Certified Accounting Technician Examination
Advanced Level

Drafting Financial Statements (International Stream)

Monday 2 June 2008

Paper T6 (INT)

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

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ALL FOUR questions are compulsory and MUST be attempted

1 Steven, Stephanie and Michael are in partnership. They have asked you to prepare their accounts for the year ended 31 May 2008. Unfortunately the partners have not maintained full accounting records. However, they know that during the year they made the following payments:

	$
Suppliers	270,000
Energy	10,000
Vehicle running expenses	20,400
Insurance	8,000
Carriage inwards	7,500
Advertising	3,150
Rent	20,000
Telephone	5,750
Stationery	1,400
	346,200

The following balances at 1 June 2007 are available:

		Dr $	Cr $
Capital accounts:	Steven		50,000
	Stephanie		50,000
	Michael		25,000
Current accounts:	Steven		23,000
	Stephanie		21,000
	Michael		18,000
Cash at bank		15,000	
Inventory		35,000	
Trade payables			18,000
Trade receivables		61,500	
Vehicles at cost		40,000	
Equipment at cost		80,000	
Accumulated depreciation			
Vehicles			12,000
Equipment			16,000
Accrual for energy			2,500
Prepayment for rent		4,000	
		235,500	235,500

Additional Information

(i) $14,000 was owed to suppliers as at 31 May 2008.
(ii) Insurance of $1,000 was paid in advance at 31 May 2008.
(iii) Receipts from customers were $500,000 and there was $50,000 outstanding from credit customers at 31 May 2008.
(iv) During the year bad debts of $17,000 were written off.
(v) Settlement discounts of $8,000 were given to credit customers.
(vi) An invoice for $2,600 relating to energy expenses was unpaid at 31 May 2008.
(vii) Inventory as at 31 May 2008 was valued at $23,000.
(viii) Cash drawings during the year were: Steven $60,000; Stephanie $45,000; Michael $25,000.
(ix) Depreciation on vehicles is to be provided at 20% of written down value.
(x) Depreciation on equipment is to be provided at 25% on original cost.
(xi) Interest on drawings is to be charged as follows: Steven $1,500; Stephanie $1,000; Michael $500.

(xii) Interest on capital account balances is to be allowed at 10%.
(xiii) Steven, Stephanie and Michael have an agreement to share profits in the ratio 2:2:1.

Required:

Prepare the following for the partnership:

(a) the income statement and appropriation account for the year ended 31 May 2008; (22 marks)

(b) the partners' current accounts for the year ended 31 May 2008; and (6 marks)

(c) the statement of financial position as at 31 May 2008. (12 marks)

(40 marks)

2 Traffold, a limited liability company, is preparing its statement of cash flows for the year ended 31 May 2008.

Traffold

Statements of financial position as at 31 May	**2008**	**2007**
Assets	**$000**	**$000**
Non-current assets		
Cost	65,251	53,525
Accumulated depreciation	(14,798)	(12,509)
	50,453	41,016
Current assets		
Inventory	16,503	14,563
Trade receivables	6,214	8,664
Bank	595	536
	23,312	23,763
Total assets	73,765	64,779
Equity and liabilities		
Capital and reserves		
$1 Ordinary share capital	21,000	17,000
Share premium	7,892	6,425
Revaluation reserve	7,454	4,092
Retained earnings	19,979	18,190
	56,325	45,707
Non-current liabilities		
9% loan notes	6,734	8,825
Current liabilities		
Trade payables	9,505	8,951
Taxation	1,201	1,296
	10,706	10,247
Total equity and liabilities	73,765	64,779

Traffold

Income statement for the year ended 31 May 2008	**$000**
Sales revenue	28,775
Cost of sales	(14,821)
Gross profit	13,954
Distribution costs	(4,908)
Administrative expenses	(3,410)
Profit from operations	5,636
Interest received	57
Finance cost	(794)
Profit before tax	4,899
Taxation	(1,570)
Profit for the period	3,329

Additional information

(i) Dividends paid during the year were $1,540,000.
(ii) There were no amounts outstanding in respect of interest payable or receivable as at either year end.
(iii) Total depreciation for the year was $1,487,000.
(iv) The only revaluation of non-current assets was of a piece of freehold land.
(v) During the year, the company sold equipment for $766,000 realising a profit of $66,000.

Required:

(a) Prepare a statement of cash flows for Traffold for the year ended 31 May 2008 in accordance with IAS 7 – Statement of Cash Flows, using the indirect method. (18 marks)

(b) Comment on the financial position of Traffold as shown by the statement of cash flows you have prepared. (7 marks)

(25 marks)

3 Derwent is a limited liability company with a total share capital of 5,000,000 ordinary shares of $1 each. On 1 June 2005, Keswick acquired 80% of the ordinary shares in Derwent for $4,750,000. At that time, Derwent had reserves of $500,000.

The summarised draft income statements of Keswick and Derwent for the year ended 31 May 2008 are provided below.

Income statements for the year ended 31 May 2008

	Keswick	**Derwent**
	$000	**$000**
Sales revenue	8,400	3,200
Cost of sales	(4,600)	(1,700)
Gross profit	3,800	1,500
Distribution costs	(1,500)	(510)
Administrative costs	(900)	(450)
Profit from operations	1,400	540
Dividend received from Derwent	200	–
Profit before tax	1,600	540
Tax	(600)	(140)
Profit for the period	1,000	400

Additional information

(i) During the year ended 31 May 2008 Keswick sold goods costing $1,000,000 to Derwent for $1,500,000. At 31 May 2008, 30% of these goods remained in Derwent's inventory.

(ii) At 31 May 2007 Keswick valued the goodwill arising from the acquisition of Derwent at $250,000. An impairment review of this goodwill at 31 May 2008 valued it at $170,000.

Required:

(a) Calculate the goodwill arising on the acquisition of Derwent on 1 June 2005. (3 marks)

(b) Prepare the consolidated income statement for Keswick for the year ended 31 May 2008. (10 marks)

(c) Identify two circumstances when a company owning 50% or less of the shares of an entity will still be deemed to have control of the entity. (2 marks)

(15 marks)

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Question 4 starts on page 8.

4 Janet owns some shares in a company. She has received the most recent financial statements that the company has produced, which are shown below. You have agreed to prepare an analysis of the financial performance and liquidity of the company for her.

Quadrop

Income statements for the year ended 31 May

	2008		2007	
	$000	$000	$000	$000
Sales revenue		1,886		1,150
Cost of sales		(940)		(680)
Gross profit		946		470
Administration costs	(349)		(223)	
Distribution costs	(185)		(115)	
Interest payable	(68)		(13)	
		(602)		(351)
Profit before tax		344		119
Taxation		(95)		(55)
Profit for period		249		64

Statements of financial position as at 31 May

	2008		2007	
Assets	$000	$000	$000	$000
Non-current assets				
Property, Plant & Equipment	950		530	
Intangibles	400	1,350	–	530
Current assets				
Inventory	240		130	
Receivables	165		85	
Bank	–	405	300	515
Total assets		1,755		1,045
Equity and liabilities				
Equity				
Share capital and reserves				
Ordinary share capital		400		400
Share premium		150		150
Revaluation reserve		50		50
Retained earnings		118		100
Total equity		718		700
Liabilities				
Non-current liabilities				
Loans		650		150
Current liabilities				
Payables	187		145	
Taxation	80		50	
Overdraft	120	387	–	195
Total equity and liabilities		1,755		1,045

Required:

(a) Calculate six accounting ratios for 2007 and 2008, which could be used to analyse the financial performance and liquidity of Quadrop. State the formulas used for calculating the ratios. (9 marks)

(b) Using the ratios you have calculated in part (a), comment on the performance and liquidity of Quadrop. (8 marks)

(c) What additional information about Quadrop would help you to interpret the ratios? (3 marks)

(20 marks)

End of Question Paper