Association of Taxation Technicians

Examination

May 2005

PRINCIPLES OF ACCOUNTING

TIME ALLOWED - 1 HOUR 30 MINUTES

Candidates should answer **three** out of four questions set.
Each question carries 35 marks.
Start each answer on a fresh sheet.
All workings should be shown and made to the nearest month and pound unless the question requires otherwise.
Marks are specifically allocated for good presentation.

1. Norfolk Ltd operates a business of buying and selling toys and prepares its accounts to 30 April each year.

   The company is currently in the process of preparing the accounts for the year ended 30 April 2005 and has provided the following information:

   1) The company owns machinery purchased on 1 May 2002 at a cost of £250,000.

   2) During the year ended 30 April 2005 the company acquired further machinery at a cost of £50,000.

   3) The company owns its own premises which were purchased on 1 May 1999 for £700,000.

   4) The depreciation policy of Norfolk Ltd is:

Premises	2% straight line
Machinery	20% reducing balance

   A full year's depreciation charge is made in the year of purchase.

   5) Cash at bank at 30 April 2005 was £67,000.

   6) The company was formed a number of years ago with an issued share capital of 300,000 ordinary shares of 10 pence each. These shares were issued at a premium of 80 pence per share.

   7) During the year ended 30 April 2005 the company made sales of toys totalling £2,400,000. The total receipts in the year from customers was £2,340,000. The balance sheet at 30 April 2004 showed net debtors of £76,000. This figure was after taking into account a general provision for doubtful debts of 5% of total trade debtors. At 30 April 2005 a general provision for doubtful debts of 5% has been made.

   8) Extracts from the balance sheet at 30 April 2004 show:

Stock	£68,000
Trade creditors	£44,000
Corporation Tax creditor	£41,000

   9) During the year ended 30 April 2005 the company purchased toys costing £1,890,000. All sales of toys were at a mark up of 25%.

   10) An extract from the cash flow statement for the year ended 30 April 2005 showed that there was an increase in trade creditors of £34,000.

   11) An extract from the profit and loss account for the year ended 30 April 2005 showed the following:

	£
Profit before tax	211,000
Tax charge for year	(49,000)
Net profit after tax	162,000

   12) The tax charge of £49,000 includes an over provision of £3,000 in respect of the year ended 30 April 2004 as the actual tax liability for that year was £38,000 which was paid in February 2005.

   13) The profit and loss account balance at 30 April 2004 was £460,000.

   You are required to prepare the balance sheet of Norfolk Ltd as at 30 April 2005. You should show all your workings. (35)

2. Whitehead Ltd prepares its accounts to 31 March each year. During the year to 31 March 2005 the following transactions took place:

1) The company submitted the following VAT returns:

Quarter to	VAT output	VAT input	VAT paid/ (received)	Date paid/ (received)
	£	£	£	
31 March 2004	91,500	82,000	9,500	30 April 2004
30 June 2004	62,000	83,500	(21,500)	31 July 2004
30 September 2004	66,000	61,500	4,500	31 October 2004
31 December 2004	93,000	99,000	(6,000)	31 January 2005
31 March 2005	81,000	63,500	17,500	30 April 2005

2) The balance sheet at 31 March 2004 included the following:

(a) Provision for Corporation Tax in respect of year ended 31 March 2004 – £100,000

(b) Provision for deferred taxation – £61,500

On 1 January 2005 Whitehead Ltd paid the Corporation Tax actually due for the year ended 31 March 2004 of £95,500.

The Corporation Tax provision based on the profits for the year ended 31 March 2005 is £122,500.

The potential liability for deferred taxation at 31 March 2005 is £54,500.

3) In July 2004 a loan was advanced to the company from one of the directors. Interest was paid on this loan. Income Tax was withheld at a rate of 20%. The gross interest was paid as follows:

Date due	Gross interest	Date paid
	£	
30 September 2004	9,000	1 October 2004
31 December 2004	9,800	1 January 2005
31 March 2005	8,400	1 April 2005

The Income Tax withheld was paid over on the due dates.

You are required to:

1) Explain how VAT is accounted for in the accounts of a company. (6)

2) Show how the above transactions would be shown in the ledger accounts ('T' accounts) of Whitehead Ltd. You should include a bank account. (21)

3) Show how the Corporation Tax and deferred tax would be disclosed in the balance sheet and profit and loss account of Whitehead Ltd for the year to 31 March 2005. (5)

4) Explain why deferred tax is shown in company accounts. (3)

Total (35)

3. Leah-Clare started her business as a sole trader on 1 January 2004. During her first year of trading the following took place:

1) Credit purchases of £200,000 were made, of which, £80,000 had not been paid for by 31 December 2004. At 31 December 2004 goods costing £40,000 were unsold;

2) Credit sales of £280,000 were made, of which, £220,000 had been paid for by 31 December 2004;

3) Of the outstanding trade debtors of £4,500 are considered to be doubtful;

4) The following expenses were incurred and paid;

	£
Salaries	15,000
Rent	2,000
Insurance	750
Heat and light	900

5) A computer was purchased and paid for in the year at a cost of £1,200.

6) A van was purchased under a finance lease agreement on 1 December 2004. The cash price of the van was £13,000 but the agreement required an initial deposit of 10% and 24 monthly instalments of £600 each. The terms of the agreement require the payments to be made monthly in arrears. The first instalment is to be paid on 31 December 2004;

7) The depreciation policy to be adopted is:

Vans	25% per annum reducing balance basis
Computer equipment	33⅓% per annum straight line basis

A full year's depreciation is charged in the year of acquisition.

8) Leah-Clare introduced capital into the business of £25,000 during the year and made drawings during the year of £12,000;

9) Of the expenses incurred and paid the following amounts were prepaid:

Rent	£200
Insurance	£250

10) The following expenses had been incurred in respect of the year to 31 December 2004 but not paid;

Telephone	£275
Heat and light	£150

11) A government grant of £1,000 was received as a contribution towards the first six months salary of the employee hired by Leah-Clare on 1 March 2004.

You are required to:

1) Show how Leah-Clare would record the above transactions in the ledger accounts. (25)

2) Prepare a profit and loss account for the year ended 31 December 2004. (5)

3) Prepare a balance sheet at 31 December 2004. (5)

Total (35)

4. Denver Ltd draws up its accounts to 31 March each year. An extract from the balance sheet at 31 March 2004 showed the following:

Issued share capital	£
Ordinary shares of £1 each	1,000,000
Preference shares of £0.50 each	200,000
Share premium	300,000

In the year to 31 March 2005 the following took place:

1) on 30 June 2004 a further 500 000 ordinary shares of £1 each were issued at a premium of £1.50 per share;

2) on 31 December 2004 there was a bonus issue of one ordinary share for every three held;

3) on 28 February 2005 there was a rights issue of one ordinary share for every ten shares held at £3 per share. All the rights were taken up;

4) a dividend of £10 000 was paid on the preference shares on 1 October 2004 in respect of the six months to 30 September 2004;

5) the dividend of £10 000 due on the preference shares for the six months to 31 March 2005 was paid on 1 April 2005.

You are required to:

1) Prepare "T" accounts reflecting the above transactions in the year to 31 March 2005. You should include a bank account; (15)

2) Explain the reasons why a company would make a bonus issue and how this differs from a rights issue. (5)

3) Explain the options available to a shareholder when a company has a rights issue (6)

4) Explain how the above transactions would be reflected in the cash flow statement for the year to 31 March 2005. (3)

5) Explain the difference between ordinary and preference shares. (3)

6) Explain how Denver Ltd could raise finance other than via a share issue. (3)

Total (35)