Institute of Incorporated Public Accountants

Final Admitting Examination

Advanced Financial Accounting
Module 11
Wednesday 31st August 2011
10am – 1pm

Instructions

Candidates must answer all three questions**.**

Candidates should clearly indicate the number of the question and the part of that question that they answering.

If the candidate's answer to a particular question continues on to another page then the number and part of that question should also be entered on that page.

Where working notes are supplied by candidates as part of their answer to a particular question then these should be numbered W/N1, W/N2 etc accompanied by heading that will clearly indicate the purpose of that note.

Candidates should begin each question on a new page.

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Marking Scheme

Question 1	35 marks
Question 2	50 marks
Question 3	15 marks
Total	100 marks

Question 1

Set out below are the Statements of Financial Position and Income Statements of Domestic Supplies Ltd for the years ended 31/07/11 and 31/07/10 respectively

Statement of Financial Position as at	**31/07/11**	**31/07/10**
	€000's	**€000's**
Non current assets		
Property Plant and Equipment **(note 5)**	342,000	200,000
Intangible assets	11,000	16,000
	-	-
Total Non Current Assets	**353,000**	**216,000**
Current Assets		
Inventories	56,000	52,000
Trade receivables	48,000	63,000
Investment income receivable	304	134
Investments	9,500	4,200
Cash on Hand	1,200	900
Cash in Bank		6,766
	-	-
Total Current Assets	**115,004**	**127,000**
Total Assets	**468,004**	**343,000**
Shareholders equity		
Ordinary share capital[€0 75 cent each]	72,500	50,000
Share premium	46,500	42,000
Revaluation	25,000	5,000
Retained Earnings	67,213	45,000
Total Equity	**211,213**	**142,000**
Non current Liabilities		
10% Debentures	30,000	25,000
Finance Leases	35,000	32,000
Deferred Tax	12,000	12,000
Total Non Current Liabilities	**77,000**	**69,000**
Total Current Liabilities [note 1]	**179,791**	**132,000**
Total Equity and Liabilities	**468,004**	**343,000**

Question 1 Domestic Suppliers Ltd -continued

Note 1- Analysis of Current Liabilities

Current Liabilities as at	**31/07/11**	**31/07/10**
Trade payables	110,000	98,000
Income taxes	3,091	18,000
Interest payable	9,000	6,000
Finance leases	11,000	10,000
Bank overdraft	46,700	0
	-	-
	179,791	**132,000**

Note 2 Movement in Retained Profits

	31/07/11	**31/07/10**
	€	**€**
Retained at start of the year	45,000	€0
Profit for the year	27,046	€46,333
Dividends paid	(4,833)	(1,333)
Retained at end of year	**67,213**	**€45,000**

Income statements for the years ended 31/07/11 and 31/07/10

	31/07/11	**31/07/10**
	€	€
Revenues	450,000	440,931
Cost of sales	(315,000)	(154,326)
Gross Profit	**135,000**	**286,605**
Operating costs	(90,000)	(231,489)
Operating profit	**45,000**	**55,116**
Loss on Sale of plant	(10,000)	
Exchange loss **(note 3)**	(650)	
Investment income	760	336
Finance charges	(4,200)	(2,500)
Profit before tax	**30,910**	**52,952**
Income tax	(3,864)	(6,619)
Profit for the year	**27,046**	**46,333**

The notes continue on the next page

Question 1-Domestic Supplier Ltd-continued

Notes to financial statements
Note 3
The foreign exchange loss refers to an outstanding creditor from the UK in respect of goods received during the year. The foreign currency translation was correctly executed.

Note 4
During the current year the company issued 30,000 ordinary shares at €0.90 each. The cost of the issue legal/accountancy etc was €1,150, the trainee accountant wrote the expenses off to the income statement for year end 31/07/11

Note 5
Property Plant & Equipment

(i) This includes an item of property which was re-valued upwards by €20,000 during the current year
(ii) There was a disposal, during the current year, of a machine with a net book value- at date of sale- of €25,000
(iii) Depreciation charge to Income Statement in respect of depreciable assets amount to €18,000 for year ended 31/07/11
(iv) Assets acquired during the year and capitalised under Finance leases amounted to €40,000
(v) Interest of €1,200 in respect of the finance lease is included in the total finance charges of €4,200 for the current year

Note 6
There were no acquisitions or disposals of non current intangible assets during the year

Note 7
The current asset investment for each year represents temporary investments of cash

Required

(a) Prepare the cash flow statement for year ended 31/07/11 in accordance with IAS 7 (21 marks)
(b) Show the note on cash and cash equivalents (4 marks)

Total (25 marks)

Question 2

.Set out below is the Trial Balance of Jupiter Ltd as 31/07/11 together with notes

	Notes	Debits	Credits
		€	**€**
Revenue	**Note 1**		900,000
Production Costs		700,000	
Distribution		102,000	
Administration	**Note 8**	68,000	
Inventory	**31/07/11**	35,000	
Sundry Asset	**Note 2**	52,000	
Income tax expense			1,600
Ordinary Dividend paid		5,000	
Premises		900,000	
Machine Two		380,000	
Machine One	**note 4**	200,000	
Revaluation			80,000
<u>Accumulated. Depreciation</u>			
Premises	**31/07/11**		270,000
Machine Two	**31/07/11**		76,000
Machine One	**31/07/11**		87,500
Green Energies Ltd	**Note 5**	78,000	
VAT		1,850	
Sundry Receipt	**Note 3**		205,000
Warranty Provision	**Note 1**		10,000
Trade receivables		73,972	
Deferred Tax	**Note 9**		5,000
Bank balances		17,990	
Trade payables			76,712
10% Debenture Loan			25,000
Investments	**Note 6**	3,000	
Provisions for training			15,000
Ordinary Share Capital N.V*. €0.80			160,000
Share Premium			60,000
Accumulated Profits 01/08/10			625,000
Share options	**Note 7**		21,250
Interest on loan		1,250	
	Totals	**<u>2,618,062</u>**	**<u>2,618,062</u>**

***** N.V. is the Nominal Value of each Ordinary share

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Question 2-Jupiter continued

Jupiter Ltd produces and sells machine parts to various customers around the country. Recently, in the last eighteen months, the company has diversified into the construction of "ready to go" factory premises for various clients [see note 2]

Notes

(1) 12% of the revenue per T/B represents items sold under warranty.
Of those sold under warranty it is estimated that 10% will be entitled to a full refund as the machine parts in question will be beyond repair.
The remaining 90% of sales under warranty can be repaired at average cost equal to 30% of sales price. The company has already spent €4,000 in repairing items from current year's sales under warranty.
The period for claims in regard to warranty sales for year end 31/07/10 has now expired and the company's obligation to meet further claims for that period has ceased

(2) The company has currently 3 long term contracts in relation to the construction of "ready to go" factories. Details are set out below

	Contract 1	**Contract 2**	**Contract 3**	**Total**
Contract costs to date	€85,000	€50,000	€24,000	€159,000
Payments received	(€48,000)	(€36,000)	(€23,000)	(€107,000)
Per Trial Balance	**€37,000**	**€14,000**	**€1,000**	**€52,000**

The trainee accountant decided to treat the net difference between costs to date and payments received i.e. €52,000 as a "Sundry Asset" until such contracts were completed.

Further details are supplied by her below

	Contract 1	**Contract 2**	**Contract 3**
Estimated cost to complete	€12,500	€20,000	€80,000
Stage of Completion	75%	65%	20%
Contract Price	€110,000	€60,000	€110,000

Contract 1 which was commenced in the previous accounting year was 40% complete by the year ended 31/07/10 but no proper account was taken of it in accordance with IAS 11

Having discussed the all the contracts with the Director of Construction Operations it was agreed that 25% represented the minimum stage of completion before the outcome of any contract could be estimated reliably

Question 2 Jupiter Ltd-notes continued

(3) The sundry receipt is in respect of grants received. Details are as follows

Grant in respect of Machine Two	€190,000
Grant in respect of employees	€15,000
Total per T/B	**€205,000**

Machine Two was purchased on the 01/08/10 and is depreciated at 20% straight line.

The grant in respect of employees is a training grant, received in the year ended 31/07/11, is in relation to the upgrading of skills. The target number of employees is 30. So far 10 of the employees have been re-skilled.

(4) The following additional information in relation to Machine One has been provided

Net realisable value €90,000

Projected annual net cash flows over the next five years are €27,000 per annum. The company's cost of funds [discount rate] is determined to be 10% a table is set out below in relation to same.

	10% discount factor
Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683
Year 5	0.621

(5) The board decided to further diversify into green economy and on the 31/07/11 purchased 80% Green Energy Limited for €78,000.

The Statement of Financial Position of Green Energy as at 31/07/11

Share Capital	€50,000
Retained Profits	€25,000
Total Equity	**€75,000**
Premises	€80,000
Inventory	€8,000
Receivables	€5,000
Payables	(€18,000)
Total Net Assets	**€75,000**

Premises were re-valued upwards by €12,000. All the other amounts were stated at fair value. None of the other notes in this question refer to the acquisition.

Question 2 Jupiter Ltd -notes continued

(6) The investments which are held for the short term are stated at their market value. On the 08/08/11 their value fell by 10%

(7) On the 01/08/09 the company had granted 100 options to each of its 500 employees to purchase the company's Ordinary shares.
The fair value of the company's Ordinary share at 01/08/09-date of the granting of the option- was €1.50 It was a condition of the option that employees had to complete three year's satisfactory employment with the company.
It was estimated at the time of setting up of the grant that 20% of the total employees [i.e. 100] would have left by the time the three period of service was completed and thus not fulfil the condition required to be entitled to the option

At the end of 31/07/10 the actual number of employees who had left was 20 and as a result the company revised its estimate of the total number of employees that would leave over the three period to 15% [i.e. 75]. The relevant entries for year end 31/07/10 were correctly accounted for.

At the end of 31/07/11 the actual number of employees who had left was 22 and as a result the company again revised its estimate of the total number of employees that would leave over the three period to 12% [i.e. 60]

(8) The government introduced a number of tax changes. As a result the personnel director felt that the wages staff should undergo a "refresher" course to ensure that such staff were fully familiar with the changes. Currently the director is making enquires about such courses and to that end a provision of €15,000- which was charged to administration costs- has been set aside to meet the costs of such a course.

(9) The net cumulative timing difference on the relevant assets was €51,000 for the year ended 31/07/11. The corporation tax rate is 12.5%

(10) A provision of €8,000 in respect of corporation tax on the current year's profits is to be made. The €1,600 in the Trial Balance represents an overprovision for the year ended 31/07/10

(11) An Ordinary dividend of €0.04 per share was proposed on the 15/08/11

Required

(a)	Prepare the Income statement of The Jupiter Group for the year ended 31/07/11	**(23 marks)**
(b)	Prepare the Statement of Changes in Equity of The Jupiter Group for the year ended 31/07/11	**(6 marks)**
(c)	Prepare the Statement of Financial Position of The Jupiter Group as at 31/07/11	(**[21 marks)**
	Total	**(50 marks)**

Question 3
Set out below and on the next page are the Income Statements and Statements of Financial Position as at 31/07/11 for Dublin Limited and York Limited

Income statements for the year ended 31/07/11

	Dublin Ltd	**York Ltd**
Revenue	€200,000	£18,000
Cost of sales	(€140,000)	(£12,600)
Gross Profit	**€60,000**	**£5,400**
Operating expenses	(€30,000)	(£2,700)
Operating Profit	€30,000	£2,700
Income tax expense	(€3,600)	(£324)
Profit for the year	€26,400	£2,376

Statements of Financial Position as at 31/07/11

	Dublin Ltd	**York Ltd**
Non current assets		
Property Plant Equip	€80,000	£50,000
Investment in York Ltd	€56,000	
Current Assets		
Inventories	€7,200	£6,000
Trade Debtors	€6,500	£4,200
Cash in Bank	€2,050	£5,876
Cash	€550	
Total Assets	**€152,300**	**£66,076**
Equity		
Share Capital	€80,000	£50,000
Retained earnings	€47,800	£3,576
Total Equity	**€127,800**	**£53,576**
Non Current Liabilities		
Loans	€18,000	£12,500
	-	-
Current Liabilities		
Trade Payables	€6,500	
Equity + Liabilities	**€152,300**	**£66,076**

Question 3 -Dublin Ltd and York Ltd continued

Statement of changes in Equity as at 31/07/11

	Dublin Ltd	**York Ltd**
Balance as at 31/07/10	€23,000	£1,200
Profit for year	€26,400	£2,376
Dividend paid	(€1,600)	£0
Balance as at 31/07/11	€47,800	£3,576

Notes

(1) Dublin acquired 80% of York Ltd on the 01/08/10 for a consideration of €56,000
(2) The assets and liabilities of York Ltd were stated at their fair value on that date
(3) The exchange rate of UK sterling to the €1 were as follows

Dates	**Rate**	**To €1.00**
At 01/08/10	£0.80	to €1
Average for year	£0.75	to €1
At 31/07/11	£0.70	to €1

Required

(a) Compute the Goodwill arising on acquisition **(4 marks)**
(b) Show the Group Income Statement for year ended 31/07/11 **(7 marks)**
(c) Show the Group Statement of Changes in Equity for 31/07/11 **(10 marks)**
(d) Show the computation of foreign currency Gain or Loss arising **(4 marks)**
Total (25 marks)

END OF EXAMINATION PAPER