

PROFESSIONAL LEVEL EXAMINATION

SAMPLE QUESTION

***FINANCIAL ACCOUNTING AND
REPORTING – UK GAAP***

**SAMPLE
QUESTION**

3. You work in the accounts preparation department of an accountancy practice. Your manager has asked you to assist two companies in the preparation of their financial statements for the year ended 30 June 2017.

Question 3.1

Abaza Ltd is a micro-entity which operates in the UK and prepares its financial statements in accordance with FRS 105, The Financial Reporting Standard applicable to the Micro-entities Regime.

An extract from the trial balance of Abaza Ltd at 30 June 2017 shows the following:

	Note	£
Plant and machinery	(1)	
Cost		395,000
Accumulated depreciation at 30 June 2016		102,700
Bank loan (repayable 30 June 2020)	(2)	61,250
Suspense account (debit balance)	(2)	1,250
Cash at bank and in hand		3,900
Trade debtors		28,400
Trade and other creditors		21,750
Draft profit for the financial year ended 30 June 2017		63,700

The following additional information is relevant:

- (1) Depreciation on tangible fixed assets has yet to be charged. Abaza Ltd charges depreciation on plant and machinery at a rate of 20% pa on a reducing balance basis.
- (2) On 1 February 2017 Abaza Ltd borrowed £60,000 at an interest rate of 5% pa. Interest is payable annually on 31 January. The borrowings were immediately used to part fund the construction of new plant. The construction was completed on 1 September 2017. The interest costs were credited to the bank loan and debited to a suspense account as the accounts clerk was unsure of the correct treatment.
- (3) At 30 June 2017 stock was valued at £17,400.

Requirements

- (a) Calculate Abaza Ltd's revised profit for the financial year ended 30 June 2017.
- (b) Using Format 1, prepare an extract from the balance sheet of Abaza Ltd at 30 June 2017 totaling to net assets. **(5 marks)**

Question 3.2

Chappar Ltd operates in the UK and prepares its financial statements in accordance with FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland. You have been asked to assist with the preparation of the statement of cash flows and have been provided with the following information.

Balance sheet as at 30 June 2017 (extract)

	2017 £	2016 £
Creditors: amounts falling due within one year		
Finance lease liabilities	123,500	67,800
Creditors: amounts falling due within one year		
Finance lease liabilities	600,000	500,000
Capital and reserves		
Called up share capital (£1)	1,210,000	1,000,000
Share premium account	740,000	540,000
Profit and loss account	1,567,500	1,443,200

- (1) Profit for the financial year ended 30 June 2017 was £378,300 and an interim dividend was paid during the year.
- (2) During the year, Chappar Ltd made a 1 for 25 bonus issue of ordinary shares out of the profit and loss account reserve, followed by a share issue for cash.
- (3) During the year Chappar Ltd entered into finance leases for assets with a cash price of £225,000. Interest costs of £121,000 were recognised in the profit and loss account in respect of finance leases during the year.

Requirement

Prepare the financing activities section from Chappar Ltd's statement of cash flows for the year ended 30 June 2017. **(6 marks)**

Total: 11 marks

(3.1)(a)			Marks
	£	£	
Draft profit for the year	63,700		
Less: depreciation (W1)	(58,460)		½
Less: suspense account (borrowing costs)	(1,250)		½
Add: closing stock	<u>17,400</u>		½
		21,390	
(3.1)(b) Abaza Ltd – Balance sheet as at 30 June 2017			
	£	£	
Fixed assets (W1)		233,840	+1 Pres
Current assets (W2)	49,700		
Creditors: amounts falling due within one year (21,750 + 1,250)	<u>(23,000)</u>		½
Net current assets		<u>26,700</u>	
Total assets less current liabilities		260,540	
Creditors: amounts falling due after more than one year (61,250 – 1,250)		<u>(60,000)</u>	½ ½
		<u>200,540</u>	
Workings			
W1 Fixed assets			
	£		
Plant and machinery – cost	395,000		
Less: accumulated depreciation	<u>(102,700)</u>		
	292,300		½
Less: depreciation (292,300 x 20%)	<u>(58,460)</u>		½
	<u>233,840</u>		
W2 Current assets			
	£		
Stock	17,400		½
Trade debtors	28,400		} ½
Cash	<u>3,900</u>		
	<u>49,700</u>		
Total possible marks			6
Maximum full marks			5

(1.2) Chappar Ltd – Statement of cash flows at 30 June 2017 (extract)			Marks
	£	£	+1 Pres
Cash flows from financing activities			
Proceeds from issue of share capital (170,000 (W1) + 200,000 (W2))	370,000		1/2
Payment of finance lease liabilities (190,300 – 121,000) (W4)	(69,300)		1/2
Dividends paid (W3)	<u>(214,000)</u>		
Net cash used in financing activities		300,700	
Workings			
(1)			
Called up share capital			
	£		£
		B/d	1,000,000
		Bonus issue (1,000,000 / 25)	40,000
C/d	<u>1,210,000</u>	Cash (β)	<u>170,000</u>
	<u>1,210,000</u>		<u>1,210,000</u>
			1/2
			1/2
(2)			
Share premium			
	£		£
		B/d	540,000
C/d	<u>740,000</u>	Cash (β)	<u>200,000</u>
	<u>740,000</u>		<u>740,000</u>
			1/2
(3)			
Profit and loss account reserve			
	£		£
Bonus issue (W1)	40,000	B/d	1,443,200
C/d	<u>1,567,500</u>	P&L account	378,300
	<u>1,607,500</u>	Cash (β)	<u>214,000</u>
			<u>1,607,500</u>
			1/2
			1/2
(4)			
Finance lease liabilities			
	£		£
Cash (β)	190,300	B/d (500,000 + 67,800)	567,800
		Interest	121,000
C/d (600,000 + 123,500)	<u>723,500</u>	Tangible fixed assets	<u>225,000</u>
	<u>913,800</u>		<u>913,800</u>
			1/2
			1/2
			1/2 1/2
Total possible marks			6 1/2
Maximum full marks			6