

**iati**



**ADMISSION EXAMINATION**

**Summer 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.

This publication is copyright 2006 and may not be reproduced without the permission of the Institute.

© The Institute of Accounting Technicians in Ireland, 2006.

# **The Institute of Accounting Technicians in Ireland**

## **Admission Examination : Summer 2006**

### **PAPER 6 : ACCOUNTS II**

Monday 15<sup>th</sup> May 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**

Ben, Carol and Donal are in partnership sharing profits and losses in the ratio of 3: 3: 2 respectively. The partners receive a salary of £/€14,000 each and interest on the balance on their capital accounts at 10% per annum.

The draft balance sheet of the partnership at 31<sup>st</sup> December 2005 (before the profit for the year was divided between the partners) was as follows:

**DRAFT BALANCE SHEET AS AT 31<sup>st</sup> DECEMBER 2005**

	Cost £/€	Accumulated Depreciation £/€	Net Book Amount £/€
<b>Fixed Assets:</b>			
Premises .....	500,000	250,000	250,000
Plant and Machinery .....	150,000	60,000	90,000
Computers .....	<u>80,000</u>	<u>35,000</u>	<u>45,000</u>
	<u>730,000</u>	<u>345,000</u>	385,000
<b>Current Assets:</b>			
Stocks .....		80,000	
Debtors .....		45,000	
Bank balance .....		<u>120,000</u>	
		245,000	
<b>Current Liabilities:</b>			
Creditors .....	70,000		
Loan from Carol .....	<u>16,000</u>		
		(86,000)	
<b>Net Current Assets:</b>			<u>159,000</u>
<b>Represented by:</b>			<u>544,000</u>
<b>Capital Accounts:</b>			
Ben .....		100,000	
Carol .....		75,000	
Donal .....		<u>75,000</u>	
			250,000
<b>Current Accounts:</b>			
Ben .....		25,000	
Carol .....		(19,000)	
Donal .....		<u>24,000</u>	
			<u>30,000</u>
			280,000
<b>Long Term Loan</b>			114,000
<b>Profit for the year (not yet divided between the partners)</b>			<u>150,000</u>
			<u>544,000</u>

QUESTION 1 (Cont'd.)

ADDITIONAL INFORMATION

No adjustment has yet been made in respect of the following items:

(i) Depreciation has not been charged on fixed assets. It should be charged as follows:

Premises	:	2% per annum on cost
Plant and Machinery	:	10% per annum on cost
Computers	:	25% per annum on cost

(ii) Amounts of £/€4,000 and £/€1,000 due from two debtors are considered bad and should be written off in full.

(iii) The electricity meter has not been read by the electricity supply company for some time and the estimated amount owing at 31<sup>st</sup> December 2005 is £/€3,000.

It was decided that Carol would retire from the partnership on 31<sup>st</sup> December 2005. Apart from the adjustments required in respect of items (i) to (iii) above, all assets and liabilities are correctly valued in the books.

Carol, on retirement, is to receive immediate repayment of the loan to the partnership (as per the draft balance sheet) plus a further immediate payment of £/€20,000. The balance due to Carol is to be repaid as to one half on 31<sup>st</sup> March 2006 and one half on 30<sup>th</sup> June 2007.

Edna is to be admitted as a new partner on the same day as Carol retires and is to introduce capital in the form of £/€120,000 cash and a motor vehicle valued for admission purposes at £/€20,000.

**Requirement**

You are required to prepare:

- (a) a statement setting out the adjustments required to the profit for the year arising out of items (i) to (iii) above; **3 Marks**
- (b) a statement setting out the appropriation of the "adjusted" profit between the partners; **3 Marks**
- (c) the current accounts of the partners; **4 Marks**
- (d) the capital accounts of the partners; and **2 Marks**
- (e) the revised balance sheet of the partnership after the retirement of Carol and the admission of Edna as a partner

**10 Marks**  
**Total 22 Marks**

**QUESTION 2**

The profit and loss account, balance sheet and appropriate notes to the accounts of TICTAC Ltd. for the year ended 31<sup>st</sup> December 2005 (with comparative figures for the year ended 31<sup>st</sup> December 2004) are as follows:

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER**

	<b>2005</b>	<b>2004</b>
	£/€'000	£/€'000
Sales .....	4,200	3,800
Cost of Goods sold .....	(2,400)	(2,200)
Gross Profit .....	1,800	1,600
Administration expenses .....	(600)	(500)
Distribution expenses .....	(360)	(260)
Operating profit before interest .....	840	840
Interest paid .....	(60)	(80)
Interest received .....	20	60
Profit before taxation .....	800	820
Taxation:		
on profits for the year .....	(320)	(300)
under-provided in previous years .....	(80)	—
Profit after taxation .....	400	520
 Dividends		
Paid .....	(60)	(80)
Proposed: Ordinary .....	(84)	(98)
Preference .....	(16)	(8)
	240	334
Transfer to general reserve .....	(40)	(60)
 Retained profit for the year .....	200	274
Retained profit forward from previous year .....	394	120
	<u>594</u>	<u>394</u>

**BALANCE SHEET AS AT 31<sup>st</sup> DECEMBER**

	<b>2005</b>		<b>2004</b>	
	£/€'000	£/€'000	£/€'000	£/€'000
Fixed assets (Note 2)		1,880		1,480
 Current Assets				
Stock .....	160		304	
Debtors .....	692		520	
Bank .....	496		400	
Cash .....	100		80	
	<u>1,448</u>		<u>1,304</u>	
 Current Liabilities				
Creditors .....	348		348	
Taxation .....	320		400	
Proposed dividends .....	100		116	
	<u>768</u>		<u>864</u>	
 Net Current Assets .....		680		440
		<u>2,560</u>		<u>1,920</u>

**QUESTION 2 (Cont'd)**

Financed by:

	£/€'000	£/€'000
Share Capital		
Ordinary shares of £/€1 each	1,426	1,106
8% preference shares of £/€1 each	200	100
	1,626	1,206
Share premium account .....	100	–
General reserve .....	240	200
Profit and Loss Account .....	594	394
Debentures loan .....	–	120
	2,560	1,920

Notes

(1) The profit before taxation is arrived at after charging:

	£/€'000
Auditors remuneration .....	40
Directors remuneration .....	80
Depreciation .....	280
Loss on disposal of fixed asset .....	20

(2) Fixed assets

During the year ended 31<sup>st</sup> December 2005 TICTAC Ltd sold one of its fixed assets for £/€46,000. The cost of the asset was £/€80,000 in 2002 and it had been depreciated by £/€14,000 at the date of sale. There were no other sales of fixed assets during the year.

**Requirement**

Prepare a cash flow statement, to include relevant notes, for TICTAC Ltd. for the year ended 31<sup>st</sup> December 2005.

**Total 19 Marks**

**QUESTION 3**

DIGITS Ltd, has been in business for many years. It has an authorised share capital comprising of 2,000,000 ordinary shares of 50 cent/pence each and £/€200,000 of 8% preference shares of £/€1 each.

The following information relates to the year ended 31<sup>st</sup> December 2005.

- (1) The issued share capital was 1,000,000 ordinary shares of 50 cent/pence each and £/€200,000 of 8% preference shares of £/€1 each.
- (2) Sales for the year ended 31<sup>st</sup> December were:
 

	£/€	
Cash sales .....	400,000	
Credit sales .....	1,600,000	
- (3) The margin on sales for the year was 20%
- (4) Annual net profit was 8% of “total” sales.
- (5) Expenses were comprised of depreciation, royalties on sales and other expenses.
- (6) The cost of fixed assets at the beginning of the year was £/€600,000. Fixed assets costing £/€200,000 were acquired during the year.
- (7) The depreciation charge for the year is 10% of the cost of fixed assets based on the cost of all assets held at the year end. Accumulated depreciation at 1<sup>st</sup> January 2005 was 50% of the cost of fixed assets at that date.
- (8) Royalties on sales were 3% of total sales.
- (9) Current assets (stock, debtors, and bank) total £/€520,000.
- (10) Stock turnover for the year was 20 times (assume the same opening and closing stock)
- (11) Debtors days outstanding were 36 days (assume 360 days in a year).
- (12) The ratio of current assets to current liabilities (creditors and proposed dividends) was 4 : 1.
- (13) The proposed dividend at 31<sup>st</sup> December 2005 is to be 8% for the ordinary shareholders and 8% for the preference shareholders.
- (14) The balancing figure between retained profit for the year and retained profit at the end of the year is the retained profit/(loss) forward from the previous year.

**Requirement**

You are required to construct, from the information above, the trading and profit and loss account and the balance sheet for DIGITS Ltd., for the year ended 31<sup>st</sup> December 2005, in as much detail as the information supplied permits.

**Total 20 Marks**

**Accounts II Summer 2006 Paper**

**QUESTION 4**

Sarah Keating has been trading as a sole trader for a number of years. She does not maintain a complete nominal ledger and has requested you to prepare the accounts of her business for the year ended 31<sup>st</sup> December 2005.

A summary of the bank account of her business for the year ended 31<sup>st</sup> December 2005 is as follows:

<b>Bank Account</b>					
		Note	£/€		
Lodgements				Balance at 1 <sup>st</sup> January 2005 .....	3,000
Sales receipts .....	(1)		149,000	Insurance .....	12,600
Sale of machinery .....	(2)		52,000	Rent and rates .....	(6) 4,500
Rental income .....	(3)		4,800	Payments to creditors .....	68,900
				Printing & stationery .....	(6) 2,600
				Postage and telephone .....	5,400
				General expenses .....	10,840
				Drawings .....	22,000
				Purchase of machinery .....	(2) 48,000
				Purchase of equipment .....	(5) 6,000
Balance c/d at 31 <sup>st</sup> December 2005			2,040	Wages and salaries .....	24,000
			207,840		207,840
				Balance b/d at 31 <sup>st</sup> December 2005	2,040

**ADDITIONAL INFORMATION**

- (1) The lodgements from sales receipts were made after making the following cash payments from total sales receipts.
 

	£/€
General expenses .....	600
Payments to creditors .....	800
Casual Wages .....	1,500
- (2) Machinery which cost £/€86,000 and which had been depreciated by £/€40,000 at 31<sup>st</sup> December 2004 was sold on 1<sup>st</sup> February 2005 for £/€52,000. New machinery costing £/€48,000 was purchased on that date and is to be depreciated at 20% per annum in accordance with company policy which is to charge a full years depreciation in the year of purchase and no depreciation in the year of sale.
- (3) The rental income is in respect of surplus space in part of the business premises which was rented out for the first time starting on 1<sup>st</sup> July 2005 at a rent of £/€12,000 per annum. Rent of £/€1,200 was owing to the business at 31<sup>st</sup> December 2005.
- (4) The business premises was valued at £/€500,000 on 1<sup>st</sup> January 2005 and 31<sup>st</sup> December 2005.
- (5) The new equipment is to be depreciated at 20% per annum.
- (6) Details of other assets and liabilities are as follows:

	at 01/01/2005	at 31/12/2005
	£/€	£/€
Debtors .....	5,400	6,800
Stocks .....	9,200	10,700
Creditors .....	6,700	6,300
Rates owing .....	600	900
Rent prepaid .....	700	1,200
Stock of stationery .....	300	200

**Requirement**

Prepare each of the following for Sarah Keating's business:

- (a) A statement of affairs at 1<sup>st</sup> January 2005
- (b) The trading and profit and loss account for the year ended 31<sup>st</sup> December 2005
- (c) The balance sheet as at 31<sup>st</sup> December 2005

**5 Marks**  
**12 Marks**  
**7 Marks**  
**Total 24 Marks**

**SECTION B**

**Answer EITHER Question 5 OR Question 6 in this Section**

**QUESTION 5**

In relation to any three of the Statements of Standard Accounting Practice (S.S.A.P.'s) and the Financial Reporting Standards (F.R.S.'s) listed below, set out briefly your understanding of the purpose and content of each.

- (a) *F.R.S. 18* Accounting Policies
- (b) *F.R.S. 1* Cash Flow Statements
- (c) *F.R.S. 12* Provisions, Contingent Liabilities and Contingent Assets
- (d) *S.S.A.P. 5* Accounting for Value Added Tax
- (e) *S.S.A.P. 9* Accounting for Stocks and Work-in-Progress

**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 [4]

The following information relates to MAINTAIN Ltd, for the year ended 31<sup>st</sup> December 2005:

	£/€
Turnover .....	10,400
Cost of sales .....	4,800
Distribution costs .....	1,250
Administration costs .....	2,300
Interest paid .....	600
Interest received .....	200
Taxation charge for year .....	825
Dividend paid (in respect of current year) .....	200
Dividends proposed .....	320
Retained profits forward from last year .....	720

[1] The company's operating profit before taxation is:-

- (a) £/€1,650
- (b) £/€2,050
- (c) £/€3,500
- (d) £/€5,600

[2] The profit on ordinary activities before taxation is:-

- (a) £/€825
- (b) £/€1,050
- (c) £/€1,650
- (d) £/€2,050

**QUESTION 6 (Cont 'd)**

[3] The profit after taxation is:-

- (a) £/€825
- (b) £/€1,050
- (c) £/€1,625
- (d) £/€1,800

[4] The retained profit carried forward to the next year is:-

- (a) £/€305
- (b) £/€720
- (c) £/€1,025
- (d) £/€1,250

[5] The authorised share capital of a company is comprised of £/€600,000 of ordinary shares of 50 cent/pence each and £/€200,000 of 5% preference shares of £/€1 each. £/€240,000 of ordinary shares are issued and fully paid, whilst all of the preference shares are issued and fully paid. If the company proposes to pay an ordinary dividend of 6 cent/pence per share and to pay the preference dividend, then the charge for dividends in the profit and loss account for the year will be:

- (a) £/€30,400
- (b) £/€44,800
- (c) £/€40,000
- (d) £/€64,000

**SUB-SECTION B – 1 Mark**

[6] The provision for discounts allowed on debtors balances outstanding should be calculated, at the appropriate rate on:-

- (a) the debtors outstanding, before taking into account bad debts written off
- (b) the debtors outstanding, after taking into account bad debts written off
- (c) the debtors outstanding, after taking into account bad debts written off and after deducting the provision for doubtful debts
- (d) the debtors outstanding

[7] In order to comply with the accruals concept, life subscriptions received from life members of a club should be:-

- (a) credited to income only when the members cease to be life members
- (b) credited to income in full in the year that the person joins as a member
- (c) spread over the expected membership period of such members
- (d) treated as a creditor and refunded to the life members over the period of their membership

[8] RED Ltd has received a revenue grant of £/€20,000. The correct accounting treatment of the grant is to credit it to:-

- (a) a capital reserve
- (b) revenue in the same period as the related expenditure is debited
- (c) a revenue reserve
- (d) a grant account and include the grant in the balance sheet at the end of the accounting period

**BACKGROUND INFORMATION TO PARTS [9] & [10]**

The following information relates to TRAVEL Ltd which makes up its accounts to 31<sup>st</sup> December each year. The company has just completed its 2005 year end and is about to value its stock at cost price. The transactions for the year were:

Purchases:	January	24 items @ £/€30 each
	April	20 items @ £/€32 each
	October	45 items @ £/€38 each
Sales:	July	16 items @ £/€50 each
	November	44 items @ £/€60 each

**QUESTION 6** (*Cont'd*)

[9] The value of stock on hand, at 31<sup>st</sup> December 2005, using the First In, First Out (F.I.F.O.) method of arriving at cost is

- (a) £/€960
- (b) £/€978
- (c) £/€1,076
- (d) £/€1,216

[10] The value of stock on hand at 31<sup>st</sup> December 2005, using the Last in, First Out (L.I.F.O.) method is:-

- (a) £/€960
- (b) £/€1,000
- (c) £/€1,100
- (d) £/€1,216



## 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.....

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 2006**

**SOLUTIONS TO PAPER 6**

**ACCOUNTS II**

**Author : Mr Brian Hayden, FCA**

**Solution to question 1**

**(a)**

**Statement of adjusted profit**

	£/€		£/€
Profit for the year before adjustment			150,000
Depreciation			
Premises	: 500,000* 2%		10,000
Plant and Mach.	: 150,000*10%		15,000
Computers	: 80,000*25%		<u>20,000</u>
			(45,000)
Bad debts : 4,000 + 1,000			(5,000)
Accrued Expenses : electricity			(3,000)
Adjusted Profit			<u><u>97,000</u></u>

(b)

Statement of Appropriated Profits

	£/€	£/€
Adjusted Profit as above		97,000
Salaries		
Ben	(14,000)	
Carol	(14,000)	
Donal	<u>(14,000)</u>	
		(42,000)
Interest on Capital		
Ben	(10,000)	
Carol	(7,500)	
Donal	<u>(7,500)</u>	
		(25,000)
		<u>30,000</u>
Split in profit sharing ratio		
Ben	(11,250)	
Carol	(11,250)	
Donal	<u>(7,500)</u>	
		<u>30,000</u>

Partners Current Accounts

	B	C	D		B	C	D
	£/€	£/€	£/€		£/€	£/€	£/€
Bal. b/d		19,000		Bal b/d	25,000		24,000
Capital A/c		13,750		Salaries	14,000	14,000	14,000
Bal c/d	60,250		53,000	Int. on Cap.	10,000	7,500	7,500
	<u>60,250</u>		<u>53,000</u>	Share of Prof.	11,250	11,250	7,500
		<u>32,750</u>			<u>60,250</u>	<u>32,750</u>	<u>53,000</u>
				Bal b/d	60,250		53,000

Partners Capital Accounts

	B	C	D	E		B	C	D	E
	£/€	£/€	£/€	£/€		£/€	£/€	£/€	£/€
Bank		20,000			Bal b/d	100,000	75,000	75,000	
Loan a/c		68,750			Bank				120,000
Bal c/d	100,000		75,000	75,000	Mot. Veh.				20,000
	<u>100,000</u>		<u>75,000</u>	<u>75,000</u>	Curr a/c		13,750		
		<u>88,750</u>	<u>75,000</u>	<u>75,000</u>		<u>100,000</u>	<u>88,750</u>	<u>75,000</u>	<u>140,000</u>
					Bal c/d	100,000		75,000	75,000

Solution to question 1 continued on next page

Solution to question 1 (Cont'd)

Balance Sheet as at 31 December 2005

	Cost £/€	Acc.Depr. £/€	N.B.A. £/€
<b>Fixed Assets</b>			
Premises	500,000	260,000	240,000
Plant and Machinery	150,000	75,000	75,000
Computers	80,000	55,000	25,000
Motor Vehicle	<u>20,000</u>	-	<u>20,000</u>
	<u>750,000</u>	<u>390,000</u>	<u>360,000</u>
<b>Current assets</b>			
Stock		80,000	
Debtors		40,000	
Bank Balance		<u>204,000</u>	
		<u>324,000</u>	
<b>Current Liabilities</b>			
Creditors	70,000		
Accrued expense	3,000		
Loan a/c - Carol	<u>34,375</u>		
		<u>107,375</u>	
<b>Net Current Assets</b>			<u>216,625</u>
			<u>576,625</u>
<b>Loan a/c - Carol</b>			<u>(34,375)</u>
			<u>542,250</u>
<b>Represented by:</b>			
<b>Capital Accounts</b>			
	£/€		
Ben	100,000		
Donal	75,000		
Edna	<u>140,000</u>		
	<u>315,000</u>		
<b>Current Accounts</b>			
Ben		60,250	
Donal		<u>53,000</u>	
		<u>113,250</u>	
		<u>428,250</u>	
<b>Long term loan</b>		<u>114,000</u>	
		<u>542,250</u>	

Working

Bank Account

	£/€		£/€
Balance per question	120,000	Loan a/c - Carol	16,000
Capital a/c - Edna	120,000	Capital a/c - Carol	20,000
		Balance c/d	<u>204,000</u>
	<u>240,000</u>		<u>240,000</u>
Balance b/d	204,000		

**Solution to question 2**

**Cash Flow Statement for the year ended 31 December 2005**

	£/€
Net cash flow from operating activities	1,112
Return on investment and servicing of finance	(40)
Capital Expenditure	(700)
Taxation paid	(480)
Equity dividends paid	(176)
	<u>(284)</u>
Financing	400
Increase / (decrease) in bank and cash balances	<u>116</u>

**Reconciliation of operating profit to net cash flow from operating activities**

Operating profit	840
Depreciation	280
Loss on disposal of fixed assets	20
Increase in debtors	(172)
Decrease in stocks	144
	<u>1,112</u>

**Notes to the Cash Flow Statement**

**Return on investment and servicing of finance**

Interest paid	(60)
Interest received	<u>20</u>
	<u>(40)</u>

**Capital Expenditure**

Purchase of fixed assets	(746)
Proceeds of disposal of fixed assets	<u>46</u>
	<u>(700)</u>

**Financing**

Issue of ordinary shares	320
Share premium	<u>100</u>
	420
Issue of preference shares	100
Redemption of debentures	<u>(120)</u>
	<u>400</u>

**Workings on next page**

**Workings :**

**Taxation paid**

	£/€
Due at 1/1/05	400
Charge for year	<u>400</u>
	800
Due at 31/12/05	<u>320</u>
Therefore : Paid	<u>480</u>

**Equity dividends paid**

Due at 1/1/05	116
Dividend for year	<u>160</u>
	276
Due at 31/12/05	<u>100</u>
Therefore : Paid	<u>176</u>

**Solution to question 3**

**Digits Limited**

**Trading and Profit and Loss Account for the year ended 31 December 2005**

	£/€	£/€
Sales (W.1)		2,000,000
Less : Cost of goods sold		<u>1,600,000</u>
Gross Profit (W.2)		400,000
Less : Expenses		
Depreciation (W.4)	80,000	
Royalties on sales (W.5)	60,000	
Other expenses	<u>100,000</u>	
		<u>240,000</u>
Net Profit (W.3)		160,000
Dividends (8)		
Ordinary	40,000	
Preference	<u>16,000</u>	
		<u>56,000</u>
		104,000
Retained profit forward at 1 January 2005		<u>6,000</u>
		<u>110,000</u>

Solution to question 3 continued on next page

Solution to question 3 (Cont'd)

Digits Limited

Balance sheet as at 31 December 2005

Fixed Assets

	£/€	£/€	£/€
Cost			800,000
Accumulated Depreciation (W.6)			<u>380,000</u>
			420,000

Current Assets

Stocks (9)		80,000	
Debtors (10)		160,000	
Cash		<u>280,000</u>	
			520,000

Current Liabilities (W7)

Creditors	74,000		
Proposed dividends	<u>56,000</u>		
		<u>130,000</u>	

Net Current Assets

390,000

810,000

Financed by :

Share Capital

Ordinary shares of 50c/p each		500,000
85 Preference shares		<u>200,000</u>
		700,000

Retained profits

110,000

810,000

Workings

(1)	<b>Sales</b>	Cash sales	400,000
		Credit sales	<u>1,600,000</u>
			2,000,000
(2)	<b>Gross profit</b>	2,000,000 * 20%	<u>400,000</u>
(3)	<b>Net Profit</b>	2,000,000 * 8%	<u>160,000</u>
(4)	<b>Depreciation</b>	(600,000 + 200,000) * 10%	<u>80,000</u>
(5)	<b>Royalties</b>	2,000,000 * 3%	<u>60,000</u>

Solution to question 3 continued on next page

Solution to question 3 (Cont'd)

(6) Accumulated Depreciation

	£/€
600,000 * 50%	300,000
Add : Charge for year	<u>80,000</u>
	<u>380,000</u>

(7) Current Liabilities

520,000 / 4	<u>130,000</u>
-------------	----------------

(8) Proposed Dividends

Ordinary : 1,000,000 * 50 c/p = 500,000 * 8%	<u>40,000</u>
Preference : 200,000 * 8%	<u>16,000</u>

(9) Stock 1,600,000 / 20	<u>80,000</u>
--------------------------	---------------

(10) Debtors

Credit sales 1,600,000 * 36 / 360	<u>160,000</u>
-----------------------------------	----------------

Solution to question 4

Statement of affairs as at 1 January 2005

Assets

	£/€	£/€
Machinery Cost		86,000
Acc. Depr.		<u>(40,000)</u>
		46,000
Premises		500,000
Debtors		5,400
Stocks		9,200
Rent prepaid		700
Stock of stationery		300
		<u>561,600</u>

Liabilities

Creditors	6,700	
Rates owing	600	
Bank overdraft	<u>3,000</u>	
		<u>10,300</u>
<b>CAPITAL AT 1/1/05</b>		<b><u>551,300</u></b>

Solution to question 4 on next page

Solution to question 4 (Cont'd)

Trading and Profit and Loss Account for the year ended 31 December 2005

	£/€	£/€
<b>Sales (W.1)</b>		153,300
<b>Less : Cost of goods sold</b>		
Opening stock	9,200	
Purchases (W.2)	<u>69,300</u>	
	78,500	
Closing stock	<u>10,700</u>	
		<u>67,800</u>
<b>Gross Profit</b>		85,500
<b>Add :</b> Rental income (W.3)		6,000
Profit on disposal of machinery (W.9)		6,000
		<u>97,500</u>
<b>Less : Expenses</b>		
Insurance	12,600	
Rent and rates (W.4)	4,300	
Printing and stationery (W.5)	2,700	
Postage and telephone	5,400	
General expenses (W.6)	11,440	
Wages and salaries (W.7)	25,500	
Depreciation (W.8)		
Machinery	9,600	
Equipment	<u>1,200</u>	
		72,740
<b>Net Profit</b>		<u>24,760</u>

Solution to question 4 continued on next page

Solution to question 4 (Cont'd)

Balance Sheet as at 31 December 2005

<b>Fixed Assets</b>	Cost £/€	Acc.Depr. £/€	N.B.A. £/€
Premises	500,000		500,000
Machinery	48,000	9,600	38,400
Equipment	<u>6,000</u>	<u>1,200</u>	<u>4,800</u>
	<u>554,000</u>	<u>10,800</u>	<u>543,200</u>
 <b>Current Assets</b>			
Stock		10,700	
Stock of stationery		200	
Debtors		6,800	
Rent prepaid		1,200	
Rental income due		<u>1,200</u>	
		<u>20,100</u>	
 <b>Current Liabilities</b>			
Creditors	6,300		
Accrued rates	900		
Bank overdraft	<u>2,040</u>		
		<u>9,240</u>	
 <b>Net Current Assets</b>			 <u>10,860</u>
			<u>554,060</u>
 <b>Represented by :</b>			
Capital at 1/1/2005			551,300
Add : Net Profit			<u>24,760</u>
			576,060
Less : Drawings			<u>22,000</u>
			<u>554,060</u>

**Workings**

**(1) Sales**

	£/€
Lodgements	149,000
Add : Paid out of sales receipts (600 + 800 + 1,500 )	<u>2,900</u>
	151,900
Add : Increase in debtors	<u>1,400</u>
	<u>153,300</u>

**(2) Purchases**

Payments to creditors	68,900
Less : Decrease in creditors	<u>400</u>
	68,500
Add : Cash purchases	<u>800</u>
	<u>69,300</u>

Solution to question 4 continued on next page

Solution to question 4 (Cont'd)

(3) Rental Income

	£/€
Per bank Account	4,800
Add : Rental income due	<u>1,200</u>
	<u>6,000</u>

(4) Rent and Rates

£/€		£/€	
Balance b/d	700	Balance b/d	600
Bank	4,500		
<b>P &amp; L a/c</b>			<b>4,300</b>
£/€		£/€	
Balance c/d	<u>900</u>	Balance c/d	<u>1,200</u>
	6,100		6,100
Balance b/d	<u>1,200</u>	Balance b/d	<u>900</u>

(5) Printing and Stationery

	£/€
Per Bank a/c	2,600
Less : stock at 31/12	<u>200</u>
	2,400
Add : stock at 1/1	<u>300</u>
	<u>2,700</u>

(6) General Expenses

Per Bank a/c	10,840
Add : paid out of cash	<u>600</u>
	<u>11,440</u>

(7) Wages and Salaries

Per Bank a/c	24,000
Add : Casual wages (paid out of cash)	<u>1,500</u>
	<u>25,500</u>

(8) Depreciation charge

Machinery	48,000 * 20%	<u>9,600</u>
Equipment	6,000 * 20%	<u>1,200</u>

(9) Profit on disposal of machinery

Cost	86,000
Acc. Depr.	<u>40,000</u>
Net Book Amount	46,000
Sale Proceeds	<u>52,000</u>
	<u>6,000</u>

**Solution to question 5**

**(a) F.R.S.18 Accounting Policies**

F.R.S.18 states the principles to be followed when selecting accounting policies and the disclosure requirements needed to help users of accounting statements to understand the accounting policies adopted thus ensuring the giving of clear explanations of the policies followed.

The F.R.S.states that the going concern concept and the accruals concept play a persuasive role in financial statements and hence in the selection of accounting policies. Thus the prudence concept is no longer considered to be the overriding concept.

The standard defines accounting policies, estimation techniques and measurement bases.

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

Estimation Techniques are the methods adopted by an entity to arrive at estimated monetary amounts.

Monetary bases are those monetary attributes, such as current value or historical value, which are reflected in the financial statements.

**(b) F.R.S.1 Cash flow statements**

The objective of F.R.S.1 is to ensure that reporting entities report the "cash generation" and "cash absorption" for the accounting period by highlighting the significant components of cash flow in a way that facilitates comparison between different accounting periods and different businesses. This information also assists in the assessment of the company's liquidity and solvency.

The main headings under which cash flows are shown in the cash flow statement are:

- Net cash flow from operating activities
- Return on investment and servicing of finance
- Capital expenditure
- Taxation paid
- Equity dividends paid
- Financing
- Increase /decrease in cash and cash equivalents

The net cash flow from operating activities is the result of the adjustment of the operating profit by non cash items and movements in working capital.

**(c) S.S.A.P. 9 Accounting for stocks and work in progress**

The overall objective of S.S.A.P. 9 is :

- (1) to define the appropriate accounting practice in relation to stock and work in progress
- (2) to narrow the differences and variations in those practices which previously existed
- (3) to ensure adequate disclosure of the accounting treatment in the financial statements.

The overall rule is that stocks should be valued at the lower of cost or net realisable value.

Cost is the actual costs incurred in getting the stock to its present location and condition under normal levels of activity. Thus, abnormal costs such as additional wages costs due to industrial action should not be included when valuing stock.

Net realisable value is selling price less any further costs of conversion and further selling costs.

**Solution to question 6**

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

**Workings** (not required of examinees in exam)

<b>W1 - W4 :</b>		£/€	£/€	
Turnover			10,400	
Cost of sales			<u>4,800</u>	
			5,600	
Distribution expenses	1,250			
Admin expenses	<u>2,300</u>			
			<u>3,550</u>	
			2,050	<b>Answer [1] (b)</b>
Interest paid	(600)			
Interest Received	<u>200</u>			
			<u>(400)</u>	
			1,650	<b>Answer [2] (c)</b>
Taxation			<u>(825)</u>	
			<u>825</u>	<b>Answer [3] (a)</b>
Dividends : Paid	200	£/€		
Proposed	<u>320</u>			
			520	
			305	
Retained profit forward			<u>720</u>	
			<u>1,025</u>	<b>Answer [4] (c)</b>

<b>W5</b>		£/€	
Ordinary	240,000*2 = 480,000*6c		28,800
Preference	200,000*8%		<u>16,000</u>
			<u>44,800</u>
			<b>Answer [5] (b)</b>

<b>W9</b>			
	32 @ 38 =		<u>1,216</u>
			<b>Answer [9] (d)</b>

<b>W10</b>			
	24 @ 30 =		720
	4 @ 32 =		128
	4 @ 38 =		<u>152</u>
			<u>1,000</u>
			<b>Answer [10] (b)</b>

# EXAMINERS REPORT

## ACCOUNTS II

### SUMMER 2006

#### General comment

The overall standard of answering was on a par with previous summer sessions with an average mark of 54 %. However, there was a greater distribution of marks with many examinees Obtaning very high marks and a high number obtaining very low marks.

#### Question 1

The standard of answering of this partnership question was good with an average mark of 64%. The main area where examinees went wrong was in the treatment of the Loan from Carol which the question said was to be repaid immediately. Many students put the loan into Carol's capital or current account (and often on the wrong side of the account) instead of debiting the loan account and crediting the bank account.

#### Question 2

This Cash Flow Statement question was the worst answered question on the paper, 90 examinees did not attempt the question and the average mark of only 42% was obtained by those who attempted it. It would appear that many examinees were not prepared to attempt a question on this topic despite it being a regular question on the paper.

#### Question 3

Again, this form of ratios question appears quite often on the paper. It was the second worst answered question with an average mark of 46% and with 51 examinees not attempting it at all. It required the USC of several common ratios to re-construct the P & L a/c and Balance Sheet of a company For those who made a serious attempt at the question the area where many lost marks was in not completing the section of the P & L a/c on dividends and linking the retained profit for the year to the retained profit at the end of the year as per the balance sheet.

#### Question 4

This was the best answered question with an average mark of 61%. The two most common mistakes made were (1) to omit the bank balance in the opening statement of affairs or to treat it as an asset when it was an overdraft, and (2) to fail to adjust the total sales receipts lodged by the movement in debtors.

#### Question 5

This choice question was answered by just under 10% of candidates. The average mark was 52%. Examinees would probably gain more marks in this type of question if they gave examples to help explain their understanding of the purpose and content of the standards selected.

#### Question 6

The average mark in the multiple choice question was 59%. It was auempted by 90% of the candidates.