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OLLSCOIL NA hÉIREANN, GAILLIMH

THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

AUTUMN EXAMINATIONS 1998/99

SECOND COMMERCE EXAMINATIONS

FINANCIAL ACCOUNTING I

(AY206)

Professor R. W. Scapens
Professor J. F. Collins
Mr K. Warnock
Ms. E. Curtis

Time allowed: TWO AND A HALF HOURS

Candidates are required to attempt ANY THREE questions

All questions carry equal marks

Separate answer books are not required

Question 1

The following is a list of balances from the accounts of Carla Ltd at 31 December 1998:

Accruals	10,000
Administration expenses	182,000
Buildings at cost	175,000
Buildings, accumulated depreciation	63,000
Cash	48,000
Cost of sales	521,000
Current asset investments	96,000
10% Debenture loan due 2010	150,000
Debtors	158,000
Depreciation charge - buildings	14,000
Depreciation charge - plant and equipment	36,000
Distribution costs	180,000
Government grants	30,000
Freehold land	290,000
Interest expense	15,000
Ordinary share capital (500,000 shares of 50p each)	250,000
Plant and equipment	210,000
Plant and equipment, accumulated depreciation	68,000
Profit and loss account	69,000
8% Preference shares	70,000
Revaluation reserve	90,000
Stock at 31 December 1998	95,000
Sundry receipts	120,000
Trade creditors	110,000
Turnover	990,000

Additional information:

1. Included under government grants is a grant for £30,000 received in the current year towards the purchase of a piece of equipment which was purchased and installed at the start of the year and has an estimated useful life of 5 years.

2. In December 1998 a piece of land which cost £50,000 but had been revalued to £80,000 in 1997 was sold for £120,000. The only entry which has been made in respect of this sale was to debit bank with the cash received and to credit sundry receipts. There were no other acquisitions or disposals of land. Freehold land is not depreciated.

3. During the year, there were no acquisitions or disposals of buildings. Total acquisitions of plant and equipment during the year amounted to £38,000 and there were no disposals of plant and equipment.

4. Bad debts of £8,000 are to be written off and the provision for bad debts of 5% of outstanding trade debtors is to be created.

5. The Directors propose to pay an ordinary dividend of 3p per share. Preference dividends have not yet been accrued.

6. Administration expenses of £22,000 should be accrued.

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Required:

a) Prepare the profit and loss account for Carla Ltd for the year ended 31 December 1998, and a balance sheet at that date, in a form suitable for publication, including relevant notes, so far as this is possible from the available information.

(25 marks)

b) *FRS 3 Reporting Financial Performance* introduced some major changes to the format and presentation of the profit and loss account. Outline the major changes introduced by FRS 3 and explain briefly why such changes were introduced.

(8.33 marks)

(Total marks 33.33)

Question 2

Part A

Tomkins Ltd produces two products strainers and drainers using two different raw materials rivets and plugs. You are given the following information about each product:

	Strainers	Drainers
Raw material inputs		
Rivets	0	4
Plugs	4	0
Labour costs	£15	£20
Production overheads	£5	£8
Selling and distribution costs	£6	£4
Selling price	£35	£52
Stock at 31 December 1998	3,800 units	6,000 units

Raw material inputs

Tomkins uses a first in first out stock flow assumption for valuing its stocks. At year end the company had a 7,000 rivets in stock which had cost £2.30. This price was constant through out 1998. The company had a stock of 8,000 plugs at year end. The price of plugs varied during the year and an analysis of purchases is given below:

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Purchases of Plugs for 1998

Date	Quantity	Price per unit
1/1/98	14,000	£1.60
1/4/98	38,000	£1.80
1/7/98	20,000	£2.40
1/10/98	6,000	£2.50

If rivets and plugs were not used in the production of strainers and drainers, they could be sold immediately for the following prices:

Rivets	£2.00
Plugs	£2.10

Required:

Calculate the amount at which stock of raw materials and finished goods should be shown in the balance sheet of Tomkins Ltd.

(20 marks)

Part B

Write a note on ONE of the following:

- SSAP 12 Accounting for depreciation
- The impact of the Companies (Amendment) Act 1986 on the regulation of financial reporting.

(13.33 marks)

(Total marks 33.33)

Question 3

The profit and loss account of Marie Ltd for the year ended 31 December 1998 and the balance sheets as at 31 December 1997 and 1998 and the are set out below:

Marie Ltd Profit and Loss account for the year ended 31 December 1998

Sales	498,000
Cost of sales	(269,700)
Gross profit	228,300
Expenses(including depreciation and the gain on the sale of fixed assets)	(165,600)
Profit before interest and tax	62,700
Interest income	7,000
Taxation	(18,000)
Net profit	51,700
Dividends declared	(28,000)
Retained profit	23,700

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Marie Ltd. Balance Sheets as at 31 December,

	1997	1998
Tangible fixed assets		
Freehold property (Note 1)	150,000	160,000
Equipment, net (Note 1)	60,000	75,000
	210,000	235,000
Current assets		
Stock	40,000	53,800
Debtors (Note 2)	57,500	78,600
Current asset investments (Note 3)	16,000	4,000
Cash	10,000	2,000
	123,500	138,400
Current liabilities		
Trade creditors	(27,300)	(36,500)
Taxation	-	(15,000)
Dividends	(16,500)	(18,500)
Net current assets	79,700	68,400
Total assets less current liabilities	289,700	303,400
Creditors, due after more than 1 year		
Bank loan	(125,000)	(100,000)
	164,700	203,400
Capital and Reserves		
Share Capital	100,000	110,000
Share premium	10,000	15,000
Profit and loss account	54,700	78,400
	164,700	203,400

Notes

Note 1: During the year the company sold equipment which had cost £15,000 and a net book value of £5,400 for £7,800. Depreciation was provided on equipment at the rate of 10% on the opening net book value. Freehold land is not depreciated and there were no disposals of land during the year.

Note 2: Debtors includes interest receivable of £3,000 in 1997 and £4,800 in 1998.

Note 3: Current asset investments are classified by the company as liquid resources.

Required

Prepare the following for Marie Ltd for the year ended 31 December 1998:

- Reconciliation of operating profit to net cash from operations
- Cash flow statement

in accordance with FRS 1 Cash flow statements. The reconciliation of the change in net cash to the change in net debt and supporting note is NOT required.

(20 marks)

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PART B

Anne, Ben and Conor have been in partnership for many years. The profit and losses of the partnership are shared in the ratio of 3:3:4 after taking account of interest on drawings charged at 12% per annum; interest on partners capital paid at 7%; and payment of a salary to Ben of £8,500 and Conor of £9,300. Partner's capital accounts and drawings for 1998 were as follows:

	Capital	Drawings	
Anne	£180,000	1/3/98	£ 6,000
Ben	£ 40,000	1/7/98	£ 4,500
Conor	£ 65,000	1/10/98	£10,000

The partnership made a profit of £5,600 for the year ended 31 December 1998.

Required:

Prepare the appropriation account for the partnership for the year ended 31 December 1998 and a summary clearly showing the net amount of profit due to each partner.

(13.33 marks)

(Total marks 33.33)

Question 4

Bill Diamond runs a bookshop. You have been asked to help him to prepare a trading and profit and loss account and balance sheet for the year ended 30 June 1999. You have gathered any financial records he keeps and asked him relevant details about his conduct of the bookshop business. You have summarised the bank statements of the business as follows:

Balance on 30 June 1998		7,200
Receipts from customers banked	138,000	
Bank loan received 1 April 1999	30,000	
		168,000
		175,200
Payments to suppliers of books	117,000	
Wages	21,300	
Rent	5,000	
Utilities	3,000	
Other expenses	5,000	
Drawings	12,000	
		163,300
Balance at 30 June 1999		11,900

[Question 4 continues on the next page]

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Other information available to you is as follows:

(1) The bank reconciliation for 30 June 1998 shows as the only reconciling item a cheque to a supplier of books for £4,000, not yet presented at that date.

(2) The bank reconciliation for 30 June 1999 shows receipts from customers of £2,000 deposited but not yet credited, as well as cheques to suppliers of books for £3,500, not yet presented.

(3) The business has a small volume of sales on credit (most are for cash); the amount of £1,500 was due from customers on 30 June 1998, and the corresponding figure on 30 June 1999 was £4,200.

(4) Amounts owed to suppliers of books were £8,000 on 30 June 1998 and £10,000 on 30 June 1999; in both cases these are after deducting cheques paid but not yet presented.

(5) The cost of the stocks of books on hand at 30 June 1998 was £45,000; the figure on 30 June 1999 was £51,000.

(6) Books are sold at a price 33 1/3% above cost.

(7) Mr. Diamond uses a car for the business which was bought for £10,000 on 1 July 1997; the car is depreciated on the straight-line basis, is expected to last for five years, and is not expected to have any value at the end of its life.

(8) The loan carries interest at 10% per annum, payable on 31 March each year starting on 31 March 2000.

<u>**Required:**</u>

(a) Assuming that all the information as presented above is correct and complete, with any apparent discrepancy between books bought and sold accounted for by shop-lifting, prepare a trading and profit and loss account for the business for the year ended 30 June 1999, together with a balance sheet at that date.

(27 marks)

(b) Explain any other factors which you think might cause discrepancies arising from a comparison between the information about books purchased, the standard mark-up and the information about receipts for books sold.

(6.33 marks)

(Total marks 33.33)