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ADMISSION EXAMINATION

Autumn 2004

ACCOUNTS II

PAPER, SOLUTIONS

and

EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

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Although they are published by the Institute, it should be noted that neither the Institute nor its Examination Committee necessarily endorses these solutions or agrees with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by the Institute.

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 : Autumn 2004

PAPER 6 : ACCOUNTS II

Monday 23rd August 2004 - 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 I

Jim, Kevin and Laura were in partnership sharing profits and loss in the ratio 4 : 3 : 3. The balance sheet of the partnership as at 31st December 2003 was as follows:

BALANCE SHEET AS AT 31st DECEMBER 2003

	£/€'000	£/€'000	£/€'000
Fixed Assets:			
Land and buildings			550
Plant and machinery			120
Computers			60
Motor vehicles			<u>20</u>
			750
Current Assets:			
Stocks		60	
Debtors		45	
Bank		12	
Loan to Kevin		<u>8</u>	
		125	
Current Liabilities:			
Creditors	55		
Accrued expenses	8		
Loan from Jim	<u>12</u>		
		75	
Net Current Assets:			<u>50</u>
			<u>800</u>
Financed by:			
Capital Accounts:			
Jim		200	
Kevin		60	
Laura		<u>100</u>	
			360
Current Accounts:			
Jim		50	
Kevin		(79)	
Laura		<u>69</u>	40
Bank Loan			<u>400</u>
			<u>800</u>

ADDITIONAL INFORMATION

It was decided, due to the bankruptcy of Kevin, to dissolve the partnership.

The following information relates to the dissolution of the partnership:

- (1) The land and buildings were sold for £/€450,000.
- (2) The plant and machinery was sold for £/€130,000.
- (3) The computers were taken over by Jim at a value of £/€50,000.
- (4) The motor vehicles were taken over by Laura at a value of £/€15,000.
- (5) As Kevin was unable to repay the loan from the partnership to him, it was set off against his capital balance.

QUESTION I (*Cont'd*)

- (6) The stocks and debtors realised £/€56,000 and £/€44,000 respectively.
- (7) Creditors and accrued expenses were paid in full.
- (8) The loan from Jim was added to his capital account.
- (9) The bank loan was paid in full.
- (10) Expenses of the dissolution amounted to £/€10,000.
- (11) As Kevin was bankrupt and unable to contribute any cash to meet any amount due by him, the rule of Garner v Murray was applied.

Requirement

You are required to prepare:

- (a) the realisation account; **8 Marks**
- (b) the combined capital and current accounts of each of the partners; **8 Marks**
- (c) the bank account. 5 Marks

Total 21 Marks

Accounts II Autumn 2004 Paper

QUESTION 2

IRISH TIMBER CRAFTS Ltd manufactures wooden candle holders. On 1st January 2004 the following details were extracted from the management accounts of the business.

Stock of finished goods at 31 st December 2003	100 units
	£/€
Stock of raw materials at 31 st December 2003	900
Debtors at 31 st December 2003: re: December sales	4,200
Creditors at 31 st December 2003: re: November purchases of raw materials	650
re: December purchases of raw materials	780
re: December fixed overheads	180
Bank overdraft at 31 st December 2003	1,800

The budgets for the four months to 30th April 2004 are as follows:

(1) Sales will be as follows:

January - at £/€28 per unit	190 units
February - at £/€30 per unit	210 units
March - at £/€31 per unit	230 units
April - at £/€33 per unit	220 units

One half of the sales are cash sales and the other half are on credit and are paid for in the month following sale.

(2) Production will be as follows:

January	180 units
February	200 units
March	210 units
April	220 units

(3) Production costs will be as follows:

	£/€ per unit
Direct materials	8.00
Direct labour	4.00
Variable overheads	3.20

(4) Fixed production overheads are £/€180 per month payable 1 month in arrears.

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

	£/€
January	1,200
February	1,400
March	1,700
April	1,700

(6) Creditors will be paid 2 months after purchase.

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

(8) A machine to be used in production, costing £/€7,200, will be bought in March and paid for as follows; one half in March and one half in April. Depreciation of the machine will commence in March at a rate of 20% per annum on cost.

Requirement

Prepare each of the following budgets, on a month by month basis, for the four months ended 30th April 2004:

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

QUESTION 3

GIBNEY Ltd., is a company which has been trading for many years. The following information relates to the year ended 31st December 2003.

NOTES

- (1) The authorised share capital consists of 500,000 ordinary shares of £/€1 each and £/€200,000 of 5% preference shares of £/€1 each.
- (2) The issued share capital consists of 300,000 ordinary shares of £/€1 each and £/€150,000 of 5% preference shares of £/€1 each.
- (3) The total cost of fixed assets at 31st December 2003 was £/€2,200,000. The accumulated depreciation of these assets, before charging depreciation for the year ended 31st December 2003, amounted to 50% of the cost of fixed assets. The depreciation change for the year ended 31st December 2003 was £/€100,000.
- (4) The ratio of the "net book amount" of fixed assets to the "net current assets" at 31st December was 2:1.
- (5) The current ratio is 3:1.
- (6) Current assets comprise of stocks debtors and cash and current liabilities comprise of trade creditors and corporation tax due for the year ended 31st December 2003.
- (7) Credit sales for the year amounted to £/€520,000. Credit sales represent 40% of the total of cash and credit sales for the year.
- (8) The gross profit margin on sales is 20%.
- (9) Net profit for the year (being gross profit less business expenses and depreciation) is equal to 5% of total sales.
- (10) The taxation charge is 40% of the net profit before taxation.
- (11) An ordinary dividend of £/€20,000 was paid in 2003 in respect of the year ended 31st December 2003. The preference dividend was also paid during the year.
- (12) Debtors days outstanding at 31st December 2003 are 36.5 days.
- (13) Stock turnover for the year was 10 times (assume the same opening and closing stock).
- (14) The difference between the retained profit for the year and the retained profits forward at the end of the year is retained profits forward at the beginning of the year.

Requirement

From the above information, construct the trading and profit and loss account and balance sheet of GIBNEY Ltd., for the year ended 31st December 2003 in as much detail as the information provided allows.

Total 19 Marks

QUESTION 4

You are preparing the accounts of JENKINS Ltd., for the year ended 31st December 2003. JENKINS Ltd., has made sales of £/€3,000,000 and a net profit (per the draft accounts) of £/€180,000 for the year.

While preparing the accounts you ascertain the following information:

- (1) A stock of fuel with a value of £/€500 has been excluded from consideration in preparing the accounts.
- (2) Trading stock, which cost £/€40,000, but which has a net realisable value of only £/€24,000, has been included in both the computation of profit and in the balance sheet at £/€40,000.
- (3) A grant of £/€60,000 towards the cost of training new staff on new production machinery has been treated as a deferred capital grant.
- (4) On 15th January 2004 (i.e. after the year-end) fixtures and fittings valued at £/€60,000, which were not covered by insurance, have been destroyed by fire.
- (5) No depreciation has been charged in respect of freehold buildings which cost £/€700,000 on 1st January 2003 and which have an estimated useful life of 50 years.
- (6) At 31st December 2003 a customer had registered a claim against JENKINS Ltd., for damages of £/€100,000 arising from an accident on the company's premises. The court case has not yet taken place but the company's lawyers have stated that the possibility of JENKINS Ltd., having to pay damages is remote.
- (7) On 20th January 2004 (i.e. after the year-end) a debtor who owed the company £/€75,000 at 31st December 2003 went into liquidation and it is anticipated that only £/€25,000 will eventually be recovered from the liquidation in respect of the debt.

Requirement

In respect of ANY SIX of the seven items above, state how each one should be dealt with in the accounts of JENKINS Ltd., for the year ended 31st December 2003. You should use, and state your understanding of, relevant Statements of Standard Accounting Practice (*S.S.A.P's*) and Financial Reporting Standards (*F.R.S's*) in forming your opinion.

Any accounting entries, to be made in respect of the year ended 31st December 2003, should be shown in the form of journal entries.

N.B. Each item carries 4 Marks

Total 24 Marks

SECTION B

Answer EITHER Question 5 OR Question 6 in this Section

QUESTION 5

- (a) Explain your understanding of the term "depreciation". **4 Marks**
- (b) Why is it considered appropriate to depreciate buildings even though they may be appreciating (increasing) in value? **3 Marks**
- (c) Why is it considered that the cost of freehold land need not be depreciated? **3 Marks**
- (d) Which of the following costs, incurred in the purchase and maintenance of a building, should be included in the capital cost of the building and which should not:
 - (i) Original purchase price of the building
 - (ii) Legal costs of acquisition of the building
 - (iii) Costs of restoration of the building
 - (iv) V.A.T. costs on the restoration work at (iii) above
 - (v) Repainting of the exterior of the building after 2 years of ownership
 - (vi) Repairing of the interior of the building after 2 years of ownership
 - (vii) Building an extension to the building after one year of ownership

5 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

[1] A business purchased a motor vehicle on 1st January 1998 for £/€16,000. Depreciation was charged at 10% per annum on the reducing balance method, with a full years depreciation being charged in the year of purchase and none in the year of sale. If the vehicle was sold on 30th June 2003, for £/€8,400, then the resulting profit/loss on sale (to the nearest £/€ was:-

- (a) profit of £/€400
- (b) profit of £/€1,048
- (c) loss of £/€400
- (d) loss of £/€1,048

[2] The following information relates to MERRIT ISLAND GOLF CLUB restaurant.

	£/€
Restaurant creditors at 1 st January 2003	2,400
Restaurant creditors at 31 st December 2003	2,800
Payments for restaurant purchases during 2003	20,400
Restaurant wages paid during 2003	9,000
Payments for restaurant expenses during 2003	960
Restaurant sales during 2003	33,500
Restaurant opening stocks at 1 st January 2003	3,500
Restaurant closing stocks at 31 st December 2003.	3,700

The restaurant profit for the year ended 31st December 2003 was:-

- (a) £/€2,740
- (b) £/€2,940
- (c) £/€3,340
- (d) £/€3,740

[3] The authorised share capital of DENBY Ltd., is comprised of £/€220,000 of ordinary shares of 50 p/c each and 200,000 5% preference shares of £/€1 each. £/€180,000 of the ordinary shares are issued and fully paid while all of the preference shares are issued and fully paid.

If the company pays the preference dividend in full and proposes to pay an ordinary dividend of 6p/c per share, then the charge for dividends in the profit and loss account for the year will be:-

- (a) £/€20,800
- (b) £/€21,600
- (c) £/€31,600
- (d) £/€36,400

[4] If the cost price of an item is £/€1,440 and its selling price is £/€1,800, which of the following is correct:

	Margin	Mark-up	
(a)	20%	20%	
(b)	25%	25%	
(c)	20%	25%	
(d)	25%	20%	

QUESTION 6 (Cont 'd)

[5] A company has the following five items in stock at its year-end:-

Stock Item	Cost	Net Realisable Value
	£/€	£/€
Item 1	12,000	14,000
Item 2	10,000	12,000
Item 3	10,000	10,000
Item 4	8,000	6,000
Item 5	<u>14,000</u>	<u>8000</u>
	<u><u>54,000</u></u>	<u><u>50,000</u></u>

The stock should be valued for the year-end accounts purposes at:-

- (a) £/€46,000
- (b) £/€50,000
- (c) £/€54,000
- (d) £/€58,000

SUB-SECTION B - I Mark

[6] If a business values its stock on the basis that it will be sold, in the normal course of business, in the following accounting period, then it is applying the:-

- (a) going concern concept
- (b) money measurement concept
- (c) materiality concept
- (d) prudence concept

[7] In order to comply with the accruals (matching) concept life subscriptions paid by life members of a club should be:-

- (a) credited to income in full in the year they first join the club
- (b) credited to income only when the member ceases to be a life member
- (c) spread over the expected membership period of each member
- (d) none of the above

[8] If there is a debit balance on the V.A.T. account of a business at the year end, it should be:-

- (a) included as an expense in the profit and loss account
- (b) included as a revenue in the profit and loss account
- (c) included as an asset in the balance sheet
- (d) included as a liability in the balance sheet

[9] Debenture interest paid by a company is:-

- (a) included as an appropriation of profit in the profit and loss account
- (b) included as an expense in the profit and loss account
- (c) added to the debenture stock balance in the balance sheet
- (d) none of the above

[10] Drawings by the owner of a business made during the year should be:

- (a) included as an expense in the profit and loss account
- (b) added to the capital balance at the year-end
- (c) deducted from the capital balance at the year-end
- (d) included as a revenue in the profit and loss account

STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTIONS

THE INSTITUTE OF
ACCOUNTING TECHNICIANS
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 : Autumn 2004

SOLUTIONS TO PAPER 6

ACCOUNTS II

Author : Mr Brian Hayden, FCA

Solution to question 1

Realisation Account

	£/€'000		£/€'000
Land and buildings	550	Bank	450
Plant and machinery	120	Bank	130
Computers	60	Jim – Cap a/c (computers)	50
Motor vehicles	20	Laura – Cap a/c (motor vehicles)	15
Stock	60	Bank : Stocks	56
Debtors	45	Bank : Debtors	44
Bank – Expenses of dissolution	10		
		Loss on dissolution	
		Cap a/c Jim	48
		Kevin	36
		Laura	<u>36</u>
			120
	<u>865</u>		<u>865</u>

Combined Capital and Current Accounts

	J	K	L		J	K	L
	£/€'000	£/€'000	£/€'000		£/€'000	£/€'000	£/€'000
Bal b/d – Curr a/c		79		Bal b/d – Cap a/c	200	60	100
Loan a/c – Kevin		8		– Curr a/c	50		69
Loss on realization	48	36	36	Loan a/c – Jim	12		
Real a/c – Computers	50			Cap a/c – Jim & Laura		63	
Real a/c – M/ Vehicles			15				
Capital a/c – Kevin	42		21				
Bank a/c	122		97				
	<u>262</u>	<u>123</u>	<u>169</u>		<u>262</u>	<u>123</u>	<u>169</u>

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Bank Account			
	£/€'000		£/€'000
Bal b/d	12	Realisation a/c dissolution expenses	10
Real a/c – Buildings	450	Bank loan	400
– Plant & machinery	130	Creditors	55
– Stock	56	Accrued expenses	8
– Debtors	44	Capital a/cs- Jim	122
	<u>692</u>	- Laura	<u>97</u>
			<u>692</u>

Working:

Split of deficiency of capital of Kevin (in the ratio of the last agreed capital account balances of Jim and Laura) i.e. 200 : 100

$$63 * 200/300 = 42$$

$$63 * 100/300 = 21$$

Solution to question 2

(a) Sales Budget

	£/€	£/€
January	190 @ 28	5,320
February	210 @ 30	6,300
March	230 @ 31	7,130
April	220 @ 33	<u>7,260</u>
		<u>26,010</u>

(b) Production Budget (in units)

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>Total</i>
Opening stock	100	90	80	60	100
Production	<u>180</u>	<u>200</u>	<u>210</u>	<u>200</u>	<u>790</u>
	280	290	290	260	890
Sales	<u>190</u>	<u>210</u>	<u>230</u>	<u>220</u>	<u>850</u>
	90	80	60	40	40
Closing stock	<u>90</u>	<u>80</u>	<u>60</u>	<u>40</u>	<u>40</u>

(c) Production cost budget

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>Total</i>
	£/€	£/€	£/€	£/€	£/€
Materials	1,440	1,600	1,680	1,600	6,320
Labour	720	800	840	800	3,160
Variable overheads	576	640	672	640	2,528
Fixed overheads	180	180	180	180	720
Depreciation	-	-	120	120	240
	<u>2,916</u>	<u>3,220</u>	<u>3,492</u>	<u>3,340</u>	<u>12,968</u>

Solution to question 2 continued on next page

Solution to question 2 (Cont'd)

(d) Materials purchases budget

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>Total</i>
	£/€	£/€	£/€	£/€	£/€
Opening stock	900	660	460	480	900
Purchases	1,200	1,400	1,700	1,700	6,000
	2,100	2,060	2,160	2,180	6,900
Used in production	1,440	1,600	1,680	1,600	6,320
	660	460	480	580	580
Closing stock					

(e) Cash budget

	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>Total</i>
	£/€	£/€	£/€	£/€	£/€
Receipts					
Sales – cash	2,660	3,150	3,565	3,630	13,005
Credit	4,200	2,660	3,150	3,565	13,575
	6,860	5,810	6,715	7,195	26,580
Payments					
Materials	650	780	1,200	1,400	4,030
Labour	720	800	840	800	3,160
Variable overheads	576	640	672	640	2,528
Fixed overheads	180	180	180	180	720
Machine cost	-	-	3,600	3,600	7,200
	2,160	2,400	6,492	6,620	17,638
Net cash inflow/(outflow)	4,734	3,410	223	575	8,942
Opening balance	(1,800)	2,934	6,344	6,567	(1,800)
Closing balance	2,934	6,344	6,567	7,142	7,142

Solution to question 3

Gibney Ltd
Trading and Profit and Loss Account for the year ended 31st December 2003

	£/€	£/€
Sales (W.4)		1,300,000
Less : Cost of goods sold		
Opening stock	104,000	
Purchases	1,040,000	
	<u>1,144,000</u>	
<i>Less</i> Closing stock	<u>104,000</u>	
		<u>1,040,000</u>
Gross profit (W.5)		260,000
Less : Business expenses	95,000	
Depreciation	<u>100,000</u>	
		<u>195,000</u>
Net profit before taxation (W.6)		<u>65,000</u>
Taxation (W.7)		<u>26,000</u>
Profit after taxation		<u>39,000</u>
Dividends :		
Ordinary	20,000	
Preference	<u>7,500</u>	
		<u>27,500</u>
Retained profit for the year		<u>11,500</u>
Retained profit forward at 1 st January 2003		<u>1,038,500</u>
Retained profit at 31 st December 2003		<u><u>1,050,000</u></u>

Gibney Ltd.
Balance sheet as at 31st December 2003

	£/€	£/€
Fixed assets (W.1)		
Cost		2,200,000
Accumulated Depreciation		<u>1,200,000</u>
Net book amount		1,000,000
Current Assets (W.3)		
Stocks (W.9)	104,000	
Debtors (W.8)	52,000	
Cash	<u>594,000</u>	
		<u>750,000</u>
Current Liabilities (W.3)		
Trade creditors	224,000	
Taxation	<u>26,000</u>	
		<u>250,000</u>
Net Current Assets (W.2)		<u>500,000</u>
		<u><u>1,500,000</u></u>
Financed by :		
Share capital	Authorised	Issued
Ordinary shares	500,000	300,000
Preference shares	<u>200,000</u>	<u>150,000</u>
	<u>700,000</u>	450,000
Profit and Loss Account		<u>1,050,000</u>
		<u><u>1,500,000</u></u>

Solution to question 3 continues on next page

Solution to question 3 (Cont'd)

Workings :

(1) Accumulated Depreciation

	£/€
At 1 st January 2003 : $2,200,000 * 50\%$	1,100,000
Charge for year	<u>100,000</u>
At 31 st December 2003	<u><u>1,200,000</u></u>

(2) Net Current Assets

$1,000,000 / 2$	500,000
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(3) Current Assets

If current assets are 3 times current liabilities, then if current assets are 3 then current liabilities are 1 and net current assets are 2.

Therefore current assets are (net current assets) i.e. $500,000 * 3 / 2 = 750,000$ and current liabilities are 250,000 (i.e. $750,000 / 3$)

(4) Total Sales

$520,000 * 100 / 40$	1,300,000
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(5) Gross profit

$1,300,000 * 20\%$	260,000
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(6) Net Profit

$1,300,000 * 5\%$	65,000
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(7) Taxation

$65,000 * 40\%$	26,000
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(8) Debtors

$520,000 * 36.5 / 365$	52,000
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(9) Stocks

$1,040,000 * 1 / 10$	104,000
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Solution to question 4

- (1) The stock of fuel valued at £/€500 is not material to the profit of £/€800,000 and it would not be necessary to account for it at the year end. If it were accounted for it would be as follows:

Journal:	Dr.	Cr.
	£/€	£/€
Stock – Balance Sheet	500	
Fuel expense – Profit & Loss a/c		500

- (2) In accordance with S.S.A.P. 9 “Accounting for stocks and work in progress” stocks should be stated at the lower of cost and net realisable value. Therefore the stocks should be reduced by £/€16,000 to £/€24,000.

Journal:	Dr.	Cr.
	£/€	£/€
Stocks – Balance Sheet	16,000	
Cost of sales – Profit and Loss a/c		16,000

- (3) The grant is a revenue grant (and not a capital grant) as per S.S.A.P. 4 “The accounting treatment of Government Grants” and as such should be set off against the cost of the related training costs

Journal:	Dr.	Cr.
	£/€	£/€
Deferred capital grants	60,000	
Training grants (P & L a/c)		60,000

- (4) This is a post balance sheet event in accordance with S.S.A.P. 17 “Accounting for post balance sheet events”. It is a non-adjusting event as it does not confirm conditions which existed at the balance sheet date. However, it would be appropriate to state in the notes to the accounts that such an event had occurred after the balance sheet date.

- (5) Depreciation should have been charged in accordance with F.R.S.15 “Tangible Fixed Assets”. A charge of £/€14,000 (700,000 / 50) should be made for the year ended 31st December 2003.

Journal:	Dr.	Cr.
	£/€	£/€
Depreciation – Buildings (P & L a/c)	14,000	
Provision for depreciation – Buildings (B/S)		14,000

- (6) There is a potential contingent liability at the balance sheet date in respect of the £/€100,000. As the transfer of economic benefit is likely to be remote it is not considered necessary to disclose the potential contingent liability in the accounts as at 31st December 2003

- (7) This is a post balance sheet event in accordance with S.S.A.P. 17. It is an adjusting event as it confirms conditions which existed at the balance sheet date. Provision should therefore be made for a bad debt of £/€50,000 at 31st December 2003

Journal:	Dr.	Cr.
	£/€	£/€
Bad debt written off (P & L a/c)	50,000	
Debtors		50,000

Solution to question 5

(a) Depreciation

F.R.S. 15 defines depreciation as a measure of the cost or revalued amount of the economic benefits of the tangible fixed asset that has been consumed during the accounting period. In simpler words it is the amount written off the asset as an expense in the accounting period due to the asset being used to generate revenue.

- (b) All assets with a finite life should be depreciated. If the asset is appreciating in value the business has the option to revalue the asset and then charge depreciation on the revalued amount.
- (c) Freehold land is not considered to have a finite life and accordingly is not required to be depreciated.
- (d) Items (i), (ii), (iii) and (vii) should be included in the capital cost.

Item (iv) should be included in the capital cost if it cannot be recovered from the V.A.T. authorities.

Items (v) and (vi) should not be included in the capital cost as they are maintenance costs. They should be written off as expenses in the Profit and Loss Account.

Solution to question 6

- 1. (d) 2. (b) 3. (c) 4. (c) 5. (a)
- 6. (a) 7. (c) 8. (c) 9. (b) 10. (c)

Workings : (not required by students in exam)

	£/€	£/€	£/€
(1) Cost			16,000
Accumulated Depreciation			
	16,000		
1998	<u>1,600</u>	1,600	
	14,400		
1999	<u>1,440</u>	1,440	
	12,960		
2000	<u>1,296</u>	1,296	
	11,664		
2001	<u>1,166</u>	1,166	
	10,498		
2002	<u>1,050</u>	1,050	
	9,448		<u>6,552</u>
Net book amount			9,448
Selling price			<u>8,400</u>
Loss on sale			<u>1,048</u> = (d)

Solution to question 6 continued on next page

Solution to question 6 (Cont'd)

Workings (Cont'd)

(2)		£/€	£/€	
	Restaurant Sales		33,500	
	Opening stock	3,500		
	Purchases (20,400 – 2,400 + 2,800)	<u>20,800</u>		
		24,300		
	Closing stock	<u>3,700</u>		
			<u>20,600</u>	
			12,900	
	Less : Wages	9,000		
	Expenses	<u>960</u>		
			<u>9,960</u>	
	Profit		<u><u>2,940</u></u>	= (b)

(3)				
	Ordinary dividend ;			
	180,000 * 2 = 360,000 * 6 p/c		21,600	
	Preference dividend : 200,000 * 5%		<u>10,000</u>	
			<u><u>31,600</u></u>	= (c)

(4)		£/€
	Selling price	1,800
	Cost price	<u>1,440</u>
	Profit	<u><u>360</u></u>

Margin is $360 * 100 / 1,800 = 20\%$

Mark up is $360 * 100 / 1,440 = 25\%$

Answer is (c)

(5)	Valuation :	Item	
			£/€
		1	12,000 Cost
		2	10,000 Cost
		3	10,000 Cost
		4	6,000 Net realisable value
		5	8,000 Net realisable value
			<u><u>46,000</u></u>

Answer is (a)

EXAMINERS REPORT

ACCOUNTS II

AUTUMN 2004

General comment

Overall result: The standard of answering in the 286 scripts was generally very poor with an average mark of only 44% (2003: 47%).

In particular the answers to question four were very poor (see below).

Question 1

This dissolution of partnership question was one of the best answered questions. Those students who had studied this topic had no major problems with it.

Question 2

This budgeting question was the question which was best answered by most students. However candidates still continue to include depreciation in the cash budget which shows that they are not understanding the purpose of a cash budget.

Question 3

This question involved examinees being asked to construct a profit and loss account and balance sheet using various ratios (a question which has been asked several times before). The attempts made by examinees were poor with some hardly attempting the question.

Question 4

This question gave examinees seven pieces of information about events happening before and after the year end of a company and asked them to state how each should be dealt with in the accounts for the current year end. It asked them to show any accounting entries, needing to be made, in the form of journal entries.

The question was very poorly answered with candidates showing little or no knowledge of the relevant S.S.A.P.'s and F.R.S.'s and the attempts at the journal entries were appalling and showed that many examinees still have very little knowledge of double-entry.

Question 5

Only a small number of candidates answered this question on depreciation and fixed assets. Many of those who did attempt it had difficulty in distinguishing between capital and revenue expenditure in **part (d)**.

Question 6

This question was not as well answered as is usually the case but no particular part of the question was highlighted as responsible.