Certified Accounting Technician Examination
Advanced Level

Drafting Financial Statements (UK Stream)

Monday 2 June 2008

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 (UK)

ACCA

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	
Stock		35,000	
Trade creditors			18,000
Trade debtors		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) Stock 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 profit and loss account 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 balance sheet as at 31 May 2008. (12 marks)

(40 marks)

2 Traffold Ltd is preparing its cash flow statement for the year ended 31 May 2008.

Traffold Ltd

Balance sheets as at 31 May	**2008**		**2007**	
	£000	**£000**	**£000**	**£000**
Fixed Assets				
Cost		65,251		53,525
Accumulated depreciation		(14,798)		(12,509)
		50,453		41,016
Current assets				
Stock	16,503		14,563	
Trade debtors	6,214		8,664	
Bank	595		536	
	23,312		23,763	
Creditors: amounts falling due within one year				
Trade creditors	9,505		8,951	
Taxation	1,201		1,296	
	10,706		10,247	
Net current assets		12,606		13,516
Total assets less current liabilities		63,059		54,532
Creditors: amounts falling due after one year				
9% Debentures		(6,734)		(8,825)
		56,325		45,707
Capital and reserves				
£1 Ordinary share capital		21,000		17,000
Share premium		7,892		6,425
Revaluation reserve		7,454		4,092
Profit and loss reserve		19,979		18,190
		56,325		45,707

Traffold Ltd

Profit and loss account for the year ended 31 May 2008	**£000**
Turnover	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
Interest paid	(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 fixed 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 cash flow statement for Traffold Ltd for the year ended 31 May 2008 in accordance with FRS 1 – Cash Flow Statements, using the indirect method. (18 marks)

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

(25 marks)

3 Derwent Ltd has a total share capital of 5,000,000 ordinary shares of £1 each. On 1 June 2005, Keswick Ltd acquired 80% of the ordinary shares in Derwent Ltd for £4,750,000. At that time, Derwent Ltd had reserves of £500,000.

The summarised draft profit and loss accounts of Keswick Ltd and Derwent Ltd for the year ended 31 May 2008 are provided below.

Profit and loss accounts for the year ended 31 May 2008

	Keswick Ltd	**Derwent Ltd**
	£000	**£000**
Turnover	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)
Operating profit	1,400	540
Dividend received from Derwent Ltd	200	–
Profit before tax	1,600	540
Tax	(600)	(140)
Net profit after tax	1,000	400

Additional information

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

(ii) At 31 May 2007 Keswick Ltd valued the goodwill arising from the acquisition of Derwent Ltd at £250,000. After amortisation, the goodwill amounted to £170,000.

Required:

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

(b) Prepare the consolidated profit and loss account for Keswick Ltd 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 Ltd

Profit and loss accounts for the year ended 31 May

	2008		2007	
	£000	£000	£000	£000
Sales		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)
Net profit before tax		344		119
Taxation		(95)		(55)
Net profit after tax		249		64

Balance sheets as at 31 May

	2008		2007	
	£000	£000	£000	£000
Fixed Assets				
Tangible fixed assets		950		530
Intangibles		400		–
		1,350		530
Current assets				
Stock	240		130	
Debtors	165		85	
Bank	–		300	
	405		515	
Creditors: amounts falling due within one year				
Creditors	187		145	
Taxation	80		50	
Overdraft	120		–	
Total equity and liabilities	387		195	
Net current assets		18		320
Total assets less current liabilities		1,368		850
Creditors amounts falling due after one year				
Debentures		(650)		(150)
		718		700
Capital and reserves				
Ordinary share capital		400		400
Share premium		150		150
Revaluation reserve		50		50
Profit and loss reserve		118		100
Total equity		718		700

Required:

(a) **Calculate six accounting ratios for 2007 and 2008, which could be used to analyse the financial performance and liquidity of Quadrop Ltd. 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 Ltd.** (8 marks)

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

(20 marks)

End of Question Paper