

Exam question paper



AAT Accounting Qualification
NVQ/SVQ
Level 4
Drafting Financial Statements
(Accounting practice, industry
and commerce) (DFS)
2003 Standards

AAT Accounting Qualification
Diploma pathway
Diploma Level
Drafting Financial Statements
(DFS)
2003 Standards

Wednesday 3 December 2008 (morning)

Time allowed - 3 hours plus 15 minutes' reading time

Important:

This exam paper is in two sections. You should try to complete every task in both sections.

We recommend that you use the 15 minutes' reading time to study the exam paper fully and carefully so that you understand what to do for each task. However, you may begin to write your answers within the reading time, if you wish.

We strongly recommend that you use a pen rather than a pencil.

You may not use programmable calculators or dictionaries in the exam.

Do NOT open this paper until instructed to do so by the Supervisor.

Note:

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This exam paper is in TWO sections.

You must show competence in both sections. So, try to complete EVERY task in BOTH sections.

Section 1 contains 6 tasks and Section 2 contains 2 tasks.

Please use the answer booklet provided. You should include all your workings and essential calculations in your answers.

The answer booklet includes the following pro-formas:

- **Journal entries**
- **Company income statement**
- **Company balance sheet**
- **Consolidated balance sheet**
- **Cash flow statement**

You should spend about 125 minutes on Section 1 and about 55 minutes on Section 2.

Section 1

This section is in three parts.

Part A

You should spend about 50 minutes on this part.

Data

You have been asked to help prepare the financial statements of Laxdale Ltd for the year ended 31 October 2008. The company's trial balance as at 31 October 2008 is shown below.

Laxdale Ltd

Trial balance as at 31 October 2008

	Debit £000	Credit £000
Share capital		16,000
Trade and other payables		2,798
Property, plant and equipment – cost	47,652	
Property, plant and equipment – accumulated depreciation		23,415
Trade and other receivables	5,436	
Accruals		436
8% bank loan repayable 2012		15,000
Cash at bank	9,774	
Retained earnings		9,786
Interest	600	
Sales		58,975
Purchases	42,398	
Returns inwards	564	
Returns outwards		778
Distribution costs	5,443	
Administrative expenses	4,789	
Inventories as at 1 November 2007	9,032	
Final dividend for year ended 31 October 2007	850	
Interim dividend for year ended 31 October 2008	650	
	<u>127,188</u>	<u>127,188</u>

Further information

- The share capital of the company consists of ordinary shares with a nominal value of £1.
- The inventories at the close of business on 31 October 2008 were valued at £7,878,000.
- Goods sold to a customer for £135,000 in August 2008, which originally cost £87,000, were returned to the company on 30 October 2008. No entries have been made in the accounts in the trial balance in relation to the return of these goods. These goods were not included in the physical stocktake carried out on 31 October 2008.
- The company began a series of television adverts for the company's range of products on 1 October 2008 at a cost of £45,000. The adverts were to run for three months and were to be paid for in full at the end of December 2008.
- Interest on the bank loan for the last six months of the year has not been included in the accounts in the trial balance.
- The corporation tax charge for the year has been calculated as £2,540,000.
- All of the operations are continuing operations.

Task 1.1

Using the pro-forma in your answer booklet, make the necessary journal entries as a result of the further information given on page 4.

Task 1.2

- (a) Using the pro-forma in your answer booklet, draft the income statement for Laxdale Ltd for the year ended 31 October 2008.
- (b) Using the pro-forma in your answer booklet, draft the balance sheet for Laxdale Ltd as at 31 October 2008.

Part B

You should spend about 35 minutes on this part.

Data

The Managing Director of Tolsta plc has asked you to prepare the balance sheet for the group. Tolsta plc has one subsidiary undertaking, Balallan Ltd. The balance sheets of the two companies as at 31 October 2008 are set out below.

Balance sheets as at 31 October 2008

	Tolsta plc £000	Balallan Ltd £000
Non-current assets		
Property, plant and equipment	47,875	31,913
Investment in Balallan Ltd	32,000	
	<u>79,875</u>	<u>31,913</u>
Current assets		
Inventories	25,954	4,555
Trade and other receivables	14,343	3,656
Cash and cash equivalents	1,956	47
	<u>42,253</u>	<u>8,258</u>
Total assets	<u>122,128</u>	<u>40,171</u>
Current liabilities		
Trade and other payables	(14,454)	(3,685)
Tax liabilities	(4,514)	(146)
	<u>(18,968)</u>	<u>(3,831)</u>
Net current assets	<u>23,285</u>	<u>4,427</u>
Non-current liabilities		
Long term loans	(20,000)	(7,000)
Total liabilities	<u>(38,968)</u>	<u>(10,831)</u>
Net assets	<u>83,160</u>	<u>29,340</u>
Equity		
Share capital	45,000	12,000
Share premium	12,000	6,000
Retained earnings	26,160	11,340
Total equity	<u>83,160</u>	<u>29,340</u>

Further information

- The share capital of Balallan Ltd consists of ordinary shares of £1 each. Ownership of these shares carries voting rights in Balallan Ltd. There have been no changes to the balances of share capital and share premium during the year. No dividends were paid or proposed by Balallan Ltd during the year.
- Tolsta plc acquired 8,000,000 shares in Balallan Ltd on 1 November 2007.
- At 1 November 2007 the balance of retained earnings of Balallan Ltd was £9,750,000.
- The fair value of the non-current assets of Balallan Ltd at 1 November 2007 was £31,100,000. The book value of the non-current assets at 1 November 2007 was £26,600,000. The revaluation has not been recorded in the books of Balallan Ltd (ignore any effect on the depreciation for the year).
- Included in Trade and other receivables for Tolsta plc and in Trade and other payables for Balallan Ltd is an inter-company transaction for £2,000,000 that took place in early October 2008.
- The directors of Tolsta plc have concluded that goodwill has been impaired by 20% during the year.

Task 1.3

Using the pro-forma in your answer booklet, draft a consolidated balance sheet for Tolsta plc and its subsidiary undertaking as at 31 October 2008.

Part C

You should spend about 40 minutes on this part.

Data

You have been asked to prepare a cash flow statement for Knock Ltd for the year ended 31 October 2008. You have also been asked to comment on the change in net cash from operating activities. The balance sheets of Knock Ltd for the past two years and the note reconciling the profit from operations to net cash from operating activities are set out below:

Knock Ltd

Balance sheets as at 31 October

	2008	2007
	£000	£000
Non-current assets		
Property, plant and equipment	35,676	24,100
Current assets		
Inventories	14,520	9,680
Trade and other receivables	13,200	10,560
Cash and cash equivalents	0	451
	<u>27,720</u>	<u>20,691</u>
Total assets	<u>63,396</u>	<u>44,791</u>
Current liabilities		
Trade and other payables	(4,840)	(7,260)
Tax liability	(1,344)	(944)
Bank overdraft	(1,549)	0
	<u>(7,733)</u>	<u>(8,204)</u>
Net current assets	<u>19,987</u>	<u>12,487</u>
Non-current liabilities		
Bank loans	(4,000)	(1,500)
Total liabilities	<u>(11,733)</u>	<u>(9,704)</u>
Net assets	<u>51,663</u>	<u>35,087</u>
Equity		
Share capital	8,000	6,000
Share premium	4,200	1,200
Retained earnings	39,463	27,887
Total equity	<u>51,663</u>	<u>35,087</u>

Knock Ltd**Reconciliation of profit from operations to net cash inflow from operating activities
for the year ended 31 October**

	2008	2007
	£000	£000
Profit from operations	13,200	11,060
Adjustments for		
Depreciation	4,777	3,745
Gain on disposal of property, plant and equipment	(880)	(570)
Operating cash flows before movements in working capital	<u>17,097</u>	<u>14,235</u>
Decrease/(Increase) in inventories	(4,840)	(3,606)
Decrease/(Increase) in trade receivables	(2,640)	(1,208)
(Decrease)/Increase in trade payables	(2,420)	(1,320)
Cash generated by operations	<u>7,197</u>	<u>8,101</u>
Tax paid	(944)	(885)
Interest paid	(280)	(105)
Net cash from operating activities	<u>5,973</u>	<u>7,111</u>

Further information

- The share capital of Knock Ltd consists of ordinary shares of £1 each.
- Property, plant and equipment costing £1,016,000 with accumulated depreciation of £436,000 were sold in the year at a profit of £880,000.
- All sales and purchases were on credit. Other expenses were paid for in cash.

Task 1.4

Using the pro-forma in the answer booklet, prepare a cash flow statement for Knock Ltd for the year ended 31 October 2008.

Task 1.5

Prepare a report for the Directors of Knock Ltd that comments upon the change in net cash from operating activities between 2007 and 2008.

Task 1.6

Prepare brief notes to explain the differences in the Equity section of Knock Ltd's balance sheets between 2007 and 2008.

Section 2

You should spend about 55 minutes on this section.

Data

Michelle Lewis is a shareholder in Ness Ltd. She wishes to assess the liquidity of the company and the effectiveness of the management in using its resources. She has asked you to assist her by analysing the financial statements of the company for the last two years. The financial statements of Ness Ltd are set out below:

Ness Ltd

Income statements for the year ended 31 October

	2008	2007
	£000	£000
Continuing operations		
Revenue	4,900	4,500
Cost of sales	(2,597)	(2,475)
Gross profit	2,303	2,025
Distribution costs	(1,225)	(472)
Administrative expenses	(490)	(675)
Profit from operations	588	878
Finance costs	(161)	(56)
Profit before tax	427	822
Tax	(64)	(56)
Profit for the period from continuing operations attributable to equity holders	363	766

Ness Ltd
Balance sheets as at 31 October

	2008	2007
	£000	£000
Non-current assets		
Property, plant and equipment	8,041	6,200
Current assets		
Inventories	649	347
Trade receivables	392	405
Cash and cash equivalents	0	79
	<u>1,041</u>	<u>831</u>
Total assets	<u>9,082</u>	<u>7,031</u>
Current liabilities		
Trade payables	(286)	(297)
Tax liabilities	(64)	(56)
Bank overdraft	(191)	0
	<u>(541)</u>	<u>(353)</u>
Net current assets	<u>500</u>	<u>478</u>
Non-current liabilities		
Bank loans	(2,300)	(800)
Total liabilities	<u>(2,841)</u>	<u>(1,153)</u>
Net assets	<u>6,241</u>	<u>5,878</u>
Equity		
Share capital	2,500	2,500
Retained earnings	3,741	3,378
Total equity	<u>6,241</u>	<u>5,878</u>

Task 2.1

Prepare a report for Michelle Lewis that includes:

- (a) The formulas that are used to calculate each of the following ratios:**
 - (i) Current ratio**
 - (ii) Acid test ratio**
 - (iii) Trade receivables turnover in days (Trade receivables collection period)**
 - (iv) Trade payables turnover in days**
- (b) A calculation of the above ratios for the two years**
- (c) Comments on the relative performance of the company for the two years based on the ratios calculated**
- (d) ONE suggestion as to how EACH of the ratios might be improved.**

Task 2.2

- (a) What is the objective of financial statements according to the IASB Framework for the Preparation and Presentation of Financial Statements?**
- (b) Give TWO examples of EXTERNAL users of financial statements and explain their need for the information in financial statements.**

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NVQ/SVQ qualification codes

Technician (2003 standards) – 100/2942/4 / G794 24

Unit number (DFS) – Y/101/8109

Diploma pathway qualification codes

Diploma (2003 standards) – 100/5925/8

Unit number (DFS) – Y/103/6450

