following financial statements for Malright in accordance with IAS 1 Presentation of Financial Statements:

(i) the income statement for the year ended 31 October 2007; and (14 marks)

(ii) the balance sheet as at 31 October 2007. (15 marks)

Note: notes to the financial statements are not required. Round all figures to the nearest thousand dollars

(b) Calculate the following accounting ratios for Malright:

(i) Quick ratio (acid test ratio);
(ii) Interest cover;
(iii) Earnings per share;
(iv) Price earnings ratio.

Note: show ratio formulas and workings. (6 marks)

(35 marks)

2 Alan, Bob and Colin have been successfully trading as ABC partnership for several years. Due to ill health Alan has decided to retire from the partnership as from 31 October 2007.

You have been provided with the following information:

(i) Alan, Bob and Colin shared profits in the ratio 3:2:1.

(ii) The partnership made a profit for the year ended 31 October 2007 of $134,904.

(iii) Alan has agreed that if there was a credit balance on his capital account at 31 October 2007 it can be transferred into a loan to the partnership.

(iv) The partnership agreement allows for the following salaries per annum: Alan $30,000, Bob $35,000 and Colin $28,000.

(v) During the year cash drawings were as follows: Alan $22,000, Bob $17,000 and Colin $25,000. No interest is charged on drawings.

(vi) At 1 November 2006 Alan and Bob had credit balances on their current accounts of $2,800 and $1,200 respectively, Colin had a debit balance of $1,600.

(vii) Interest on capital is to be paid at a rate of 10% on the balance at 1 November 2006 on capital accounts. On 1 November 2006, the partners had credit capital account balances as follows: Alan: $40,000, Bob $35,000 and Colin $30,000.

(viii) On the retirement of Alan, both Bob and Colin invested a further $15,000 each into the business and agreed a new profit-sharing ratio:

Bob	2/5
Colin	3/5

(ix) The assets of the partnership were revalued at 31 October 2007 for the purpose of Alan's retirement. The book values and the revalued amounts are as follows.

	Book Value	Revalued amount
	$	$
Property	120,000	136,000
Equipment and machinery	40,000	35,000
Inventory	22,000	18,000
Receivables	18,000	17,000

The revalued amounts are to remain in the books of the new partnership.

(x) Goodwill is not carried on the balance sheet. However, at 31 October 2007 the goodwill in the partnership was valued at $72,000. Any adjustments for goodwill are to be made through the partners' capital accounts.

Required:

(a) Prepare an appropriation account for the partnership for the year ended 31 October 2007. (4 marks)

(b) Prepare the partners' current accounts for the year ended 31 October 2007. (8 marks)

(c) Prepare the partners' capital accounts for the year ended 31 October 2007 showing the adjustments that need to be made on the retirement of Alan from the partnership. (9 marks)

(d) State the advantages and disadvantages of operating as a partnership rather than as a sole proprietor. (4 marks)

(25 marks)

3 Prestend is the parent company of Northon. The following are the balance sheets for both companies as at 31 October 2007.

	Prestend		Northon	
Assets	$000	$000	$000	$000
Non-current assets				
Property, plant and equipment		4,200		3,300
Investments:				
Shares in Northon at cost		3,345		
Current assets				
Inventory	1,500		800	
Receivables	1,800		750	
Bank	600	3,900	350	1,900
Total assets		11,445		5,200
Equity and liabilities				
Capital and reserves				
$1 Ordinary shares		9,000		4,000
Retained earnings		525		200
		9,525		4,200
Current liabilities				
Payables		1,220		200
Tax		700		800
Total equity and liabilities		11,445		5,200

The following information is also available:

(i) Prestend purchased 2,800,000 shares in Northon some years ago when Northon had retained earnings of $60,000. Goodwill on acquisition has been fully written off as impaired in prior years.

(ii) During the year Prestend sold goods with an invoice value of $240,000 to Northon. These goods were invoiced at cost plus 20%. Half of the goods are still in Northon's inventory at the year end.

(iii) Northon owes Prestend $30,000 at 31 October 2007 for goods it purchased during the year.

Required:

(a) Calculate the goodwill on acquisition. (3 marks)

(b) Prepare the consolidated balance sheet for the Prestend group as at 31 October 2007.

Note: a working should be included for group retained earnings. Disclosure notes are not required. (14 marks)

(c) A company that owns less than 50% of the shares of another company will regard it as an 'associate' if it is able to exert 'significant influence'. Identify three circumstances that might demonstrate 'significant influence'. (3 marks)

(20 marks)

4 Geofost, a limited liability company is preparing its cashflow statement for the year ended 31 October 2007. You have been presented with the following information.

Geofost

Income statement for the year ended 31 October 2007	**$000**
Profit from operations	15,730
Finance cost	(730)
Profit before tax	15,000
Taxation	(4,350)
Profit for the period	10,650

Balance sheets as at 31 October		**2007**		**2006**
Assets		**$000**		**$000**
Non-current assets		44,282		26,574
Current assets				
Inventory	3,560		9,635	
Trade receivables	6,405		4,542	
Cash	559	10,524	1,063	15,240
Total assets		54,806		41,814
Equity and liabilities				
Capital and reserves				
Ordinary share capital		16,000		15,000
Share premium account		3,365		2,496
Retained earnings		15,629		6,465
		34,994		23,961
Non-current liabilities				
9% loan notes		8,000		10,300
Current liabilities				
Bank overdraft	1,230		429	
Trade payables	7,442		4,264	
Interest payable	120		100	
Taxation	3,020	11,812	2,760	7,553
Total equity and liabilities		54,806		41,814

Additional information

(i) During the year dividends paid were $1,486,000.

(ii) Summary schedule of changes to non-current assets during 2007:

	Cost	**Accumulated depreciation**	**Net book value**
	$'000	**$'000**	**$'000**
Balance b/f	33,218	6,644	26,574
Additions	24,340		24,340
Disposals	(2,964)	(990)	(1,974)
Depreciation		4,658	(4,658)
Balance c/f	54,594	10,312	44,282

(iii) The total proceeds from the disposal of non-current assets were $2,694,000.

Required:

(a) Prepare a cash flow statement for Geofost for the year ended 31 October 2007 in accordance with IAS 7 – *Cash Flow Statements*, using the indirect method. (14 marks)

(b) Comment on the financial performance and position of Geofost as shown by the cash flow statement you have prepared. (6 marks)

(20 marks)

End of Question Paper