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ADMISSION EXAMINATION

Summer 2005

ACCOUNTS II

PAPER, SOLUTIONS

and

EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

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This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

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The Institute of Accounting Technicians in Ireland

Admission Examination : Summer 2005

PAPER 6 : ACCOUNTS II

Monday 16th May 2005 - 2.30 p.m. to 5.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Candidates must indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.

In this examination paper the £ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling and the € symbol by candidates in the Republic of Ireland to indicate the Euro.

Answer ALL FOUR questions in Section A and EITHER of the TWO questions in Section B.

If more than ONE question is answered in Section B, then only the first question, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled, as appropriate, e.g. €s, £s, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins next page.

The following insert is enclosed with this paper.

- **Multiple choice question answer sheet (QUESTION 6)**

SECTION A

Answer ALL Four Questions in this Section

QUESTION 1

Barbara, Graham and Ken were in partnership at 31st December 2004, sharing profits and losses in the ratio of 4: 2: 1 respectively. At that date it was agreed that the partnership would convert to a limited company, BARKER Ltd, to take over certain assets and liabilities of the firm.

The balance sheet of the partnership at 31st December 2004 was as follows:

BALANCE SHEET AS AT 31st DECEMBER 2004

	£/€'000	£/€'000	£/€'000
Fixed Assets:			
Land and buildings			560
Furniture and fittings			150
Motor vehicles			30
			740
Investments			60
Current Assets:			
Stocks		80	
Debtors		40	
Prepayments		8	
Bank		32	
Loan to Graham		12	
		172	
Current Liabilities:			
Creditors	56		
Accrued expenses	13		
Loan from Barbara	19		
		(88)	
Net Current Assets:			84
			884
Financed by:			
Capital Accounts:			
Barbara		200	
Graham		200	
Ken		200	
		600	
Current Accounts:			
Barbara		44	
Graham		70	
Ken		(30)	
		84	
Bank Loan			200
			884

ADDITIONAL INFORMATION

The company is to take over the assets and liabilities of the partnership with the exception of:

- (i) the bank balance.
- (ii) the loan to Graham, which is to be set off against the balance in his capital account.
- (iii) the two motor vehicles, which are to be taken over by Graham and Ken at a value of £/€14,000 each.
- (iv) the investments, which were sold for £/€67,000.
- (v) the loan from Barbara, which is to be repaid to her immediately.

QUESTION 1 (*Cont'd.*)

The remaining assets and liabilities are to be taken over by the company at the following values:

	£/€
Land and buildings	620,000
Furniture and fittings	130,000
Stocks	76,000
Debtors	38,000
Prepayments	8,000
Creditors	53,000
Accrued expenses	12,000
Bank loan	200,000

The purchase consideration is £/€650,000 to be satisfied by the issue of 400,000 £/€1 ordinary shares at a premium of 25 pence/cent each and £/€150,000 of 6% debentures.

The registration expenses of £/€9,000 relating to the conversion to a limited company, are to be borne by the partnership.

The shares are to be divided between the partners in the ratio Barbara 2, Graham 1 and Ken 1. The debentures are to be divided equally between the partners. Any remaining balances in the partners combined capital and current accounts are to be settled in cash.

Requirement

You are required to prepare:

- | | |
|---|----------------|
| (a) the realisation account. | 5 Marks |
| (b) the partners combined capital and current accounts. | 6 Marks |
| (c) the partnership bank account, and | 5 Marks |
| (d) the balance sheet of BARKER Ltd on the completion of the conversion of the partnership to a limited company | 7 Marks |

Total 23 Marks

Accounts II Summer 2005 Paper

QUESTION 2

SQUIRREL Ltd, a retailing company, has an authorised share capital of £/€2,500,000 made up of 4,000,000 ordinary shares of 50 pence/cent each and £/€500,000 of 5% preference shares of £/€1 each.

The following trial balance was extracted from the books of the company at 31st December 2004.

	£/€	£/€
Ordinary share capital		1,500,000
5% preference share capital		300,000
Share premium account		150,000
General reserve		230,000
Profit and loss account - balance 1 st January 2004		41,000
6% debenture stock (issued in 1998 - redeemable in 2008)		200,000
Freehold premises at cost at 1 st January 2004	2,700,000	
Freehold premises - accumulated depreciation at 1 st January 2004		400,000
Plant and machinery at cost at 1 st January	420,000	
Plant and machinery - accumulated depreciation at 1 st January 2004		240,000
Motor vehicles at cost at 1 st January 2004	120,000	
Motor vehicles - accumulated depreciation at 1 st January 2004		70,000
Computer equipment at cost at 1 st January 2004	120,000	
Computer equipment - accumulated depreciation at 1 st January 2004		45,000
Additions to fixed assets during year at cost		
Plant and machinery	70,000	
Motor vehicles	25,000	
Computer equipment	30,000	
Disposal of motor vehicles (sale proceeds)		24,000
Debtors	156,000	
Creditors		85,000
Bank balance		144,000
VAT account		32,000
Corporation tax owing		86,000
PAYE owing		12,000
Bank deposit account	60,000	
Accrued expenses		18,000
Prepaid expenses	12,000	
Long term investments	60,000	
Short term investments	40,000	
Retained profit for the year (after providing for dividends and debenture interest but before adjustment for items 1 to 3 below)		146,000
Deferred government grants at 1 st January 2004		90,000
	3,813,000	3,813,000

ADDITIONAL INFORMATION

The following additional information is available:

The retained profit for the year as stated above has been calculated before accounting for the following items:

(1) Depreciation is to be (and has in the past been) provided on fixed assets as follows:

Freehold premises	-	2% on cost
Plant and machinery	-	10% on cost
Motor vehicles	-	20% on cost
Computer equipment	-	33 ¹ / ₃ % on cost

A full years depreciation is provided in the year of purchase and none in the year of sale.

QUESTION 2 (*Cont 'd*)

- (2) During the year motor vehicles which cost £/€45,000 in 2001 were disposed of for £/€24,000. The only entries made (before extracting the above trial balance) were to debit the bank account and credit disposal of motor vehicles account.
- (3) The deferred government grants balance included in the above trial balance arises in respect of a grant of £/€100,000 received in 2003 to help finance the cost of plant and machinery bought during that year.

In addition a grant of £/€18,000 was received on 29th December 2004 towards the cost of the new computers purchased during the year. This grant has not yet been recorded in the company's books.

Requirement

- (a) Prepare the following notes to the accounts for the year ended 31st December 2004:

- (i) fixed assets.
- (ii) deferred government grants.
- (iii) creditors: amounts falling due within one year.

14 Marks

- (b) Prepare the balance sheet as at 31st December 2004 in a form suitable for publication.

11 Marks

Total 25 Marks

N. B. *You are not required to prepare the profit and loss account or any "other" notes to the accounts. Marks will be awarded for presentation.*

QUESTION 3

The following are the "management accounts" of JENNIFER' S COSMETICS Ltd for the year ended 31st December 2004:

TRADING PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2004

	Make-up £/€	Soaps £/€	Perfumes £/€	Total £/€
Sales	400,000	600,000	300,000	1,300,000
Cost of goods sold				
Opening stock	40,000	70,000	25,000	135,000
Purchases	370,000	500,000	220,000	1,090,000
	<u>410,000</u>	<u>570,000</u>	<u>245,000</u>	<u>1,225,000</u>
Less: Closing stock	(50,000)	(60,000)	(35,000)	(145,000)
	<u>360,000</u>	<u>510,000</u>	<u>210,000</u>	<u>1,080,000</u>
Gross Profit	<u>40,000</u>	<u>90,000</u>	<u>90,000</u>	<u>220,000</u>
Less: Expenses				
Selling expenses	15,000	40,000	30,000	85,000
Administration expenses	16,000	20,000	20,000	56,000
	<u>31,000</u>	<u>60,000</u>	<u>50,000</u>	<u>141,000</u>
Net profit	<u>9,000</u>	<u>30,000</u>	<u>40,000</u>	<u>79,000</u>

BALANCE SHEET AS AT 31st DECEMBER 2004

Fixed Assets:	£/€	£/€	£/€
Premises			550,000
Furniture and fittings			220,000
Motor vehicle			<u>18,000</u>
			788,000
Current Assets:			
Stocks	145,000		
Debtors	145,000		
Bank balance	<u>20,000</u>		
		310,000	
Creditors : amounts falling due within one year			
Trade creditors	110,000		
Taxation	<u>25,000</u>		
		<u>135,000</u>	
Net Current Assets:			<u>175,000</u>
			<u>963,000</u>
Financed by:			
Long term loan			300,000
Capital and Reserves			
Ordinary share capital		300,000	
Revenue reserves		<u>363,000</u>	
			<u>663,000</u>
			<u>963,000</u>

QUESTION 3 (*Cont 'd.*)

Requirement

(a) Calculate each of the following ratios for the year ended 31st December 2004:

- (i) Gross profit percentage (for each type of goods sold).
- (ii) Net profit percentage (for each type of goods sold).
- (iii) Stock turnover ratio (for each type of goods sold).
- (iv) Current ratio.
- (v) Quick (acid test) ratio.
- (vi) Debtors days outstanding.

12 Marks

(b) Which products would you consider the company should concentrate on selling and why?

4 Marks

Total 16 Marks

QUESTION 4

TWEETIE Ltd produce bird tables. On 1st January 2005 the following details were extracted from the books of the business:

Stock of finished goods at 31 st December 2004		120 units
		£/€
Stock of raw materials at 31 st December 2004		900
Debtors at 31 st December 2003:	re: November credit sales of £/€2,400	1,200
	re: December credit sales	2,000
Creditors at 31 st December 2003:	re: December purchases of raw materials ..	820
	re: December fixed overheads	160
Bank overdraft at 31 st December 2003		640

The budgets for the four months to 30th April 2005 are as follows:

(1) Sales will be as follows:

January	- 180 units at £/€30 per unit
February	- 210 units at £/€32 per unit
March	- 200 units at £/€32 per unit
April	- 230 units at £/€34 per unit

One half of the sales are cash sales. The remaining sales will be paid for as follows: one half in the month following sale and one half in the next month.

(2) Production will be as follows:

January	.....	190 units
February	.....	200 units
March	.....	250 units
April	.....	220 units

(3) Production Costs will be as follows:

		£/€ per unit
Direct materials	.....	9.00
Direct labour	.....	4.00
Variable overheads	.....	2.80

(4) Fixed production overheads will be £/€170 per month from 1st January 2005, payable 1 month in arrears.

(5) Purchases of raw materials will be as follows:

		£/€
January	.....	1,400
February	.....	1,700
March	.....	1,800
April	.....	2,000

(6) Creditors will be paid one month after purchase.

(7) Direct labour and variable overheads will be paid in the same month as the expense is incurred.

(8) In February 2005 the company will buy a machine, to be used in production, costing £/€12,000. It will be paid for immediately and will be depreciated by £/€100 per month from 1st February. The old machine, which is being replaced, will be sold for £/€2,000 cash in March 2005.

Requirement

Prepare each of the following budgets, on a month by month basis, for the four months ended 30th April 2005:

(a)	Sales budget	3 Marks
(b)	Production budget (in units)	3 Marks
(c)	Production cost budget	4 Marks
(d)	Materials purchases budget	4 Marks
(e)	Cash budget	7 Marks
Total		<u>21</u> Marks

SECTION B

Answer EITHER Question 5 OR Question 6 in this Section

QUESTION 5

In 2004, MOUSE Ltd, a company which is registered for VAT purposes and charges VAT at 21% on its sales, purchased new computers to be used to run its stock control and accounting software. These computers cost £/€847,000 (which is inclusive of VAT of 21%).

In 2004, RABBIT Ltd, a banking company, purchased new computers to be used to run its accounting software. RABBIT Ltd, is an exempt company for VAT purposes and does not charge VAT on its services. It paid £/€630,000 (which is inclusive of VAT of 21%) for the computers.

In 2004, HEDGEHOG Ltd, whose trading activities are split as to 60% in respect of VAT registered sales and 40% in respect of exempt sales, purchased new computers which are to be used in both sections of the business. The computers cost £/€242,000 (which is inclusive of VAT of 21%).

All the companies depreciate their computers at 25% p.a. on the straight line basis.

Requirement

- (a) You are required to explain the difference between an exempt and a non-exempt business for VAT purposes. **3 Marks**
- (b) Show in the form of journal entries the accounting entries required to account for the purchase and depreciation of the computers purchased by MOUSE Ltd, RABBIT Ltd, and HEDGEHOG Ltd, during 2004. **12 Marks**

Total 15 Marks

QUESTION 6

The following multiple choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

There are FIVE parts in **Sub-Section A** of the question and FIVE parts in **Sub-Section B**. Each part in **Sub-Section A** carries 2 Marks and each part in **Sub-Section B** carries 1 Mark.

Requirement

Indicate the right answer to each of the following TEN parts.

Total 15 Marks

N.B. Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet which is supplied with the examination paper.

SUB-SECTION A – 2 MARK PARTS

BACKGROUND INFORMATION TO PARTS [1] to [5]

The following information relates to Joe Jones, a sole trader, for the year ended 31st December 2004

Bank Account			
	£/€		£/€
Balance at 1 st January 2004	2,000	Payment to creditors	63,000
Lodgements		Insurance	3,400
Cash sales	9,000	Postage and telephone	2,300
Credit sales	91,000	Printing and stationery	6,300
Rental income	3,500	Rent and rates	3,100
		Drawings	4,800
		Wages and salaries	20,000
		Balance at 31 st December 2004	2,600
	105,500		105,500
Balance 1 st January 2005	2,600		

Details of assets and liabilities, other than the bank balance, are as follows:

	At 1 st January, 2004	At 31 st December, 2004
	£/€	£/€
Premises	20,000	20,000
Debtors	5,000	8,000
Stock	4,000	6,000
Creditors	4,500	3,500
Insurance prepaid	700	300
Stock of stationery	500	400
Rent accrued due	400	450

[1] The opening capital at 1st January 2004 was:-

- (a) £/€25,300
- (b) £/€27,300
- (c) £/€27,100
- (d) £/€28,300

[2] Purchases for the year ended 31st December 2004 were:

- (a) £/€62,000
- (b) £/€63,000
- (c) £/€64,000
- (d) £/€65,000

QUESTION 6 (Cont 'd)

[3] Total sales for the year ended 31st December 2004 was:-

- (a) £/€87,000
- (b) £/€95,000
- (c) £/€96,000
- (d) £/€103,000

[4] Cost of goods sold for the year ended 31st December 2004 was:-

- (a) £/€58,000
- (b) £/€60,000
- (c) £/€62,000
- (d) £/€64,000

[5] The expense for rent and rates for the year ended 31st December 2004 was:-

- (a) £/€3,150
- (b) £/€3,050
- (c) £/€2,950
- (d) £/€3,100

SUB-SECTION B – 1 Mark

[6] In preparing a cash flow statement in accordance with FRS 1 depreciation should be:-

- (a) added back to operating profit in computing the net cash flow from operating activities
- (b) deducted from operating profit in computing the net cash flow from operating activities
- (c) deducted from payments to acquire tangible fixed assets to compute capital expenditure
- (d) added to payments to acquire tangible fixed assets to compute capital expenditure

[7] In accordance with SSAP 17 "Accounting for Post Balance Sheet Events":-

- (a) an adjusting event is an event which confirms conditions which did not exist at the balance sheet date
- (b) a non-adjusting event is an event which confirms conditions which existed at the balance sheet date
- (c) a non-adjusting event is always disclosed by way of note to the accounts
- (d) an adjusting event is an event which confirms conditions which existed at the balance sheet date

[8] In accordance with S.S.A.P. 9 "Accounting for Stock and Work-in-Progress" net realisable value is defined as:-

- (a) the actual or estimated selling price
- (b) the actual or estimated selling price less all further costs to completion and all costs to be incurred in marketing, selling and distribution
- (c) the actual or estimated selling price less all costs to be incurred in marketing selling and distribution
- (d) the actual or estimated selling price less all further costs to completion

[9] In accordance with FRS 15 "Tangible Fixed Assets" subsequent expenditure is:-

- (a) repairs and maintenance expenditure which ensures that an asset maintains its originally assessed standard of performance
- (b) the costs of new tangible fixed assets
- (c) the legal costs incurred to acquire tangible fixed assets
- (d) the replacement cost of tangible fixed assets recently sold

[10] FRS 18 "Accounting Policies" gives particular prominence to the following accounting concepts:-

- (a) prudence and going concern
- (b) prudence and accruals
- (c) realisation and accruals
- (d) going concern and accruals

STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS

THE INSTITUTE OF
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IN IRELAND



Candidates are required to insert the following details:

Examination Session

Examination Number.....

Examination Part

Examination Paper.....

QUESTION NUMBER

To answer each section, please tick appropriate box.

	Part		Part		Part		Part		Part
1	(a) <input type="checkbox"/>	6	(a) <input type="checkbox"/>	11	(a) <input type="checkbox"/>	16	(a) <input type="checkbox"/>	21	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
2	(a) <input type="checkbox"/>	7	(a) <input type="checkbox"/>	12	(a) <input type="checkbox"/>	17	(a) <input type="checkbox"/>	22	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
3	(a) <input type="checkbox"/>	8	(a) <input type="checkbox"/>	13	(a) <input type="checkbox"/>	18	(a) <input type="checkbox"/>	23	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
4	(a) <input type="checkbox"/>	9	(a) <input type="checkbox"/>	14	(a) <input type="checkbox"/>	19	(a) <input type="checkbox"/>	24	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>
5	(a) <input type="checkbox"/>	10	(a) <input type="checkbox"/>	15	(a) <input type="checkbox"/>	20	(a) <input type="checkbox"/>	25	(a) <input type="checkbox"/>
	(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>		(b) <input type="checkbox"/>
	(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>		(c) <input type="checkbox"/>
	(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>		(d) <input type="checkbox"/>



The Institute of Accounting Technicians in Ireland

Admission Examination : Summer 2005

SOLUTIONS TO PAPER 6

ACCOUNTS II

Author : Mr Brian Hayden, FCA

Solution to question 1

Realisation Account			
		£/€	£/€
Land and buildings		560	
Furniture and fittings		150	
Motor vehicles		30	
Investments		60	
Stock		80	
Debtors		40	
Prepayments		8	
Bank Registration expenses		9	
Capital a/c	B.	44	
	G	22	
	K	<u>11</u>	
		77	
		<u>1,014</u>	
	Creditors		56
	Accrued expenses		13
	Bank loan		200
	Barker Ltd – Purchase consideration		650
	Capital a/c	Graham (M.Veh.)	14
		Ken (M.Veh.)	14
	Bank – Investments		67
			<u>1,014</u>

Combined Capital and Current Accounts

		B	G	K				
		£/€	£/€	£/€	B	G	K	
		£/€	£/€	£/€	£/€	£/€	£/€	
Bal b/d – Curr. a/c				30	Bal b/d – Cap a/c	200	200	200
Loan a/c			12		Curr. a/c	44	70	
Real a/c M/cars			14	14				
Barker Ltd								
Shares and Premium	250	125	125		Real a/c Profit on real	44	22	11
Debentures	50	50	50		Bank a/c	12		8
Bank a/c			91					
		<u>300</u>	<u>292</u>	<u>219</u>		<u>300</u>	<u>292</u>	<u>219</u>

Solution to question 1 (Cont'd)

Bank Account

		£/€		£/€	
Bal b/d		32	Loan a/c Barbara	19	
Investments		67	Realisation a/c - registration exps.	9	
Capital a/c	Barbara	12	Capital a/c	Graham	91
	Ken	8			
		<u>119</u>		<u>119</u>	

Barker Ltd.
Balance Sheet as at 31st December 2004

	£/€	£/€	£/€
Fixed Assets			
Land and Buildings			620,000
Furniture and Fittings			130,000
Goodwill			<u>43,000</u>
			<u>793,000</u>
Current Assets			
Stocks		76,000	
Debtors		38,000	
Prepayments		<u>8,000</u>	
		<u>122,000</u>	
Current Liabilities			
Creditors	53,000		
Accrued Expenses	<u>12,000</u>		
		<u>65,000</u>	
Net Current Assets			<u>57,000</u>
			<u>850,000</u>
Financed by :			
Bank Loan			200,000
Share Capital		400,000	
Share Premium		<u>100,000</u>	
			500,000
6 % Debentures			150,000
			<u>850,000</u>

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Workings

Goodwill arising on purchase of partnership

	£/€	£/€
Purchase consideration		650,000
Value of assets and liabilities taken over		
Land and buildings	620,000	
Furniture and fittings	130,000	
Stocks	76,000	
Debtors	38,000	
Prepayments	8,000	
Creditors	(53,000)	
Accrued expenses	(12,000)	
Bank loan	<u>(200,000)</u>	
		<u>607,000</u>
Goodwill		<u><u>43,000</u></u>

Solution to question 2(a)

Notes to the accounts

(1) Tangible fixed assets

	Freehold Premises	Plant & Mach.	Motor Veh.	Computer Equip.	Total
Cost	£/€	£/€	£/€	£/€	£/€
At 1/1/04	2,700	420	120	120	3,360
Additions		70	25	30	125
Disposals			(45)		(45)
At 31/12/04	<u>2,700</u>	<u>490</u>	<u>100</u>	<u>150</u>	<u>3,440</u>
Accumulated Depreciation					
At 1/1/04	400	240	70	45	755
Charge for year	54	49 (w.1)	20	50	173
Disposals			(27)		(27)
At 31/12/04	<u>454</u>	<u>289</u>	<u>63</u>	<u>95</u>	<u>901</u>
Net book amount					
At 1/1/04	2,300	180	50	75	2,605
At 31/12/04	<u>2,246</u>	<u>201</u>	<u>37</u>	<u>55</u>	<u>2,539</u>

(2) Deferred Government Grants

At 1/1/04	90,000
Received during year	<u>18,000</u>
	108,000
Released to P & L a/c	
100,000 * 10%	10,000
18,000 * 33 1/3%	<u>6,000</u>
	<u>16,000</u>
At 31/12/04	<u><u>92,000</u></u>

Solution to question 2 continued on next page

Solution to question 2(a) (Cont'd)

(3) Creditors : amounts falling due within one year

	£/€
Bank balance (144,000 – 18,000)	126,000
Creditors	85,000
V.A.T.	32,000
Corporation tax	86,000
P.A.Y.E. owing	12,000
Accrued expenses	18,000
	<u>359,000</u>

Solution to question 2(b)

Balance sheet as at 31st December 2004

	£/€	£/€
Fixed assets		
Tangible		2,539,000
Financial		<u>60,000</u>
		2,599,000
Current assets		
Debtors	156,000	
Prepaid expenses	12,000	
Bank deposit account	60,000	
Short term investments	<u>40,000</u>	
	268,000	
Creditors : Amounts falling due within one year	<u>359,000</u>	
Net current liabilities		<u>(91,000)</u>
		2,508,000
Creditors : amounts falling due after more than one year		(200,000)
Deferred Government Grants		(92,000)
		<u>2,216,000</u>
Financed by		
Capital and Reserves		
Ordinary share capital		1,500,000
5% Preferences share capital		300,000
Share premium account		<u>150,000</u>
		1,950,000
General reserve		230,000
Profit and Loss account (W.2)		36,000
		<u>2,216,000</u>

Solution to question 2(b) continued on next page

Solution to question 2(b) (Cont'd)

(1) Depreciation on motor vehicle sold

$$45,000 * 20\% * 3 \text{ years (2001/2/3)} = \frac{\text{£/€}}{\text{27,000}}$$

Depreciation charge for the year

$$100,000 * 20\% = \underline{\underline{20,000}}$$

(2) Profit and loss account

	£/€	£/€
Retained profit at 1/1/04		41,000
Retained profit for year (per T/B)	146,000	
Depreciation (see note 1 above)	(173,000)	
Government grant released to P & L a/c	16,000	
Profit on disposal of motor vehicle 24,000 – 18,000(45,000 – 27,000)	<u>6,000</u>	
Retained profit at end of year		<u><u>(5,000)</u></u> <u><u>36,000</u></u>

Solution to question 3(a)

(i) Gross profit %

$$\frac{\text{Gross profit} * 100}{\text{Sales}}$$

$$\text{Make – up} \quad - \quad \frac{40,000 * 100}{400,000} = 10\%$$

$$\text{Soaps} \quad - \quad \frac{90,000 * 100}{600,000} = 15\%$$

$$\text{Perfumes} \quad - \quad \frac{90,000 * 100}{300,000} = 30\%$$

(ii) Net profit %

$$\frac{\text{Net profit} * 100}{\text{Sales}}$$

$$\text{Make – up} \quad - \quad \frac{9,000 * 100}{400,000} = 2.25\%$$

$$\text{Soaps} \quad - \quad \frac{30,000 * 100}{600,000} = 5\%$$

$$\text{Perfumes} \quad - \quad \frac{40,000 * 100}{300,000} = 13.3\%$$

Solution to question 3(a) continued on next page

Solution to question 3(a) (Cont'd)

(iii) Stock turnover

Cost of goods sold			£/€			
Average stock						
Make – up	–	<u>360,000</u>	=	<u>45,000</u>	8 times	
Soaps	–	<u>510,000</u>	=	<u>65,000</u>	7.8 times	
Perfumes	–	<u>210,000</u>	=	<u>30,000</u>	7 times	

(iv) Current ratio

Current assets : Current liabilities

$$310,000 : 135,000 = 2.3 : 1$$

(v) Quick ratio

Current assets less stock : current liabilities

$$165,000 : 135,000 = 1.2 : 1$$

(vi) Debtors days outstanding

$$\frac{\text{Debtors} * 365}{\text{Credit sales}} = 40.7 \text{ days}$$

$$\frac{145,000 * 365}{1,300,000}$$

Solution to question 3(b)

As the gross profit percentage and the net profit percentage on perfumes are higher than for soaps or make – up it would be best to concentrate on selling perfumes.

However, as soaps and make – up both make a profit the business may find that it is necessary to carry these items as well in order to attract customers who may end up buying perfumes as well.

Solution to question 4

(a) Sales budget

	£/€	£/€
January	180 @ 30	5,400
February	210 @ 32	6,720
March	200 @ 32	6,400
April	230 @ 34	7,820
		<u>26,340</u>

(b) Production budget (in units)

	Jan £/€	Feb £/€	Mar £/€	Apr £/€	Total £/€
Opening stock	120	130	120	170	120
Production	<u>190</u>	<u>200</u>	<u>250</u>	<u>220</u>	<u>860</u>
	310	330	370	390	980
Sales	<u>180</u>	<u>210</u>	<u>200</u>	<u>230</u>	<u>820</u>
Closing stock	<u>130</u>	<u>120</u>	<u>170</u>	<u>160</u>	<u>160</u>

(c) Production cost budget

Materials	1,710	1,800	2,250	1,980	7,740
Labour	760	800	1,000	880	3,440
Variable expenses	532	560	700	616	2,408
Fixed overheads	170	170	170	170	680
Depreciation	<u> </u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>300</u>
	<u>3,172</u>	<u>3,430</u>	<u>4,220</u>	<u>3,746</u>	<u>14,568</u>

(d) Materials purchases budget

Opening stock	900	590	490	40	900
Purchases	<u>1,400</u>	<u>1,700</u>	<u>1,800</u>	<u>2,000</u>	<u>6,900</u>
	2,300	2,290	2,290	2,040	7,800
Used in prod.	<u>1,710</u>	<u>1,800</u>	<u>2,250</u>	<u>1,980</u>	<u>7,740</u>
Closing stock	<u>590</u>	<u>490</u>	<u>40</u>	<u>60</u>	<u>60</u>

(e) Cash budget

Receipts					
Sales – cash	2,700	3,360	3,200	3,910	13,170
credit*	2,200	2,350	3,030	3,280	10,860
sale of mach.	<u> </u>	<u> </u>	<u>2,000</u>	<u> </u>	<u>2,000</u>
	<u>4,900</u>	<u>5,710</u>	<u>8,230</u>	<u>7,190</u>	<u>26,030</u>
Payments					
Materials	820	1,400	1,700	1,800	5,720
Labour	760	800	1,000	880	3,440
Var. exps.	532	560	700	616	2,408
Fix. exps.	160	170	170	170	670
Mach. Cost	<u> </u>	<u>12,000</u>	<u> </u>	<u> </u>	<u>12,000</u>
	<u>2,272</u>	<u>14,930</u>	<u>3,570</u>	<u>3,466</u>	<u>24,238</u>
Net cash in/(out)	2,628	(9,220)	4,660	3,724	1,792
Opening bal.	<u>(640)</u>	<u>1,988</u>	<u>(7,232)</u>	<u>(2,572)</u>	<u>(640)</u>
Closing bal.	<u>1,988</u>	<u>(7,232)</u>	<u>(2,572)</u>	<u>1,152</u>	<u>1,152</u>

Solution to question 4 continued on next page

Solution to question 4 (Cont'd)

* Receipts from sales on credit

£/€	£/€	£/€	£/€
1,000	1,350	1,680	1,600
<u>1,200</u>	<u>1,000</u>	<u>1,350</u>	<u>1,680</u>
<u>2,200</u>	<u>2,350</u>	<u>3,030</u>	<u>3,280</u>

Solution to question 5(a)

An exempt business is one which is exempted under the V.A.T. legislation from charging V.A.T. on the goods or services it supplies to customers. As a consequence it cannot reclaim V.A.T. on any purchases it makes.

A non-exempt business can register for V.A.T. thus charging V.A.T. on its sales and as a result can reclaim V.A.T. on allowable purchases.

Solution to question 5(b)

Journal

	Dr.	Cr.	
	£/€	£/€	
Mouse Ltd.			
Computers - cost a/c	700,000		
V.A.T. a/c	147,000		
Bank a/c		847,000	
Depreciation charge – P & L a/c	175,000		
Provision for depreciation a/c		175,000	
(acquisition and depreciation of computers)			
Rabbit Ltd.			
Computers – cost a/c	630,000		
Bank (or Creditors)		630,000	
Depreciation charge – P & L a/c	157,500		
Provision for depreciation a/c		157,500	
(acquisition and depreciation of computers)			
Hedgehog Ltd			
Computers – cost a/c	216,800		
V.A.T. a/c (Working below)	25,200		
Bank a/c		242,000	
Depreciation charge – P & L a/c	54,200		
Provision for depreciation		54,200	
(acquisition and depreciation of computers)			

Solution to question 5 continued next page

Solution to question 5 (Cont'd)

Working :

V.A.T. recoverable

$$242,000 \times 100/121 = 200,000 * 60\% = 120,000 * 21\% = \text{£/€}25,200$$

Solution to question 6

- (1) : B (2) : A (3) : D (4) : B (5) : A
 (6) : A (7) : D (8) : B (9) : A (10) : D

Workings : (Not required of students.)

(1) Capital at 1st January 2004

	£/€
Premises	20,000
Bank	2,000
Debtors	5,000
Stock	4,000
Insurance prepaid	700
Stock of stationery	<u>500</u>
	32,200
Less:	
Creditors	(4,500)
Rent due	<u>(400)</u>
	<u><u>27,300</u></u>

Answer is B

(2) Purchases

Creditors account

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Payments to creditors</td> <td style="width: 50%; text-align: right;">63,000</td> </tr> <tr> <td>Bal c/d</td> <td style="text-align: right;"><u>3,500</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u><u>66,500</u></u></td> </tr> </table>	Payments to creditors	63,000	Bal c/d	<u>3,500</u>		<u><u>66,500</u></u>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Bal b/d</td> <td style="width: 50%; text-align: right;">4,500</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;"><u>62,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u><u>66,500</u></u></td> </tr> <tr> <td>Bal b/d</td> <td style="text-align: right;">3,500</td> </tr> </table>	Bal b/d	4,500	Purchases	<u>62,000</u>		<u><u>66,500</u></u>	Bal b/d	3,500
Payments to creditors	63,000														
Bal c/d	<u>3,500</u>														
	<u><u>66,500</u></u>														
Bal b/d	4,500														
Purchases	<u>62,000</u>														
	<u><u>66,500</u></u>														
Bal b/d	3,500														

Answer is A

(3)

Debtors account

<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Bal b/d</td> <td style="width: 50%; text-align: right;">5,000</td> </tr> <tr> <td>Credit sales</td> <td style="text-align: right;"><u>94,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u><u>99,000</u></u></td> </tr> <tr> <td>Bal b/d</td> <td style="text-align: right;">8,000</td> </tr> </table>	Bal b/d	5,000	Credit sales	<u>94,000</u>		<u><u>99,000</u></u>	Bal b/d	8,000	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Receipts from debtors</td> <td style="width: 50%; text-align: right;">91,000</td> </tr> <tr> <td>Bal c/d</td> <td style="text-align: right;"><u>8,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u><u>99,000</u></u></td> </tr> </table>	Receipts from debtors	91,000	Bal c/d	<u>8,000</u>		<u><u>99,000</u></u>
Bal b/d	5,000														
Credit sales	<u>94,000</u>														
	<u><u>99,000</u></u>														
Bal b/d	8,000														
Receipts from debtors	91,000														
Bal c/d	<u>8,000</u>														
	<u><u>99,000</u></u>														

Credit sales (above)	94,000
Cash sales	<u>9,000</u>
	<u><u>103,000</u></u>

Answer is D

Solution to question 6 continued on next page

Solution to question 6 (Cont'd)

(4) Cost of goods sold

	£/€
Opening stock	4,000
Purchases	<u>62,000</u>
	66,000
Less : Closing stock	<u>(6,000)</u>
	<u><u>60,000</u></u>

Answer is B

(5)

Rent and rates

	£/€		£/€
Bank	3,100	Bal 1/1/04	400
Bal 31/12/04	<u>450</u>	P & L a/c	<u>3,150</u>
	<u><u>3,550</u></u>		<u><u>3,550</u></u>
		Bal b/d	450

Answer is A



EXAMINERS REPORT

ACCOUNTS II

SUMMER 2005

General Summary

The overall average mark was 56% which is an improvement of 4% on the summer 2004 result. The standard of answering varied considerably by question as indicated below.

Question 1.

This conversion of partnership into a Limited company question was well answered with an average mark of 47%. However a majority of examinees lost marks due to not computing the goodwill arising in the new company because the company paid an amount in excess of the value attributed to the tangible assets less liabilities acquired.

Question 2.

This question required student's to prepare a balance sheet and related "notes to the accounts" in a form suitable for publication. This was the worst answered question on the paper with an average mark of 45%. At Admission Level examinees are expected to prepare financial statements under prescribed format requirements, which many failed to do. Many student's also lost marks due to incorrect treatment of the deferred government grants and due to not computing the revised retained profit at the end of the year.

Question 3.

This straightforward ratios and inter-relation of accounts question was well answered with an average mark of 71%. **Part (a)**, which required the calculation of specific ratios, was very well answered. **Part (b)**, which asked examinees to state which of three products the company should concentrate on selling and why, resulted in a varied standard of answers. Many students wasted time discussing the liquidity position of the company.

Question 4.

This budgeting question was well answered with an average mark of 69%. As always with a question of this type the most common mistakes made were linked to the incorrect treatment of depreciation in the production cost budget and the cash budget.

Question 5.

This question which examined student's knowledge of the accounting treatment of V.A.T. for exempt and non-exempt businesses was only answered by a small percentage (5%) of students. It was poorly answered. In particular students were unable to calculate V.A.T recoverable in respect of the company which had both exempt and non-exempt sales.

Question 6.

The multiple-choice question was attempted by 95% of examinees. It was in general well answered with an average mark of 61%.