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ADMISSION EXAMINATION

Autumn 2008

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.

The Institute of Accounting Technicians in Ireland

Admission Examination : Autumn 2008

PAPER 6 : ACCOUNTS II

Monday 25th August 2008 - 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

Carin and Dennis are partnership sharing profits and losses in the ratio of 5 : 3. The balance sheet of the partnership as at 31st December 2007 is as follows:

BALANCE SHEET AS AT 31st DECEMBER 2007

	£/€'000	£/€'000	£/€'000
Tangible Fixed Assets:			
Freehold Premises			500
Plant and Machinery			81
Delivery vehicles			60
			641
Goodwill			48
			689
Current Assets:			
Stock		56	
Debtors		75	
Cash		4	
Investments		60	
		195	
Current Liabilities:			
Creditors	68		
Bank overdraft	12		
		80	
Net Current Assets:			115
			804
Financed by:			
Capital Accounts:			
Carin		350	
Dennis		350	
			700
Current Accounts:			
Carin		20	
Dennis		24	
			44
Bank Loan			60
			804

QUESTION 1 (*Cont'd.*)

ADDITIONAL INFORMATION

(1) On 1st January 2008 Eoin was admitted to the partnership on payment of £/€300,000. He also introduced plant and machinery with an agreed value of £/€60,000 as part of his capital introduced.

From the date of Eoin's admission the partners are to share profits in the ratio Carin 3 : Dennis 2 : Eoin 1.

(2) It was agreed that the current accounts of Carin and Dennis would be incorporated into their capital accounts at 1st January 2008.

(3) Goodwill was valued at 1st January 2008 at £/€72,000 and it was agreed that, as the partners do not wish goodwill to be shown as an asset in the partnership, it will be written off in full.

(4) The remaining assets were re-valued as at 1st January 2008 as set out below. The new values are to be incorporated into the books of the partnership:

	£/€
Freehold premises	580,000
Plant and machinery (excluding the plant and machinery introduced by Eoin)	89,000
Delivery vehicles	56,000
Stock	50,000
Debtors	77,000

(5) It was agreed that the investments would be divided equally between Carin and Dennis and taken over by them at their book value as at 31st December 2007.

(6) The bank loan of £/€60,000 was repaid on 1st January 2008 out of the partnership bank account.

Requirement

You are required to prepare:

(a) the revaluation account

3 Marks

(b) the capital accounts of the partners to give effect to the admission of Eoin as a partner

9 Marks

(c) the revised Balance Sheet of the partnership after giving effect to the admission of Eoin into the partnership

7 Marks

Total 19 Marks

QUESTION 2

The following is the bank account of Grange Tennis Club for the year ended 31st December 2007:

Bank Account

	£/€		£/€
Balance at 1st January 2007	4,020	Wages and salaries : bar staff	36,800
		: other staff	15,400
Members subscriptions		Insurance	9,800
Ordinary	37,400	Light and heat	5,400
Associate	28,100	Rent and rates	16,200
		Bar purchases	45,200
Tournament entries	25,100	Repairs and Maintenance	20,800
Tournament lunches	20,840	Bank interest and charges	860
Bar receipts	115,600	New equipment	26,000
		Food for tournament lunches	6,400
		Bar expenses	12,800
		Balance at 31st December 2007	35,400
	231,060		231,060
Balance 1st January 2008	35,400		

ADDITIONAL INFORMATION

(1) The opening statement of affairs (balance sheet) of the club at 1st January 2007 was as follows:

	£/€	£/€	£/€
Fixed Assets:			
Grounds and Clubhouse			295,000
Club Equipment (at book value)			65,000
			360,000
Current Assets:			
Bank balance		4,020	
Bar stock		4,800	
Insurance prepaid		1,600	
		10,420	
Current Liabilities:			
Rates accrued due	2,400		
Bar expenses accrued due	1,200		
Bar creditors	5,400		
		9,000	
			1,420
Accumulated Fund			361,420

(2) Club equipment is to be depreciated at 20% per annum on the reducing balance basis, including new equipment.

QUESTION 2 (*Cont'd.*)

(3) Other assets and liabilities at 31st December 2007 were as follows:

	£/€
Bar stock	5,200
Insurance prepaid	1,200
Rates prepaid	1,400
Bar expenses accrued due	1,400
Bar creditors	6,400

(4) The figure for subscriptions received from Associate Members includes £/€2,800 in respect of subscriptions for the year ended 31st December 2008.

Requirement

You are required to prepare:

(a) the bar trading account of Grange Tennis Club for the year ended 31st December 2007

6 Marks

(b) the income and expenditure account of the club for the year ended 31st December 2007

12 Marks

(c) the balance sheet of the club as at 31st December 2007

6 Marks

Total 24 Marks

BACKGROUND INFORMATION TO QUESTIONS 3 & 4

The profit and loss account, balance sheet and appropriate other information of TIMBER HOUSES Ltd., for the year ended 31st December 2007 (with comparative figures for the year ended 31st December 2006) are as follows:

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER

	2007		2006	
	£/€'000	£/€'000	£/€'000	£/€'000
Sales		2,200		2,000
Less: Cost of goods sold				
Opening stock	320		300	
Purchases	860		700	
	1,180		1,000	
Closing stock	280		320	
		900		680
Gross profit		1,300		1,320
Government grants released to profit and loss account		40		60
		1,340		1,380
Less: Expenses				
Depreciation	320		300	
Loss on disposal of fixed assets	10		-	
Other expenses	480	810	360	660
Operating profit before interest		530		720
Interest received	60		20	
Interest paid (including debenture interest)	(40)	20	(60)	(40)
Profit before taxation		550		680
Taxation		260		340
Profit after taxation		290		340
Dividends		120		100
Retained profit for the year		170		240
Retained profit/(loss) forward from last year		40		(200)
Retained profit at end of year		210		40

BACKGROUND INFORMATION TO QUESTIONS 3 & 4 *(Cont'd.)*

BALANCE SHEET AS AT 31st DECEMBER

	2007		2006	
	£/€'000	£/€'000	£/€'000	£/€'000
Fixed assets				
Cost		2,080		1,800
Accumulated Depreciation		1,080		840
		1,000		960
Current Assets				
Stock	280		320	
Debtors	700		600	
Bank	100		-	
	1,080		920	
Current Liabilities				
Bank overdraft	-		80	
Creditors	360		310	
Taxation	300		320	
Dividends owing	100		80	
	760		790	
Net Current Assets		320		130
Government grants		(150)		(120)
Debenture loan		(320)		(200)
		850		770
Financed by:				
Share Capital				
Ordinary shares of £/€1 each	300		200	
7% Preference shares	200	500	430	630
Share premium account		140		100
Profit and Loss Account		210		40
		850		770

ADDITIONAL INFORMATION

During the year ended 31st December 2007 the company bought fixed assets which cost £/€380,000. It sold other fixed assets for £/€10,000.

QUESTION 3

Requirement

Prepare a cash flow statement in accordance with FRS 1, *Cash flow statements*, including relevant notes, for TIMBER HOMES Ltd, for the year ended 31st December 2007.

Total 20 Marks

QUESTION 4

Requirement

(a) Calculate the following ratios for the two years ended 31st December 2007 and 2006:

(i) Current ratio

(ii) Acid test ratio

(ii) Stock turnover ratio

(iv) Debtors days outstanding

(v) Return on capital employed to ordinary shareholders (assuming the preference shares redeemed were redeemed on 1st January 2007)

12 Marks

(b) Write a brief commentary as to the reasons why the bank balance has changed from an overdraft of £/€80,000 to a bank balance of £/€100,000 during the year ended 31st December 2007. You should use the information obtained from answering Question 3 and Question 4(a) in writing this commentary.

10 Marks

Total 22 Marks

SECTION B

Answer EITHER Question 5 OR Question 6 in this Section

QUESTION 5

(a) Explain your understanding of each of the following terms in accordance with Statement of Standard Accounting Practice No. 4 *The Accounting treatment of Government Grants*: (I.A.S.20)

(1) Revenue based grants

3 Marks

(2) Capital based grants

3 Marks

(b) Show, by use of practical examples,

(1) the recommended accounting treatment of revenue based grants and

(2) the two different acceptable accounting treatments of capital based grants

6 Marks

(c) Which accounting treatment of capital based grants is preferred by S.S.A.P. 4 and why?

3 Marks

Total 15 Marks

QUESTION 6

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

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

Requirement

Indicate the right answer to each of the following TEN parts. **Total 15 Marks**

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

SUB-SECTION A – 2 MARK PARTS

BACKGROUND INFORMATION TO PARTS [1] to [4]

The following information relates to Tables Ltd. for the year ended 31st December 2007:

	£/€
Authorised Share Capital:	
2,500,000 ordinary shares of 50p/c each	1,250,000
300,000 5% preference shares of £/€1 each	300,000
Issued Share Capital:	
1,500,000 ordinary shares of 50p/c each	750,000
200,000 5% preference shares of £/€1 each	200,000
Revenue reserves	70,000
Share premium account	60,000
6% Debenture stock..	200,000
Profit and loss account	80,000
Long term investment...	90,000

[1] Shareholders funds, as stated in the balance sheet of Tables Ltd., will be:

(a) £/€1,160,000
(b) £/€1,360,000
(c) £/€1,450,000
(d) £/€1,760,000

[2] If the directors pay a dividend of 4p/c per ordinary share and pay the preference dividend for the year, then the total dividends for the year will be:

(a) £/€40,000
(b) £/€65,000
(c) £/€70,000
(d) £/€115,000

[3] If the 6% Debenture stock is repaid at par and the long-term investments are sold at book value, to help finance the repayments, then the effect on shareholders funds will be:

(a) an increase of £/€200,000
(b) no effect on shareholders funds
(c) a decrease of £/€200,000
(d) an increase of £/€110,000

QUESTION 6 *(Cont'd.)*

[4] If the preference shares are redeemed at par and financed partly by the issue of 200,000 ordinary shares at a premium of 20p/c per share, then the effect on shareholders funds will be:

(a) no effect on shareholders funds
(b) an increase of £/€60,000
(c) a decrease of £/€60,000
(d) a decrease of £/€100,000

[5] If the cost of an item is £/€600 and its selling price is £/€750, which two of the following statements are correct:

(i) margin is 25%
(ii) margin is 20%
(iii) mark-up is 20%
(iv) mark-up is 25%

(a) (i) and (iii)
(b) (i) and (iv)
(c) (ii) and (iii)
(d) (ii) and (iv)

SUB-SECTION B – 1 Mark

[6] Under the provisions of S.S.A.P**.** 9 *Stocks and Work-in-Progress* (I.A.S.2) stocks should be valued at:

(a) the lower of cost or replacement price
(b) the lower of replacement price or net realisable value
(c) the lower of cost or net realisable value
(d) the higher of cost or net realisable value

[7] "The clarification after the balance sheet date of the proceeds from assets sold before the balance sheet date" is an example of, under F.R.S. 21 *Events after the balance sheet date* (I.A.S.10), of:

(a) an adjusting event
(b) a non-adjusting event
(c) an immaterial event
(d) a material event

[8] Which of the following costs would *not* be considered an attributable cost in bringing an asset into working condition for its intended use according to F.R.S.15 *Tangible fixed assets* (I.A.S.16)

(a) acquisition costs, such as stamp duties
(b) the cost of site preparation and clearance
(c) costs relating to production delays
(d) installation costs

QUESTION 6 *(Cont'd.)*

[9] Under the provisions of the Companies Acts taxes due to the government at the year-end:

- **(a)** must be shown separately on the face of the balance sheet
- **(b)** must be shown as one total on the face of the balance sheet
- **(c)** must be shown separately in a note to the accounts
- **(d)** must be shown as one total in a note to the accounts

[10] Under the provisions of the Companies Acts there must be shown in a note to the accounts:

- **(a)** the average number of people employed during the year
- **(b)** the number of people employed on the first day of the year
- **(c)** the number of people employed on the last day of the year
- **(d)** the number of new employees employed during the year

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) ☐	6	(a) ☐	11	(a) ☐	16	(a) ☐	21	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
2	(a) ☐	7	(a) ☐	12	(a) ☐	17	(a) ☐	22	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
3	(a) ☐	8	(a) ☐	13	(a) ☐	18	(a) ☐	23	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
4	(a) ☐	9	(a) ☐	14	(a) ☐	19	(a) ☐	24	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
5	(a) ☐	10	(a) ☐	15	(a) ☐	20	(a) ☐	25	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐

The Institute of Accounting Technicians in Ireland

Admission Examination : Autumn 2008

SOLUTIONS TO PAPER 6

ACCOUNTS ll

Author : Mr Brian Hayden, FCA

Solution to question 1

(a) **Revaluation Account**

		£/€		£/€
Delivery Vehicles		4	Premises	80
			Plant and Machinery	8
Stock		6	Goodwill	24
Profit on revaluation			Debtors	2
Carin	65			
Dennis	39			
		104		
		114		114

(b) **Capital Accounts**

	C	D	E		C	D	E
	£/€	£/€	£/€		£/€	£/€	£/€
Goodwill w/off	36	24	12	Bal b/d	350	350	
Invests. taken over	30	30		Current accounts	20	24	
				Profit on revaluation	65	39	
				Plant & Mach. Introd.			60
				Capital introd.			300
Bal c/d	369	359	348				
	435	413	360		435	413	360
				Bal b/d	369	359	348

Solution to question 1 *(Cont'd)*

Carin, Dennis and Eoin

(c) Balance Sheet as at 1st January 2008

Fixed Assets

		£/€
Freehold premises		580
Plant and machinery (W.2)		149
Delivery vehicles		56
		785
Current Assets		
	£/€	
Stock	50	
Debtors	77	
Cash	4	
Bank (W.1)	228	
	359	
Current Liabilities		
Creditors	68	
		291
Net Current Assets		1,076

Financed by:

Capital Accounts		
Carin	369	
Dennis	359	
Eoin	348	
		1,076

Workings

(1) Bank Account

	£/€		£/€
Capital a/c – Eoin	300	Bal b/d	12
		Bank Loan	60
		Bal c/d	228
	300		300
Bal b/d	228		

(2) Plant and Machinery

	£/€
Valuation	89
Add : Introduced by Dawn	60
	149

Solution to question 2

Grange Tennis Club

(a) **Bar Trading Account**

	£/€	£/€
Bar receipts		115,600
Less: Cost of goods sold		
Opening stock	4,800	
Purchases (W.1)	46,200	
	51,000	
Less: Closing stock	5,200	
		45,800
Gross Profit		69,800
Less: Bar expenses (W.2)	13,000	
Bar wages and salaries	36,800	
		49,800
Bar profit		20,000

Grange Tennis Club

(b) **Income and Expenditure Account for the year ended 31st December 2007**

	£/€	£/€
Subscriptions		
Ordinary members		37,400
Associate members (W.3)		25,300
Tournament Entries		25,100
Tournament lunches(net of cost of food) (W.4)		14,440
Bar profit		20,000
		122,240
Less: Expenses		
Wages and salaries	15,400	
Insurance (W.5)	10,200	
Rent and rates (W.6)	12,400	
Light and heat	5,400	
Repairs and maintenance	20,800	
Bank interest and charges	860	
Depreciation (W.7)	18,200	
		83,260
Excess of expenditure over income		38,980

Solution to question 2 continued on next page

Solution to question 2 *(Cont'd)*

Grange Tennis Club

(c) **Balance Sheet as at 31st December 2007**

	£/€	£/€	£/€
Fixed Assets			
Grounds and Clubhouse			295,000
Club Equipment (W.7)			72,800
			367,800
Current Assets			
Bank		35,400	
Bar stock		5,200	
Insurance prepaid		1,200	
Rates prepaid		1,400	
		43,200	
Current liabilities			
Bar creditors	6,400		
Bar expenses due	1,400		
Associate members sub's prepaid	2,800		
		10,600	
			32,600
Net Current Assets			400,400
Accumulated fund			
At 1/1/2007			361,420
Add: Excess of income over expenditure			38,980
			400.400

Workings :

(1) Bar purchases

	£/€
Bank payment	45,200
Less: owing at 1/1/2007	5,400
	39,800
Add: owing at 31/12/2007	6,400
	46,200

(2) Bar expenses

	£/€
Per bank account	12,800
Less: due at 1/1/2007	1,200
	11,600
Add: due at 31/12/2007	1,400
	13,000

(3) Associate members subscriptions

	£/€
Per bank account	28,100
Less: prepaid for 2008	(2,800)
	25,300

Solution to question 2 continued on next page

Solution to question 2 *(Cont'd)*

		£/€
(4)	**Tournament lunches**	20,840 – 6,400 = 14,440

(5) Insurance

	£/€
Per bank account	9.800
Add: prepaid at 1/1/2007	1,600
	11,400
Less: prepaid at 31/12/2007	1,200
	10,200

(6) Rent and rates

	£/€
Per bank account	16,200
Less: due at 1/1/2007	(2,400)
	13,800
Less: prepaid at 31/12/2007	1,400
	12,400

(7) Depreciation

	£/€
65,000 + 26,000 = 91,000 * 20% =	18,200

Net book amount at 31/12/2007

	£/€
91,000 – 18,200 =	72,800

Question 3

Reconciliation of operating profit to net cash flow from operating activities

	£/€
Operating profit	530
Depreciation	320
Loss on disposal of fixed assets	10
Government grants released	(40)
Increase in debtors	(100)
Decrease in stocks	40
Increase in creditors	50
	810

Cash Flow Statement for the year ended 31st December 2007

	£/€
Net cash flow from operating activities	810
Return on investment and servicing of finance (Note 1)	20
Capital Expenditure (Note 2)	(300)
Taxation paid (W.1)	(280)
Equity dividends paid (W.2)	(100)
	150
Financing (Note 3)	30
Increase / (decrease) in bank and cash balances	180

Solution to question 3 continued on next page

Solution to question 3 *(Cont'd)*

Notes to the Cash Flow Statement

(1) Return on investment and servicing of finance

	£/€
Interest paid	(40)
Interest received	60
	20

(2) Capital Expenditure

	£/€
Payments to acquire tangible fixed assets	(380)
Proceeds of disposal of fixed assets	10
Government grant received (W.3)	70
	(300)

(3) Financing

	£/€
Issue of ordinary shares	100
Share premium	40
	140
Redemption of preference shares	(230)
Issue of debentures	120
	30

Workings :

Taxation paid

	£/€
Due at 1/1/07	320
Charge for year	260
	580
Due at 31/12/07	300
Therefore : Paid	280

Equity dividends paid

	£/€
Due at 1/1/07	80
Dividend for year	120
	200
Due at 31/12/07	100
Therefore : Paid	100

Government grant received

	£/€
Bal at 1/1/07	120
Released to P & L a/c	40
	80
Bal at 31/12/07	150
Therefore : received	70

Solution to question 4(a)

			2007	2006
(i)	Current ratio	1,080/760	1.42:1	
		920/790		1.16:1
(ii)	Acid test ratio	800/760	1.05:1	
		600/790		0.76:1
(iii)	Stock turnover	$\frac{900}{(320 + 280)/2}$	3 times	
		$\frac{680}{(300 + 320)/2}$		2.19 times
(iv)	Debtors days outstanding	$\frac{700 * 365}{2,200}$	116 days	
		$\frac{600 * 365}{2,000}$		109.5 days
(v)	Return on capital employed (to ordinary shareholders)	$\frac{(290 – 14) * 100}{300 + 140 + 210}$	42.46%	
		$\frac{(340 – 30.1) * 100}{200 + 100 + 40}$		91.15%

Solution to question 4(b)

From the cash flow statement it can be seen that the biggest factor giving rise to the improved cash position in 2007 as against 2006 is the net cash flow from operating activities generated by the company of 810,000.

The company is very profitable and was effectively able to finance a significant investment in fixed assets out of current cash flow at the same time as paying taxation of 280,000 and dividends of 100,000.

The liquidity ratios and efficiency ratios (with the exception of the debtor’s days outstanding) have remained satisfactory.

Solution to question 5(a)

(1) Revenue based grants are grants towards the cost of revenue expenditure e.g. training grants.

(2) Capital based grants are grants towards the cost of capital expenditure e.g. towards the cost of fixed assets

Solution to question 5(b)

Revenue based grants should be credited to the profit and loss account/Income statement in the same year as the related expenditure is charged as an expense. The grant can be deducted from the expense or shown separately as other income.

Example;

	£/€
Training expenses	50,000
Grant of say 40%	20,000

Profit and loss account (extract)

Gross profit	
Less: expenses:	
Training expenses (50,000 – 20,000)	30,000

OR

Gross profit	*****
Add: Training grant	20,000
Less: Expenses	
Training expenses	50,000

Capital based grants should be credited to revenue in the profit and loss account/income statement over the useful life of the asset to which it relates either by:

(i) reducing the cost of the fixed asset by the amount of the grant and depreciating the net cost, or
(ii) treating the amount of the grant as a deferred credit in the balance sheet and transferring a portion of the grant to revenue over the life of the related asset on the same basis as the related asset is depreciated.

Example:

Asset cost 100,000 with a 4 year life
40% grant received = 40,000

Method (i)

Profit and loss account/income statement (extract)

Expenses:	
Depreciation (60,000/4)	15,000

Balance sheet (extract)	Cost	Acc.Depr.	N.B.A.
Fixed assets	60,000	15,000	45,000

Solution to question 5(b) continued on next page

Solution to question 5(b) *(Cont'd)*

Method (ii)

Profit and loss account (extract)

Gross profit			
Add: Gov. grant released			10,000
Less: Expenses			
Depreciation		25,000	

Balance sheet (extract)	Cost	Acc.Depr.	N.B.A.
Fixed assets	100,000	25,000	75,000
Government grants			(30,000)

Solution to question 5(c)

The treatment of the grant as a deferred credit is the recommended method as:

- it shows fixed assets at their true cost
- depreciation charge is more correct
- netting off is in principle bad accounting
- it leads to better comparison from year to year and between companies.

Solution to question 6

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

Workings : (*Not required by students)*

(1) 750,000 + 200,000 + 70,000 + 60,000 + 80,000 = £/€1,160,000

		£/€
(2) 1,500,000 *4%	=	60,000
200,000 *5%	=	10,000
		70,000

(4) 200,000 – 140,000 = £/€60,000 decrease

		£/€
(5)	Selling price	750
	Cost	600
	Profit	150

Margin is 150*100/750 = 20%
Mark-up is 150*100/600 = 25%

EXAMINERS REPORT

ACCOUNTS II

Autumn 2008

General

The overall standard of answers was poor with an average mark of only 45%. Many candidates failed to answer one or more of the required number of questions, in particular Question 3 which was not attempted by 20% of examinees.

Question 1

This partnership question was the second best answered question with an average mark of 55%. The main area causing problems to candidates was the treatment of Goodwill which was to be increased in value by 24,000 and credited to the partners in the old profit sharing ratio (either through the revaluation account or directly to the capital accounts) and then written off in full in the new profit sharing ratio.

Question 2

This incomplete records question was the best answered question with an average mark of 58%. Some candidates treated the new equipment as an expense when they should have treated it as a fixed asset and some did not seem to realise that the associate members subscriptions mentioned in item 4 of the question were subscriptions received in advance for the next year.

Question 3

This cash flow statement question was poorly answered by those candidates who attempted it with an average mark of 41% (as stated above 20% did not attempt it at all). Many candidates did not know which P & L account figures to use, which should of course have been the current year figures (and not the previous year figures or the difference between the current and previous year figures). Also many candidates could not correctly calculate taxation paid or dividends paid.

Question 4

This analysis and interpretation of accounts question was the worst answered question with an average mark of only 34%. Not one candidate correctly calculated the Return on Capital Employed as asked. The answers to **part (b)** of the question were very poor in most cases with very few candidates stating that the main contributor to the improved cash position was cash generated from operations.

Question 5

Only a small number of candidates answered this choice question on accounting for government grants. The average mark was 48%.

Question 6

The average mark in this multiple choice question was 49%.