Association of Taxation Technicians

Examination

November 2007

PRINCIPLES OF ACCOUNTING

TIME ALLOWED – 1 HOUR 30 MINUTES

- You should answer **three** out of the four questions set.
- Each question carries 35 marks.
- Start each answer on a new sheet of paper.
- 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. Wall Ltd's balance sheet at 31 May 2006 was as follows:

	Cost	Depreciation	
	£	£	£
Fixed Assets			
Land and buildings	220,000	24,000	196,000
Plant and equipment	85,000	55,000	30,000
Motor vehicles	26,000	18,000	8,000
	£331,000	£97,000	234,000
Current Assets			
Stocks		28,000	
Debtors		47,000	
Cash at bank		12,000	
		£87,000	
Creditors: amounts failing due within one year			
Trade creditors		62,000	
Corporation Tax creditor		48,000	
Bank loan		40,000	
		£150,000	
Net Current Liabilities			(63,000)
Net Assets			£171,000
Represented by:			
Share capital			25,000
Share premium account			12,000
Profit and loss account			134,000
			£171,000

During the year to 31 May 2007 the company made the following transactions:

1) 6,000 ordinary shares of 50 pence each were issued at £2 each.

2) purchased the following fixed assets:

	£
Plant and equipment	14,000
Motor vehicles	11,000

3) sold the following fixed assets:
Plant and equipment with a net book value of £18,000 for £13,000
Motor vehicles with net book value of £4,000 for £6,000

Wall Ltd's depreciation policy is as follows:

Land and buildings	2% per annum straight line
Plant and equipment	20% per annum reducing balance
Motor vehicles	25% per annum reducing balance

A full year's charge is made in the year of acquisition but no depreciation is charged on assets sold in the year.

As at 31 May 2007 Wall Ltd had:

1) stocks of £35,000

2) debtors of £41,000

3) bank overdraft of £7,000

4) trade creditors of £45,000

(Continued)

1. *(Continuation)*

Wall Ltd paid Corporation Tax of £51,000 during the year. The Corporation Tax charge in the accounts for the year ended 31 May 2007 is as follows:

	£
Current year provision	18,000
Prior year under provision	3,000
	£21,000

During the year ended 31 May 2007 Wall Ltd paid a dividend of £28,000.

The bank loan was fully repaid in the year ended 31 May 2007.

Wall Ltd's retained profits at 31 May 2007 are £180,650.

You are required to:

1) Produce a cash flow statement for the year to 31 May 2007. You should show all your workings. You are NOT required to show the cash flow statement in FRS (1) format. (30)

2) Explain why cash flow statements are prepared and their importance. (5)

Total (35)

2. Jools Ltd prepares its accounts to 30 June each year. During the year to 30 June 2007 the following transactions occurred.

In October 2006 a loan was advanced to the company from one of the shareholders. 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
	£	
31 December 2006	4,000	1 January 2007
31 March 2007	4,600	1 April 2007
30 June 2007	4,800	1 July 2007

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

The company submitted the following VAT returns:

Quarter to	VAT outputs	VAT inputs	VAT paid/ (received)	Date paid/ (received)
	£	£	£	
30 June 2006	51,000	42,500	8,500	31 July 2006
30 September 2006	62,500	68,000	(5,500)	31 October 2006
31 December 2006	75,600	78,100	(2,500)	31 January 2007
31 March 2007	83,400	77,400	6,000	30 April 2007
30 June 2007	54,200	66,200	(12,000)	31 July 2007

The balance sheet at 30 June 2006 included the following:

Provision for Corporation Tax in respect of year ended 30 June 2006	£62,000
Provision for deferred taxation	£21,500

On 1 April 2007 Jools Ltd paid the Corporation Tax actually due for the year ended 30 June 2006 which was £64,600.

The Corporation Tax provision based on the profits for the year ended 30 June 2007 is £74,000.

The potential liability for deferred taxation at 30 June 2007 is £17,500.

You are required to:

1) **Show how the above transactions would be shown in the ledger accounts (‘T’ accounts) of Jools Ltd. You should include a bank account.** (21)

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

3) **Show how the Corporation Tax and deferred tax would be disclosed in the balance sheet and profit and loss account of Jools Ltd for the year to 30 June 2007**. (5)

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

Total (35)

3. Mr Meredith operates a business of buying and selling a number of products.

He prepares accounts to 30 September each year and detailed below is information relating to his trading activities for the year ended 30 September 2007.

1) At 30 September 2007 trade debtors totalled £90,000. This includes one particular debt of £1,500 which needs to be provided against as it is considered doubtful as to whether this will be paid. In addition to this Mr Meredith requires a general provision of 5% of remaining debts. At 30 September 2006 there was a specific provision of £8,250 and a general provision of £1,200. In May 2007 £850 of the £8,250 debt specifically provided for at 30 September 2006 was received and the balance was written off.

2) In July 2007 an unexpected receipt of £995 was received in respect of a debt that had been written off a number of years ago.

3) The following expenses were incurred and paid for during the year:

	£
Repairs	375
Telephone	480
Bank charges	230

4) Mr Meredith has agreed a fee of £2,250 with his accountant for the preparation of the business accounts for the year ended 30 September 2007.

5) Mr Meredith rents the premises from which the business is operated. The rent charged by the landlord which Mr Meredith pays annually in advance was £20,000 for the year ended 31 March 2007 and £22,000 for the year ended 31 March 2008.

6) On 1 July 2007 Mr Meredith joined a trade association. His subscription fees for the first year to 30 June 2008 were £400.

7) During the year ended 30 September 2007 Mr Meredith paid electricity bills totalling £1,200. These payments included costs of £120 which were included as an accrual in the accounts for the year to 30 September 2006. At 30 September 2007 electricity costs of £150 have been incurred but not paid for.

8) During the year ended 30 September 2007 Mr Meredith purchased 500 units of product W at a cost of £180 each. Two thirds of these were sold during the year at a mark up of 40%.

9) In April 2007 Mr Meredith sold 600 units of product X for £400 per unit. At 30 September 2006 Mr Meredith held in stock 240 units which had a cost of £220 each. In December 2006 he purchased a further 400 units for £260 each. The accounting policy used by Mr Meredith to value stock is the average method.

10) During the year ended 30 September 2007 Mr Meredith made sales of product Y totalling £480,000. All units of product Y were bought and sold during and there was no opening or closing stock. The sales of product Y realised a gross profit of 35%.

You should ignore VAT.

You are required to:

1) Prepare the profit and loss account for the year ended 30 September 2007. You should show all your workings. (31)

You are NOT required to prepare a balance sheet.

2) Briefly explain the uses of a profit and loss account. (4)

Total (35)

4. Dallas Ltd draws up its accounts to 31 December each year. An extract from the balance sheet at 31 December 2006 showed the following:

<u>Issued share capital</u>	£
Ordinary shares of £1 each	2,000,000
Preference shares of £0.50 each	500,000
Share premium	400,000

In the year to 31 December 2006 the following took place:

1) On 30 April 2006 a further 400,000 ordinary shares of £1 each were issued at a subscription of £3 per share;

2) On 30 September 2006 there was a bonus issue of one ordinary share for every ten held;

3) On 31 December 2006 there was a rights issue of one ordinary share for every twenty shares held at £3 per share. All the rights were taken up;

4) A dividend of £25,000 was paid on the preference shares on 30 November 2006 in respect of the year to 31 December 2006;

You are required to:

1) Prepare "T" accounts reflecting the above transactions in the year to 31 December 2006. 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 December 2006. (3)

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

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

Total (35)