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ADMISSION EXAMINATION

Autumn 2006

ACCOUNTS II

PAPER, SOLUTIONS

and

EXAMINERS REPORT

NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by the Institute of Accounting Technicians in Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in Institute examinations.

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 2006

PAPER 6 : ACCOUNTS II

Monday 21st August 2006 - 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

Ball, Cube and Diamond were in partnership sharing profits and losses in the ratio 5:3:2 respectively.

The following was the balance sheet of the partnership as at 31st December 2005.

BALANCE SHEET AS AT 31st DECEMBER 2005

	£/€	£/€
Fixed Assets		
Land and buildings		200,000
Machinery		160,000
Motor vehicles		<u>60,000</u>
		<u>420,000</u>
 Current Assets		
Stock	100,000	
Debtors	112,000	
Bank balance	<u>8,000</u>	
	<u>220,000</u>	
 Less: Current Liabilities		
Creditors	<u>80,000</u>	
		<u>140,000</u>
		<u><u>560,000</u></u>
 Financed by:		
Capital Accounts		
Ball		120,000
Cube		120,000
Diamond		<u>120,000</u>
		<u>360,000</u>
 Current Accounts		
Ball	100,000	
Cube	(16,000)	
Diamond	<u>36,000</u>	
		120,000
Loan from Cube		<u>80,000</u>
		<u><u>560,000</u></u>

On 31st December 2005 the partners decided to form a limited company, SHAPES Ltd., to take over all the assets and liabilities of the partnership other than:

- (i) the bank balance
- (ii) the loan from Cube which is to be repaid to him immediately, and
- (iii) a motor vehicle, with a book value of £/€20,000 which is to be taken over by Ball at its book value

The remaining assets and liabilities are to be taken over by the company at the values stated in the partnership books at 31st December 2005 with the exception of the land and buildings which are valued at £/€500,000.

The purchase consideration of £/€840,000 is to be satisfied by the issue of 600,000 ordinary shares of £/€1 each at a premium of 30 pence /cent per share and the balance in cash. Expenses of £/€4,000 relating to the conversion to a limited company are to be borne by the partnership.

QUESTION 1 (*Cont'd.*)

The shares are to be divided between the partners in profit sharing ratio. 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; | 3 Marks |
| (d) the balance sheet of SHAPES Ltd., as at 1 st January 2006. | 6 Marks |

Total 20 Marks

QUESTION 2

TRAVEL Ltd., had a turnover of £/€4,500,000 and make a net profit before taxation of £/€350,000 for the year ended 31st December 2005, as per the draft accounts.

During a review of the draft accounts you ascertain the following:

- (1) A debtor who owed the company £/€50,000 at 31st December 2005 has gone into receivership and is unlikely to be able to pay any part of the debt.
- (2) A government grant of £/€60,000 to help meet the cost of wages and salaries to train staff was treated as a deferred credit at 31st December 2005.
- (3) Stock which cost £/€75,000 was found to be damaged and it is estimated that it has a net realisable value of £/€35,000.
- (4) On 6th January 2006 the sale was completed in respect of goods (costing £/€40,000) ordered by a customer on 20th December 2005. The sale price of the goods was £/€64,000.
- (5) A customer of the company is suing the company for £/€500,000 damages on the basis that a car which the customer rented from the company in December 2005 was mechanically deficient and was the cause of the customer being involved in an accident which resulted in the customer being badly injured. The company's lawyers are unsure as to the company liability. The court case will not take place until after the accounts are approved by the directors.
- (6) Wages due to casual workers, who are recruited for the busy Christmas period, of £/€26,000, were due at 31st December 2005 and not yet accounted for.

Requirement

- (a) Prepare the journal entries to show how each of the above items should be dealt with in the final accounts for the year ended 31st December 2005. You should use your understanding of relevant *S.S.A.P.'s* and *F.R.S.I.'s* in dealing with each item.

14 Marks
- (b) Compute the adjusted net profit before taxation for the year ended 31st December 2005 taking into account the adjustments made at (a) above.

6 Marks
Total 20 Marks

QUESTION 3

HAYES Ltd., is preparing its budgets for the four months from 1st May 2006 to 31st August 2006.

At 30th April 2006 the following information is available from the books of HAYES Ltd:

Stock of finished goods at 30 th April 2006		130 Units
Stock of raw material at 30 th April 2006		£/€1,000
Debtors at 30 th April 2006:	re: March credit sales of X4,800	£/€2,400
	re: April credit sales	£/€2,400
Creditors at 30 th April 2006:	re: April purchases of raw materials	£/€1,000
	re: April fixed overheads	£/€160
	re: April variable overheads	£/€800
Bank balance at 30 th April 2006		£/€420

The budgets for the four months to 31st August 2006 are as follows:

- (1) Sales will be as follows:

Month	Units	per unit
May	220	32
June	220	34
July	190	36
August	230	38

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

- (2) Production will be as follows:

Month	Units
May	190
June	230
July	220
August	210

- (3) Production costs will be as follows:

Production Costs	£/€ per unit
Direct materials	9.60
Direct labour	4.20
Variable overheads	3.00

- (4) Fixed production overheads will be £/€190 per month for May, June and July, increasing to £/€210 per month for August, payable one month in arrears.

- (5) Purchases of raw material will be as follows:

Month	£/€
May	1,600
June	1,800
July	1,900
August	2,100

- (6) Creditors will be paid one month after purchase.
- (7) Direct labour will be paid in the same month as incurred.

QUESTION 3 (*Contd.*)

- (8) Variable overheads will be paid in the month after incurred.
- (9) Depreciation on machinery purchased in earlier years is £/€150 per month. A new machine will be purchased in May 2006 for £/€15,000 and will be paid for in three equal instalments in May, August and November 2006. Depreciation on this machine will be £/€120 per month from May 2006.

Requirement

Prepare each of the following budgets, on a month by month basis, for the four months ended 31st August 2006:

(a) Sales budget	3 Marks
(h) Production budget (in units)	3 Marks
(c) Production cost budget	4 Marks
(d) Material purchases budget	4 Marks
(c) Cash budget	<u>9</u> Marks
	Total <u>23</u> Marks

Accounts II Autumn 2006 Paper

QUESTION 4

DRESSER Ltd., is a furniture company with an authorized share capital of £/€3,000,000, comprised of 5,000,000 ordinary shares of 50 pence/cent each and £/€500,000 of 6% preference shares of £/€1 each.

The following trial balance was extracted as at 31st December 2005

	£/€	£/€
Ordinary share capital		1,800,000
6% preference share capital		400,000
Share premium account		180,000
General reserve		260,000
Profit and loss account balance at 1 st January 2005		74,000
6% debenture stock (issued 1999 : redeemable 2012)		250,000
Leasehold premises at cost	3,900,000	
Leasehold premises - accumulated depreciation at 1 st January 2005		500,000
Plant and machinery at cost	820,000	
Plant and machinery - accumulated depreciation at 1 st January 2005		320,000
Motor vehicles at cost	300,000	
Motor vehicles - accumulated depreciation at 1 st January 2005		80,000
Debtors	169,500	
Creditors		93,000
Bank balance		120,000
Sales		4,500,000
Sales returns	79,000	
Opening stock	180,000	
Purchases	2,400,000	
Purchases returns		160,000
Administration expenses	450,000	
Distribution expenses	340,000	
Bank overdraft interest	60,000	
Deposit interest received		35,000
Debenture interest paid	7,500	
Interim dividends paid		
Ordinary	54,000	
Preference	12,000	
	<u>8,772,000</u>	<u>8,772,000</u>

ADDITIONAL INFORMATION

- (1) Goods purchased on 28th December 2005 for £/€70,000 had not been accounted for or included in the physical stock count at 31st December 2005.
- (2) Closing stock, as per the physical stock count at 31st December 2005 was £/€220,000.
- (3) Training grants of £/€20,000 in respect of training sales staff were due to the company at 31st December 2005.
- (4) Depreciation is to be charged as follows:

Leasehold premises		2% on cost
Plant and machinery		10% on cost
Motor vehicles		20% on cost

Depreciation on leasehold premises and plant and machinery should be included as part of administration expenses and depreciation of motor vehicles should be included as part of distribution expenses.

- (5) The charge for corporation tax for the year ended 31st December 2005 is estimated at 50% of the profit before tax.
- (6) The directors are proposing that a final dividend of 5 pence/cent for share be paid to the ordinary shareholders and that the balance of the preference dividend be paid.
- (7) The directors are also proposing the transfer of £/€40,000 to general reserve and that an amount of £/€30,000 be transferred to a new fixed asset replacement reserve.

QUESTION 4 (*Cont'd.*)

Requirement

Prepare, in a form suitable for publication, the profit and loss account of DRESSER Ltd., for the year ended 31st December 2005 in as far as the information provided permits.

N. B. You are **NOT** required to prepare a balance sheet or notes to the accounts. You are required to submit workings to show the make-up of the figures in the profit and loss account.

Marks will be awarded for presentation.

Total 22 Marks

SECTION B

Answer EITHER Question 5 OR Question 6 in this Section

QUESTION 5

During the year ended 31st December 2005 CAT Ltd., a company which is registered for VAT purposes and charges VAT at 21% on its sales, purchased new machinery to be used to produce its range of cat food. These machines cost £/€726,000 (which is inclusive of VAT at 21 %).

During the year ended 31st December 2005 DOG INSURANCES Ltd., an insurance company, purchased new computers to be used to run its customer accounts ledger. DOG Ltd., is an exempt company for VAT purposes and does not charge VAT on its services. It paid £/€363,000 (which is inclusive of VAT at 21%) for the computers.

During the year ended 31st December 2005 HAMPSTER Ltd., whose trading activities are split as to 40% in respect of VAT registered sales and 60% in respect of exempt sales, purchased new machinery which was to be used in both sections of the business. The machinery cost £/€181,500 (which is inclusive of V.A.T. at 21%).

All the fixed assets are depreciated at a rate of 20% per annum on the straight line basis.

Requirement

You are required to prepare ledger accounts to show how the above items would be dealt with by CAT Ltd, DOG INSURANCES Ltd and HAMPSTER Ltd in their accounts.

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] - [5]

The following information relates to ROCK Ltd:

	£/€
Debtors at 1 st January 2005	60,000
Debtors at 31 st December 2005	80,000
Creditors at 1 st January 2005	75,000
Creditors at 31 st December 2005	85,000
Stock at 1 st January 2005	140,000
Stock at 31 st December 2005	170,000
Sales on credit for the year ended 31 st December 2005	1,800,000
Cash sales for the year ended 31 st December 2005	300,000
Purchases (all on credit) for the year ended 31 st December 2005	1,250,000
Bank overdraft at 31 st December 2005	60,000
Taxation liability at 31 st December 2005	70,000
Accrued expenses at 31 st December 2005	25,000
Prepaid expenses at 31 st December 2005	30,000

[1] The debtors days outstanding at 31st December 2005 (to the nearest day) was: -

- (a) 12 days
- (b) 14 days
- (c) 16 days
- (d) 18 days

[2] The creditors days outstanding at 31st December 2005 (to the nearest day) was: -

- (a) 23 days
- (b) 24 days
- (c) 25 days
- (d) 26 days

[3] The current ratio at 31st December 2005 (assuming no other current assets on liabilities), to two decimal point, was: -

- (a) 1.65 :1
- (b) 1.17:1
- (c) 1.00:1
- (d) 0.165:1

[4] The stock turnover (to two decimal places) for the year ended 31st December 2005 was: -

- (a) 8.06 times
- (b) 7.87 times
- (c) 7.35 times
- (d) 1.18 times

QUESTION 6 (Contd.)

[5] The gross profit margin for the year ended 31st December 2005, to one decimal point was: -

- (a) 32.22%
- (b) 38.62%
- (c) 41.90%
- (d) 44.30%

SUB-SECTION B - 1 MARK PARTS

[6] *F.R.S. 18 "Accounting Policies"* lists four objectives of financial statements which are of benefit in selecting accounting policies. These are: -

- (a) relevance, materiality, reliability and comparability
- (b) relevance, materiality, reliability and understandability
- (c) relevance, reliability, comparability and understandability
- (d) relevance, reliability, materiality and prudence

[7] *F.R.S. 18 "Accounting Policies"* states that a business should prepare its financial statements on the basis that the business is a going concern: -

- (a) if it is being liquidated
- (b) if it has ceased trading
- (c) if the directors have no realistic alternative but to liquidate the entity or to cease trading
- (d) only if none of the above situations exist

[8] An extended trial balance is used to adjust the initial trial balance by: -

- (a) all further year end adjustments (such as bad debts and depreciation) plus accruals and prepayments to give the correct profit and loss account and balance sheet amounts
- (b) accruals and prepayments only to give the correct profit and loss account and balance sheet amounts
- (c) all further year end adjustments only to give the correct profit and loss accounts and balance sheet amounts
- (d) errors made in preparing the initial trial balance

[9] Partners drawings are: -

- (a) charged against the partners in their capital accounts
- (b) charged against the partners in their current accounts
- (c) credited to the partners in their capital accounts
- (d) credited to the partners in their current accounts

[10] A statement of affairs is: -

- (a) a written statement of the activities of a business
- (b) a summary of the assets less liabilities of a business
- (c) a summary of the types of business carried out by a business
- (d) a list of the assets of a business

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.....

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 2006

SOLUTIONS TO PAPER 6

ACCOUNTS II

Author : Mr Brian Hayden, FCA

Solution to question 1

Realisation account

	€/£		€/£
Land and buildings	200	Creditors	80
Machinery	160	Ball: Capital a/c	20
Motor vehicles	60	Shapes Ltd	840
Stock	100		
Debtors	112		
Bank - Realisation exp's	4		
Profit on realisation	<u>30</u>		
	<u>940</u>		<u>940</u>

Combined Capital and Current Accounts

	B €/£	C €/£	D €/£		B €/£	C €/£	D €/£
Bal b/d		16		Bal b/d Cap	120	120	120
Real. a/c	20			Bal b/d Curr	100		36
Shares in Shapes	300	180	120	Real. a/c	152	91.2	60.8
Premium on Shares	90	54	36	Bank	38	38.8	-
Bank	-	-	60.8				
	<u>410</u>	<u>250</u>	<u>216.8</u>		<u>410</u>	<u>250</u>	<u>216.8</u>

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Bank Account

	€/£		€/£
Bal. b/d	8	Loan from Cube	80
Shapes Ltd.	60	Realisation expenses	4
Capital a/c - B	38	Capital a/c - D	60.8
Capital a/c - C	38.8		
	<u>144.8</u>		<u>144.8</u>

Shapes Ltd.

Balance Sheet as at 31 December 2005

Fixed Assets	€/£	€/£
Land and Buildings		500
Machinery		160
Motor Vehicles		40
		<u>700</u>
Goodwill (W.1)		8
		<u>708</u>
Current Assets		
Stock	100	
Debtors	<u>112</u>	
	212	
Current Liabilities		
Creditors	<u>80</u>	
Net Current Assets		<u>132</u>
		<u>840</u>
Financed by :		
Ordinary shares		600
Share premium		<u>180</u>
		780
Long term loan		60
		<u>840</u>

Working

Goodwill

Purchase consideration	€/£	840
------------------------	-----	-----

Assets less liabilities taken over:

	€/£	
Land and buildings	500	
Machinery	160	
Motor vehicles	40	
Stock	100	
Debtors	112	
Creditors	<u>(80)</u>	
		832
		<u>8</u>
		<u><u>840</u></u>

Solution to question 2

(a)	Journal	
	Dr. €/£	Cr €/£
(1) Bad Debts a/c Debtor (Adjusting event : write off as bad debt)	50,000	50,000
(2) Deferred Credit P & L a/c (or off Training Costs) (Correction of error of treating a revenue grant as a capital based grant)	60,000	60,000
(3) Stock (P & L a/c) Stock (B/S) (Damaged stock written down to net realisable value)	40,000	40,000
(4) No adjustment : not an adjusting event		
(5) Contingent liability : possible, but not probable Show as a note to the accounts		
(6) Wages expense a/c Accrued expense (B/S) (accounting for wages not provided for)	26,000	26,000
(b) Profit before taxation per draft accounts		350,000
Adjustments :		
(1) Bad debt	(50,000)	
(2) Training grant	60,000	
(3) Stock write off	(40,000)	
(6) Wages expense	<u>(26,000)</u>	
Adjusted profit		<u>(56,000)</u> <u>294,000</u>

Solution to question 3

(a) Sales budget

		€/£	€/£
May	220 @	32	7,040
June	220 @	34	7,480
July	190 @	36	6,840
August	230 @	38	8,740
			<u>30,100</u>

(b) Production budget (in units)

	May	June	July	Aug	Total
Opening stock	130	100	110	140	130
Production	190	230	220	210	850
	<u>320</u>	<u>330</u>	<u>330</u>	<u>350</u>	<u>980</u>
Sales	(220)	(220)	(190)	(230)	(860)
Closing stock	<u>100</u>	<u>110</u>	<u>140</u>	<u>120</u>	<u>120</u>

(c) Production cost budget

	€/£	€/£	€/£	€/£	€/£
Direct materials	1,824	2,208	2,112	2,016	8,160
Direct labour	798	966	924	882	3,570
Variable overheads	570	690	660	630	2,550
Fixed overheads	190	190	190	210	780
Depreciation	150	150	150	150	600
Depreciation	120	120	120	120	480
	<u>3,652</u>	<u>4,324</u>	<u>4,156</u>	<u>4,008</u>	<u>16,140</u>

(d) Materials purchases budget

	€/£	€/£	€/£	€/£	€/£
Opening stock	1,000	776	368	156	1,000
Purchases	1,600	1,800	1,900	2,100	7,400
	<u>2,600</u>	<u>2,576</u>	<u>2,268</u>	<u>2,256</u>	<u>8,400</u>
Used in production	(1,824)	(2,208)	(2,112)	(2,016)	(8,160)
	<u>776</u>	<u>368</u>	<u>156</u>	<u>240</u>	<u>240</u>

Solution to question 3 continued on next page

Solution to question 3 (Cont'd)

(e) Cash budget

	May €/\$	June €/\$	July €/\$	Aug €/\$	Total €/\$
Receipts					
Cash sales	1,760	1,870	1,710	2,185	7,525
Credit sales (working)	<u>3,600</u>	<u>3,840</u>	<u>5,445</u>	<u>5,370</u>	<u>18,255</u>
	<u>5,360</u>	<u>5,710</u>	<u>7,155</u>	<u>7,555</u>	<u>25,780</u>
Payments					
Materials	1,000	1,600	1,800	1,900	6,300
Labour	798	966	924	882	3,570
Variable overheads	800	570	690	660	2,720
Fixed overheads	160	190	190	190	730
New machine	<u>5,000</u>	-		<u>5,000</u>	<u>10,000</u>
	<u>7,758</u>	<u>3,326</u>	<u>3,604</u>	<u>8,632</u>	<u>23,320</u>
Net inflows / (outflows)	(2,398)	2,384	3,551	(1,077)	2,460
Opening balance	420	(1,978)	406	3,957	420
Closing balance	<u>(1,978)</u>	<u>406</u>	<u>3,957</u>	<u>2,880</u>	<u>2,880</u>

Working

Receipts from credit sales

	May €/\$	June €/\$	July €/\$	Aug €/\$
March	2,400			
April	1,200	1,200		
May		2,640	2,640	
June			2,805	2,805
July				<u>2,565</u>
	<u>3,600</u>	<u>3,840</u>	<u>5,445</u>	<u>5,370</u>

Solution to question 4

Dresser Ltd.

Profit and Loss Account for the year ended 31 December 2006

	€/\pounds	€/\pounds	€/\pounds
Turnover (W.1)			4,421,000
Cost of sales (W.2)			2,200,000
Gross profit			<u>2,221,000</u>
Administrative expenses (W.3)			(610,000)
Distribution expenses (W.4)			(380,000)
			<u>1,231,000</u>
Interest received			35,000
Interest paid (W.5)			(75,000)
Profit on ordinary activities before taxation			<u>1,191,000</u>
Taxation on profit on ordinary activities			(595,500)
Profit on ordinary activities after taxation			<u><u>595,500</u></u>
Dividends :			
Ordinary : paid		54,000	
proposed		<u>180,000</u>	
		234,000	
Preference : paid	12,000		
proposed	<u>12,000</u>		
		<u>24,000</u>	
			<u>258,000</u>
			<u>337,500</u>
Transfer to General reserve		40,000	
Fixed assets Replacement Reserve		<u>30,000</u>	
			<u>70,000</u>
Retained profit for the year			<u>267,500</u>
Retained profit forward			<u>74,000</u>
Retained profit at end of year			<u><u>341,500</u></u>

Solution to question 4 continued on next page

Solution to question 4 (Cont'd)

Workings

(1) Turnover

	€/£	€/£
Sales per T/B		4,500,000
Less: sales returns		<u>79,000</u>
		<u><u>4,421,000</u></u>

(2) Cost of sales

Opening stock		180,000
Purchases	2,400,000	
Less : purchases returns	<u>160,000</u>	
		2,240,000
Add : goods purchased on 28/12		<u>70,000</u>
		<u><u>2,490,000</u></u>
Less : Closing stock		
Per physical count	220,000	
Add : not accounted for	<u>70,000</u>	
		290,000
		<u><u>2,200,000</u></u>

(3) Administrative expenses

Per T/B		450,000
Add : Depreciation : Premises	78,000	
Plant and Mach.	<u>82,000</u>	
		160,000
		<u><u>610,000</u></u>

(4) Distribution expenses

Per T/B		340,000
Depreciation : Motor Veh.		60,000
Training grant receivable		<u>(20,000)</u>
		<u><u>380,000</u></u>

(5) Interest paid

Bank overdraft interest		60,000
Debenture interest	Paid	7,500
	Due	<u>7,500</u>
		15,000
		<u><u>75,000</u></u>

Solution to question 5

Cat Ltd.	€/£		€/£
Machinery - Cost a/c			
Bank a/c	600,000		
Machinery - Accumulated depreciation a/c			
			P & L a/c 120,000
V.A.T. a/c			
Bank a/c	126,000		
Bank a/c			
			Mach and V.A.T. a/c 726,000

Dog Insurances Ltd

Computer - Cost a/c			
Bank	363,000		
Computer Accumulated depreciation a/c			
			P & L a/c 72,600
Bank a/c			
			Computer - Cost a/c 363,000

Hampster Ltd.

Machinery - Cost a/c			
Bank (W.1)	168,900		
Machinery - Accumulated depreciation a/c			
			P & L a/c 33,780
V.A.T. a/c			
Bank a/c (W1)	12,600		
Bank a/c			
			Mach. and V.A.T. a/c 181,500

Working 1

V.A.T. recoverable	€/£
181,500 * 21/121 = 31,500 * 40% =	12,600
Machinery cost less V.A.T. Recoverable	
181,500 – 12,600	168,900

EXAMINERS REPORT

ACCOUNTS II

AUTUMN 2006

General comment

The overall standard of answers to the Autumn paper was on a par with other Autumn sittings with an average overall mark of 49%.

Question 1

This partnership question was reasonably well answered by most students with an overall mark of 50%. The main areas where examinees lost marks was in (i) not dealing with the goodwill arising in the new company and (ii) in not treating the loan from Cube as being repaid immediately by reducing the bank balance.

The division of the shares including the share premium also seemed to cause a lot of difficulty.

Question 2

This was the worst answered question on the paper with an average mark of only 35%. The question required examinees to prepare journal entries for items which might or might not have needed adjustment, based on their knowledge of relevant accounting standards and to adjust the profit accordingly. Many were able to adjust the profit but could not do the journal entries correctly which suggests that they are still weak at double-entry. Their ability to apply their knowledge of accounting standards also came into doubt from the answers given.

Question 3

This was the best answered question (a budgeting question) with an average mark of 65%. The usual mistakes were the treatment of depreciation as a cash movement in the cash budget and getting the figures into the correct month. Many examinees found difficulty in dealing with the timing of the cash received from credit sales outstanding at the start of the period.

Question 4

This preparation of Financial Statements question was poorly answered with an average mark of 45%. This was a straightforward question asking examinees to prepare the profit and loss account of a company. The presentation of the answers to this question was very poor, in particular in relation to the appropriation of the profit after tax. Many examinees also failed to calculate the dividends correctly.

Question 5

A very small percentage of examinees answered this question and those who did either got very high marks or very few marks.

Question 6

The average mark in this multiple choice question 60%. No particular items caused more difficulty than any others.