

UNIVERSITY OF BOLTON - RAS AL KHAIMAH

BUSINESS AND CREATIVE TECHNOLOGIES

ACCOUNTANCY PATHWAY

SEMESTER 2 EXAMINATIONS 2010/2011

FINANCIAL ACCOUNTING

MODULE NO: ACC2500

Date: 3rd June 2011

Time: 5:00pm – 8:00pm

INSTRUCTIONS TO CANDIDATES:

Answer ALL questions on this paper.

No extra materials are allowed to be used in this exam.

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Answer ALL questions

Q1

Young, Bridge and Marsh are in partnership sharing profit and losses in the ratio 3:2:1 respectively.

The balance sheet of the partnership on 31st Dec 2010 is given below:

	£	£
Non-current Assets:		
Premises		200,000
Plant and machinery		120,000
Fixtures and Fittings		40,000
Vehicles		<u>34,000</u>
		394,000
Current Assets:		
Inventories	27,400	
Receivables	21,000	
Bank/cash	<u>1,500</u>	
	49,900	
Current Liabilities:		
Payables	<u>34,000</u>	
Net current assets		<u>15,900</u>
		<u>409,900</u>
Capital:		
Young		180,000
Bridge		140,000
Marsh		<u>80,000</u>
		400,000
Current a/c's:		
Young	5,400	
Bridge	2,300	
Marsh	<u>2,200</u>	
		<u>9,900</u>
		<u>409,900</u>

Marsh is to retire from the partnership on this date and a new partner, Elliott, is to join the partnership on 1st Jan 2011.

The following arrangements have been agreed:

Goodwill is to be valued at £84,000. No account is to be kept for goodwill.

Certain assets are to be re-valued as below:

Premises	£400,000
Plant & machinery	£150,000
Fixtures and Fittings	£30,000
Vehicles	£30,000
Inventories	£23,400

Question 1 continues over the page....

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Question 1 continued....

A provision of £2,000 is to be made for a doubtful debt. Elliott is to introduce cash of £140,000 as his capital. Marsh is to withdraw the amount due to him in cash. The profit sharing ratio of the new partnership of Young, Bridge and Elliott is to be 3:2:2 respectively.

Required:

- (a) Make the necessary adjustments to record the above, and **(18 marks)**
- (b) Prepare the revised balance sheet of the new partnership on 1st Jan 2011. **(7 marks)**

Total 25 marks

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Q2

You are presented with the following information relating to ABC plc and XYZ plc:

Summarised balance sheets at 31 December 2010

	ABC plc £'000	XYZ plc £'000
Total assets /less current liabilities	<u>1,200</u>	<u>1,400</u>
Non-current liabilities		
12% Debenture stock	<u>---</u>	<u>(200)</u>
Capital and reserves:		
Called up share capital		
Ordinary shares of £1 each	1,000	600
8% Cumulative preference shares of £1 each	-	400
Retained profit	<u>200</u>	<u>200</u>
	<u>1,200</u>	<u>1,200</u>

Additional information:

- The operating profit before interest and tax for the year to 31 December 2010 earned by each company was £600,000.
- The rate of corporation tax is to be taken as 30%.
- The market prices per ordinary share at 31 December 2010 were as follows:

	£
ABC plc	7.25
XYZ plc	8.75
- There were no changes in the share capital structure or in long-term loans of either of the companies during the year.

Required:

- Prepare a summarised income statement for each company for the year to 31 December 2010. **(5 marks)**
- Calculate the following accounting ratios for each company:
 - earnings per share;
 - price earnings;
 - gearing **(12 marks)**
- Discuss and assess the importance of gearing to shareholders **(8 marks)**

Total 25 Marks

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Q3

Pravda plc has just completed its first year of trading.
Its authorised share capital is:

Two million Ordinary Shares of 50 pence each, and
Five hundred thousand 8% Preference Shares of £1.00 each.

At the year ended 31 March 2011, the company's called up and fully paid capital was:

1,500,000 ordinary shares, issued at a premium of £1.25, and
300,000 8% preference shares issued at par.

The company also made a debenture issue of £600,000. The debentures carry a rate of interest of 7%.

Revenue for the year amounted to £1,750,000 and total expenses were £620,000 (excluding depreciation).

There were no opening or closing payables, but at the year end there were trade receivables of £40,000.

The company bought and paid for non current assets costing £1,240,000 during the year and the estimated depreciation charge for the year was £400,000.

The company paid the preference dividend, and an ordinary dividend of 6p per share before the year end.

Required:

- (a) Prepare a summarised Statement of comprehensive income for the year, and a statement of financial position at the year end in as good a form as possible from the above information. **(15 marks)**
- (b) Discuss and assess the difference between:
- (i) Ordinary shares
 - (ii) Preference shares
 - (iii) Issued and authorised shares
 - (iv) Bank loans and debentures
- (10 marks)**

Total 25 marks

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Q4

You are the financial accountant for Clarke plc, the financial controller is finalising the year ended 31 March 2011 financial statements and has asked you to prepare the statement of cash flows. The financial controller has provided you with the information below.

Statements of financial position	31 March 2011 £000	31 March 2010 £000
ASSETS		
Non-current assets		
Property, plant and equipment	528	447
Development costs	110	93
	638	540
Current assets		
Inventories	413	380
Trade receivables	238	215
Investments	28	-
Cash	111	4
	790	599
Total assets	1,428	1,139
EQUITY AND LIABILITIES		
Equity		
£1 ordinary shares	240	200
Share premium	140	120
Revaluation surplus	100	-
Retained earnings	538	530
	1,018	850
Non-current liabilities		
Provision for warranties	30	25
6% Debentures	150	-
	180	25
Current liabilities		
Income taxes payable	37	32
Trade payables	193	232
	230	264
Total equity and liabilities	1,428	1,139

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Question 4 continued....

Statement of comprehensive income	£000
Revenue	900
Cost of sales	(550)
Gross profit	350
Expenses	(245)
Finance costs	(9)
Profit on sale of equipment	7
Profit before tax	103
Income tax expense	(30)
PROFIT FOR THE YEAR	73
Other comprehensive income	
Gain on property revaluation	100
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	173

The following information is also relevant:

- Deferred development expenditure amortised during the year amounted to £25,000
- Additions to property, plant and equipment totalled £167,000. Proceeds from the sale of equipment were £58,000 resulting in a profit of £7,000. No other additions or disposals took place during the year.
- Finance costs represent interest paid on the debentures.
- Current asset investments represent treasury bills purchased; these are deemed to be cash equivalents.
- Dividends paid during the year amounted to £65,000
- The company revalued its property at the year end.
- Expenses include wages paid of £44,000 and bad debts of £12,000

Required:

Prepare a Statement of cash flows for Clarke plc for the year ended 31 March 2011 using the indirect method in accordance with IAS 7. **(25 Marks)**

END OF QUESTIONS