

UNIVERSITY OF BOLTON
RAS AL KHAIMAH CAMPUS
SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES
ACCOUNTANCY PATHWAY
SEMESTER 1 EXAMINATIONS 2010/11
FINANCIAL ACCOUNTING
MODULE NO: ACC2500

Date: 20th January 2011

Time: 2:00 pm – 5:00 pm

INSTRUCTIONS TO CANDIDATES:

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

Answer **ALL** of the questions.

All questions carry equal marks.

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Question 1

Smith and Brown were in partnership sharing profits and losses in the ratio 2:1 respectively.

On 1st January 2011, after several years of successful trading, they decide to convert the partnership into a limited company, Green Ltd.

The balances on the partnership books on 31st December 2010 were as below:

	<u>£000</u>	<u>£000</u>
Capital: Smith		600
Brown		420
Cash/bank	264	
Premises	450	
Fixtures @ cost	280	
Vehicles @ cost	60	
Provision for depreciation:		
Fixtures		120
Vehicles		34
Inventories	106	
Trade receivables	154	
Trade payables		85
Loan: Brown		<u>55</u>
	<u>1,314</u>	<u>1,314</u>

The following information is to be taken into consideration:

- (a) Smith was to take some inventory for personal use at an agreed valuation of £4,000.
- (b) Green Ltd. was to take over all other assets and liabilities with the exception of the Cash/bank balance which was to be used to settle the balances on the partners' accounts after all adjustments had been made.
- (c) The assets and liabilities of the partnership were revalued to fair values at the date of conversion as follows :

	<u>£000</u>
Premises	600
Fixtures	120
Vehicles	16
Inventories	66
Receivables	142
Payables	85

- (d) The balance on Brown's loan account was to be transferred to his capital account.
- (e) Costs of conversion to a limited company were estimated at £12,000
- (f) The purchase consideration was to be 900,000 £1 ordinary shares in the company, valued at par, and shared between the partners in their agreed profit sharing ratio.

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QUESTION ONE CONTINUED

Required:

- (a) Prepare the necessary accounts to bring about the closure of the partnership. (18 marks)
- (b) Prepare the opening Balance Sheet of Green Ltd. on 1st January 2011. (7 marks)
- Total 25 marks**

Question 2

You are the financial accountant of Berlin plc, at a recent board meeting the directors identified 2 companies as potential take over targets. The finance director has presented you with the following information relating to 2 companies, Longton plc and Szczecin plc:

Summarised Statements of Financial Position at 31 March 2010

	Longton plc £'000	Szczecin plc £'000
Total assets	<u>3,700</u>	<u>3,700</u>
Equity and reserves:		
Called up share capital		
Ordinary shares of £1 each	3,300	1,200
6% Cumulative preference shares of £1 each	-	600
Retained earnings	<u>400</u>	<u>400</u>
	3,700	2,200
Non-current liabilities		
10% Debenture stock	<u>---</u>	<u>1,500</u>
	<u>3,700</u>	<u>3,700</u>

Additional information:

- The operating profit before interest and tax for the year to 31 March 2010 earned by each company was £850,000.
- The rate of corporation tax is to be taken as 30%.
- The market prices per ordinary share at 31 March 2010 were as follows:

	£
Longton plc	2.80
Szczecin plc	4.30
- There were no changes in the share capital structure or in long-term loans of either of the companies during the year.

QUESTION TWO CONTINUED ON THE NEXT PAGE

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QUESTION TWO CONTINUED

Required:

- (a) Prepare a summarised Statement of Comprehensive Income for each company for the year to 31st March 2010. (7 marks)
- (b) Calculate the following performance indicators for each company and explain the significance of each indicator to aid the directors in the decision making process.
- i) earnings per share;
 - ii) price earnings;
 - iii) gearing;
 - (iv) interest cover.
- (18 marks)

Total 25 marks

Question 3

The following information relates to Brawn plc for the accounting period ended 30th April 2010.

Statement of Comprehensive Income for year ended 30 April 2010

	<u>£m</u>
Revenue	180
Cost of Sales	<u>(35)</u>
Gross Profit	145
Net operating expenses	<u>(36)</u>
Operating profit	109
Loss on sale of equipment	<u>(5)</u>
Profit before interest	104
Interest paid	<u>(7)</u>
Profit before tax	97
Income tax	<u>(32)</u>
Profit after tax	65
Dividend paid	<u>(18)</u>
	<u>47</u>

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QUESTION THREE CONTINUED

Statement of Financial Position as at 30th April:

	<u>Notes</u>	2010 <u>£m</u>	2009 <u>£m</u>
Non-current Assets	1	<u>336</u>	<u>305</u>
Current Assets:			
Inventories		36	20
Trade receivables		38	48
Investments		5	3
Cash at Bank		<u>15</u>	<u>10</u>
		<u>430</u>	<u>386</u>
Equity and reserves			
£1 Ordinary shares		100	80
Retained earnings		<u>253</u>	<u>206</u>
		353	286
Non-current liabilities			
Debentures		50	60
Current liabilities			
Trade payables		12	8
Income Tax		<u>15</u>	<u>32</u>
		<u>430</u>	<u>486</u>

Notes to Statement of Financial Position:

1. Non-current assets: (£m)	30 th April 2010	30 th April 2009
Cost (1 st May)	358	358
Additions at cost	88	0
Disposals at cost	<u>13</u>	<u>0</u>
Cost (30th April)	<u>433</u>	<u>358</u>
Depreciation (1 st May)	53	28
Charge for year	50	25
Depreciation on disposal	<u>6</u>	<u>0</u>
Depreciation (30 th April)	<u>97</u>	<u>53</u>

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QUESTION THREE CONTINUED

Required:

- (a) Prepare a Statement of Cash Flows for Brawn plc in accordance with IAS7.
(18 marks)
- (b) Explain the reasons for companies having to prepare such a statement in addition to the Statement of Comprehensive Income and Statement of Financial Position.
(7 marks)

Total 25 marks

Question 4

You are a manager at a small firm of accountants; one of the partners has been approached by a new client who intends to set up a small limited company. The partner has nominated you as the clients key advisor, the client has asked for advice regarding the methods a company can raise funds, for example, by issuing shares or by borrowing and as such, it will be faced with paying interest and dividends. He is also keen to ensure he is able to interpret his financial statements to aid with his running of his business.

Required:

The partner has asked you to prepare a report for the client to include the following:

- a) An explanation as to the meaning of the following:
(i) Interest
(ii) Dividends
(iii) Ordinary shares
(iv) Preference shares
(v) Debentures
(10 marks)
- (b) One performance indicator relating to, Profitability, Liquidity and Efficiency (including illustrations of how each can be calculated) as well as identifying the significance of each for management purposes.
(15 marks)

Total 25 marks

END OF QUESTIONS