Certified Accounting Technician Examination
Advanced Level

Drafting Financial Statements (UK Stream)

Monday 3 December 2007

Paper T6 (UK)

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

ALL FOUR questions are compulsory and MUST be attempted

1 You are presented with the following trial balance of Malright Ltd 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
Sales		1,800
Purchases	1,105	
Discounts received		90
Returns inwards	35	
Wages	180	
Energy expenses	105	
Stock at 1 November 2006	160	
Trade creditors		250
Trade debtors	320	
Administrative expenses	80	
Allowance for debtors, at 1 November 2006		10
Director's remuneration	70	
Accumulated profit at 1 November 2006		130
10% Debentures		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 stock 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) Debenture interest has not been paid for the year.

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

(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 Ltd is £1·30 per share.

Required:

(a) Prepare for external purposes, the following financial statements for Malright Ltd:

(i) the profit and loss account 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 pounds

(b) Calculate the following accounting ratios for Malright Ltd:

(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
Stock	22,000	18,000
Debtors	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 Ltd is the parent company of Northon Ltd. The following are the balance sheets for both companies as at 31 October 2007.

	Prestend Ltd		Northon Ltd	
Fixed assets	**£000**	**£000**	**£000**	**£000**
Tangible fixed assets		4,200		3,300
Investments:				
Shares in Northon at cost		3,345		
		7,545		3,300
Current assets				
Stock	1,500		800	
Debtors	1,800		750	
Bank	600		350	
	3,900		1,900	
Current liabilities				
Creditors	1,220		200	
Tax	700		800	
	1,920		1,000	
Net current assets		1,980		900
		9,525		4,200
Capital and reserves				
£1 Ordinary shares		9,000		4,000
Accumulated profit		525		200
		9,525		4,200

The following information is also available:

(i) Prestend Ltd purchased 2,800,000 shares in Northon Ltd some years ago when Northon had accumulated profits of £60,000. Goodwill on acquisition has been fully amortised in prior years.

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

(iii) Northon Ltd owes Prestend Ltd £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 accumulated profits. 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 Ltd is preparing its cash flow statement for the year ended 31 October 2007. You have been presented with the following information.

Geofost Ltd

Profit and loss account for the year ended 31 October 2007	**£000**
Operating profit	15,730
Interest	(730)
Profit on ordinary activities before taxation	15,000
Tax on profit on ordinary activities	(4,350)
Profit on ordinary activities after taxation	10,650

Balance sheets as at 31 October	**2007**		**2006**	
	£000	**£000**	**£000**	**£000**
Fixed assets		44,282		26,574
Current assets				
Stock	3,560		9,635	
Trade debtors	6,405		4,542	
Cash	559		1,063	
	10,524		15,240	
Creditors: amounts falling due within one year				
Bank overdraft	1,230		429	
Trade creditors	7,442		4,264	
Interest payable	120		100	
Taxation	3,020		2,760	
	11,812		7,553	
Net current assets		(1,288)		7,687
Total assets less current liabilities		42,994		34,261
Creditors: amounts falling due after one year				
9% Debentures		(8,000)		(10,300)
		34,994		23,961
Capital and reserves				
Ordinary share capital		16,000		15,000
Share premium account		3,365		2,496
Accumulated profit		15,629		6,465
		34,994		23,961

Additional information

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

(ii) Summary schedule of changes to fixed assets during 2007:

	Cost £'000	**Accumulated Depreciation £'000**	**Net book value £'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 fixed assets were £2,694,000.

Required:

(a) Prepare a cash flow statement for Geofost Ltd for the year ended 31 October 2007 in accordance with FRS 1 – *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. (14 marks)

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

(20 marks)

End of Question Paper