

**UNIVERSITY OF BOLTON**  
**SCHOOL OF BUSINESS AND CREATIVE**  
**TECHNOLOGIES**  
**ACCOUNTANCY PATHWAY**  
**SEMESTER 1 EXAMINATIONS 2009/2010**  
**FINANCIAL ACCOUNTING**  
**MODULE NO: ACC2500**

Date: Friday 22<sup>nd</sup> January 2010

Time: 14:00 – 17:00

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**INSTRUCTIONS TO CANDIDATES:**

There are **FOUR** questions on this paper.

Answer **ALL** questions.

All questions carry equal marks.

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**Answer ALL questions**

**Q1**

Bruno, Len and Arlene have been in partnership for many years sharing profits equally. The balance sheet of the business as at 31 December 2009 is as follows:

	£	£
Non Current Assets		
Land & Buildings		720,864
Equipment		123,832
Motor Vehicles		<u>28,904</u>
		873,600
Current Assets		
Inventories	59,200	
Receivables	<u>81,600</u>	
	140,800	
Current Liabilities		
Payables	146,240	
Bank overdraft	490,640	
Loan Account - Bruno	<u>160,000</u>	
	796,880	
Net Current liabilities		656,080
		<u>217,520</u>
Capital Accounts		
Bruno		112,000
Len		56,000
Arlene		<u>33,600</u>
		201,600
Current Accounts		
Bruno	8,000	
Len	12,800	
Arlene	(4880)	
		15,920
		<u>217,520</u>

**Question 1 continued over  
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**Question 1 continued**

On the 1 January 2010, after making trading losses for a number of years the partners decided to dissolve the partnership and to transfer the business to a new company, Strictly Ballroom Limited, under the following terms:

1. Strictly Ballroom Limited to purchase the land and buildings, equipment and all but one vehicle together with the inventory for £824,000
2. Strictly Ballroom Limited paid £726,400 into the partnership bank account, the balance of any consideration to be issued as ordinary shares in Strictly Ballroom Limited.

The partnership collected all monies outstanding from debtors with the exception of two bad debts totalling £9,920.

The partnership settled the amounts due to creditors in full and repaid the loan from Bruno.

Dissolution expenses amounted to £1,200.

Len took over the remaining vehicle at an agreed value of £6,400.

Arlene had lost all of her money in the stock market crash and was therefore unable to contribute any funds on dissolution. Bruno and Len agreed to make good any debit balances on her capital account in proportion to their capital balances as at the year end date.

**Required:**

Prepare the relevant accounts required to record the dissolution of the partnership.

**TOTAL 25 MARKS**

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**Q2**

You are presented with the following information relating to Auld plc and Reekie plc:

Summarised balance sheets at 31<sup>st</sup> December 2009

	Auld plc £'000	Reekie plc £'000
Total assets /less current liabilities	<u>4,200</u>	<u>4,200</u>
Non-current liabilities		
10% Debenture stock	---	<u>(2,000)</u>
	<u>4,200</u>	<u>2,200</u>
Capital and reserves:		
Called up share capital		
Ordinary shares of £1 each	4,000	1,400
6% Cumulative preference shares of £1 each	-	600
Retained profit	<u>200</u>	<u>200</u>
	<u>4,200</u>	<u>2,200</u>

Additional information:

- 1) The operating profit before interest and tax for the year to 31st December 2009 earned by each company was £660,000.
- 2) The rate of corporation tax is to be taken as 30%.
- 3) The market prices per ordinary share at 31<sup>st</sup> December 2009 were as follows:
 

	£
Auld plc	2.40
Reekie plc	1.80
- 4) There were no changes in the share capital structure or in long-term loans of either of the companies during the year.

**Required:**

- (a) Prepare a summarised income statement for each company for the year to 31<sup>st</sup> December 2009 **(7 marks)**
- (b) Calculate the following performance indicators for each company:
  - i. earnings per share;
  - ii. price earnings;
  - iii. gearing;
  - iv. interest cover. **(8 marks)**
- (c) Briefly discuss and assess the significance of each of the above indicators to potential investors **(10 marks)**

**NOTE: ASSUME THAT THE CURRENT YEARS RETAINED PROFIT HAS ALREADY BEEN INCLUDED IN THE RETAINED PROFIT FIGURE IN THE ABOVE BALANCE SHEET.**

**TOTAL 25 MARKS**

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**Q3**

Quebec plc has the following authorised share capital:  
 Six million Ordinary Shares of 50 pence each, and  
 One million 6% Preference Shares of £1.00 each.

Below is a summarised trial balance of the company at 31<sup>st</sup> December 2009.

	<u>£000</u>	<u>£000</u>
Ordinary share capital		2,000
Preference share capital		1,000
Share Premium		4,000
Non-current Assets (at cost)	9,000	
Non-current Asset depreciation		1,000
Current assets	3,600	
Current liabilities		2,300
10% Debentures		2,400
Goodwill	800	
Retained profit	<u>-----</u>	<u>700</u>
	<u>13,400</u>	<u>13,400</u>

Notes:

The directors are proposing to pay the preference dividend in full, and to pay an ordinary dividend of 6p per share.

**Required:**

- a) Prepare a balance sheet as at 31<sup>st</sup> December 2009 in as good a form as possible from the above information. **(5 marks)**
- b) Explain the difference between 'authorised' and 'issued' share capital. **(5 marks)**
- c) Calculate the amount of dividend to be paid to the preference and ordinary shareholders. **(5 marks)**
- d) Explain how 'debentures' are different from 'shares' **(5 marks)**
- e) Explain what is meant by 'share premium' and why it is shown separately on the balance sheet. **(5 marks)**

**TOTAL 25 MARKS**

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**Q4**

Ontario Ltd. was incorporated in December 2008, and commenced business in January 2009.

Below is the trial balance at the end of 2009.

	<u>£000</u>	<u>£000</u>
Share Capital		8,000
Revenue		12,000
Manufacturing costs	6,800	
Plant and machinery ( at cost )	8,000	
Receivables	4,300	
Bank	430	
Administration expenses	800	
Distribution costs	520	
Payables		<u>850</u>
	<u>20,850</u>	<u>20,850</u>

Notes:

- The share capital comprises of 5m £1 Ordinary Shares
- No charge has yet been made for depreciation on plant and machinery
- The figure for administration expenses includes an amount of £440,000 in respect of research and development expenditure

The following items have to be dealt with:

- (i) Closing Stock. This has been valued using three different valuation methods resulting in the following valuations:
 

First in First out	£2,640,000
Last in First out	£2,040,000
Average cost	£2,400,000
- (ii) The plant and machinery has an expected life of four years and a disposal value of £400,000. It can be depreciated either by the straight line method or by applying a rate of 30% using the reducing balance method.
- (iii) The research and development costs were in respect of general research amounting to £100,000 and development costs of £340,000 associated with an improved product range. The new products are expected to be available next year and market research indicates there will substantial demand for them.

The directors are keen to show the most favourable profit figure possible for this first year of trading and they have advised you to deal with the above items as below:

- Use the lowest closing stock valuation
- Do not charge any depreciation
- Capitalise all the research and development expenditure.

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**Required:**

- a) Based on the above advice, prepare an income statement for the year and a balance sheet as at 31<sup>st</sup> December 2009.

**(10 marks)**

- b) Discuss and assess how each of the above items should be dealt with in accordance with relevant international accounting standards, and calculate what the revised profit would be.

**(15 marks)**

**TOTAL 25 MARKS**

**END OF QUESTIONS**