

DRAFT SOLUTIONS

**MODULE 11
AUGUST 2011**

DO NOT DISTRIBUTE

Solution Question 1 (a)

Cash flow statement [indirect method] of Domestic Suppliers Ltd for year ended 31/07/11

Operating cash flow		
Profit before tax	30,910	
Adjustments for		
Depreciation	18,000	
Share issue costs [Qn Note 4]	1,150	
Finance charges	4,200	
Exchange loss	650	
Investment income	(760)	
Impairment of goodwill	5,000	
Loss on sale of asset	10,000	
	69,150	
Working capital		
Increase Inventory	(4,000)	
Decrease trade and other Receivables	15,000	
Increase in Trade Payables	11,350	
Cash generated from operations>	91,500	
Interest paid	(1,200)	
Taxation paid	(18,773)	
Dividend paid **	(4,833)	
Net Cash from operating activities>		66,694
Investing activities		
Sale of plant	15,000	
Purchase of tangible asset	(125,000)	
Interest received	590	
Net Cash used in investing activities>		(109,410)
Cash flow from financing activities		
Share capital[less share issue costs of €1,150]	25,850	
Inflow of long term funds	5,000	
Lease capital repayments W/N 1	(36,000)	
Net Cash used in Financing activities>		(5,150)
Net Decrease in cash and cash equivalents>		(47,866)
Cash and Cash equivalents at beginning of the period>		11,866
Cash and Cash equivalents at the end of the period>		(36,000)

** Dividends paid could alternatively be shown under “Financing Activities”

Question 1-continued

W/N 1 Computation of capital repayments on Leases

Opening balance	€
Current Liability 31/07/10	10,000
Non current Liability 31/07/10	32,000
Interest charge during year 31/07/11 [Qn Note 5 v]	1,200
Capitalised [Qn Note 5 iv)	<u>40,000</u>
Closing balance should be 31/07/11 >	<u>83,200</u>
Closing balances	
Current Liability 31/07/11	11,000
Non current Liability 31/07/11	<u>35,000</u>
But actual closing Balance 31/07/11 >	46,000
Thus repayments during year were	
of which interest charged to I/S y/e 31/07/11 [see above]	37,200
	1,200
Therefore capital amounts of lease repaid>	36,000

W/N 2 Computation of other assets acquired/purchased

Balance at Net Book Value 31/07/10	€200,000
Capitalised under Lease [Qn note 5 iv)	€40,000
Revaluation [Qn v i]	€20,000
Disposal for year ended 31/07/11 at N.B.V. [Qn note 5 ii)	(€25,000)
Depreciation charge year end 31/07/11 [Qn Note 5 iii]	(€18,000)
	<hr/>
The Net Book value as at 31/07/11 should be >	€217,000
Net Book value at 31/07/10	
	€342,000
Thus additions for year ended 31/07/11 should be >	
	€125,000

Answer 1 (b)

Cash and Cash equivalents

	31/07/11	31/07/10
Cash on hand and balances with banks	(€45,500)	€7,666
Investments	€9,500	€4,200
	(€36,000)	€11,866

Note (c) [not asked for but included for completeness]

During the year the company acquired Property Plant and Equipment for €165,000 of which €40,000 was acquired by lease

Question 2 Group SOCE for year ended 31/07/11

			€
Revenue	W/N 1		999,500
Cost of Sales	W/N 2		<u>(798,255)</u>
Gross Profit			201,245
Distribution	W/N 2		(102,000)
Administration	W/N 2		<u>(75,750)</u>
Operating Profit			23,495
Finance Charges			
Interest			(2,500)
			-
Profit before tax			20,995
Taxation	W/N 9		<u>(8,020)</u>
Profit for Year			<u>12,975</u>
Controlling interest			12,975
Non Controlling Interest			0

*Note there were no post acquisition profits to include from subsidiary-Qn Note(5)

(b)Statement of Changes in Equity for Jupiter Group for y/ended 31/07/11

		Capital	Premium	Profit	Other Reserves	Revaluation	Non Control Interest	Total
		€	€	€	€	€		€
Balances as at	01/08/10	160,000	60,000	625,000	21,250	80,000		946,250
<i>Prior year Contract 1</i>				5,000				5,000
Restated balance as at	01/08/10	160,000	60,000	630,000	21,250	80,000	0	951,250
Profit for the year ended	31/07/11			12,975				12,975
Non Control interest							17400	17,400
Share option expense					22,750			22,750
Dividends paid				(5,000)		-		(5,000)
Retained Profits as at	31/07/11	160,000	60,000	637,975	44,000	80,000	17,400	999,375

On 15/08/11 a proposed final Ordinary dividend of €0.40 per share was made

SOLUTIONS TO MODULE 11 AUGUST 2011

Jupiter Group SOFP as at	31/07/11	€	€	€	€
Non Current Assets					Group
Non Current Assets	W/N 3				1,128,330
Goodwill	W/N 6				€8,400
Current Assets					
Inventories		35,000	8,000	43,000	
Construction contract	W/N 5			14,875	
Investments				3,000	
Trade receivables		73,973	5,000	78,973	
Amount receivable under contract	W/N 5			37,500	
VAT				1,850	
Bank				17,990	
Total of current assets					197,187
Total Assets					<u>1,333,917</u>
Equity interest					
Capital				160,000	
Other reserves share options	W/N 7			44,000	
Premium				60,000	
Revaluation				80,000	
Profit				637,975	
Controlling interest					981,975
Non Controlling Interest					17,400
					999,375
Total Equity					
Non current Liabilities					
10% Debenture Loan				25,000	
Deferred Income-Grants	W/N 8			114,000	
Deferred tax	W/N 9			6,120	
Total Non current Liabilities					145,120
Current Liabilities	Note 1				189,422
Total Equity plus Liabilities					1,333,917

Question 2 solution continued-Note 1 Analysis of Current Liabilities

	Jupiter	Subsidiary	Group
Payables	76,712	18,000	94,712
Progress payments received			1,000
Deferred Income-Grants			48,000
Warranties provision			35,960
Taxation			8,500
Interest owing			<u>1,250</u>
Total Current Liabilities			189,422

W/N 1 (a) Revenue

	€
Sales per Trial Balance	900,000
Long term contracts W/N 5 Qn Note 2	<u>99,500</u>
Total for I/S year ended 31/07/11	999,500

W/N 1 (b) Sales under Warranty of €108,000 [€900,000 per T/B x 12%]

		I/S	S.O.F.P
Opening Balance as at	31/07/10		10,000
Complete refunds 31/07/11 [10%]		€10,800	
Provision for remaining	€29,160		
Less paid out already [Qn note 1]	<u>(€4,000)</u>		
		<u>€25,160</u>	
Income statement for year ended	31/07/11	€35,960	
Less W/back provision 31/07/10	31/07/10	(€10,000)	

Net write back to I/S for Y/E	31/07/11	>	<u>€25,960</u>
Balance as at	31/07/11		€35,960

W/N 2 Analyses of costs classified by function

		Total	Production	Distribution	Admin
Per Trial Balance		870,002	700,000	102,000	68,000
Long term contract	W/N 5		105,125		
Impairment	W/N 3		10,170		
Write off of part of capital grant	W/N 8		(38,000)		
Training Grant costs earned	W/N 8		(5,000)		
Warranties provision w/back	W/N 1(b)		(10,000)		
Current Warranty Provision	W/N 1(b)		35,960		
Share Options	W/N 7				22,750
Provision for tax training course w/back	Qn N8				(15,000)
Totals for I/S y/e 31/07/11		870,002	798,255	102,000	75,750

Question 2 solution W/Notes continued

W/N 3 Analysis of Non Current Assets

	Premises	Machine Two	Machine One	Subsidiary	Total
	€	€	€	€	€
Per T/B Cost/ Value	900,000	380,000	200,000		1,480,000
Cost/Value as at 31/03/11	900,000	380,000	200,000		1,480,000
Acquisition				92,000	92,000
Depreciation					
Per T/B Accum.Depreciation	270,000	76,000	87,500		433,500
Impairment to Cost of Sales			10,170		10,170
Accum Dep. as at 31/03/11	270,000	76,000	97,670		443,670
Net Book Value as at 31/03/11	630,000	304,000	102,330	92,000	1,128,330

Impairment of Machine One

Net Book value of assets per T/B				€112,500
Net Realisable value per Note 4				€90,000
Present value of cash flows	€27,000	x	3.790	€102,330
Lower of carrying value and recoverable amount. Thus w/off				€10,170

W/N 4 Computation of Deferred Tax movement and Tax on Profits

	I/S	SOFP		
Provision per Qn note 10	€8,500	€8,500		<Current Liability
Overprovision per Qn note 10	(€1,600)			
Net charge for y/e 31/07/11	€6,900			
Plus Deferred Tax increase	€1,120	€6,120	i.e. €51,000 x 12%	<Non C. Liability
Income Statement for Y/E 31/07/11	€8,020			

Question 2 -solution W/N 5 Construction Contracts

	Contract 1	Contract 2	Contract 3	Total
Overall Profit? or Loss ?	€12,500	(€10,000)	€6,000	€60,500
Stage of Completion at 31/07/11	75%	65%	20%	
Minimum of 25% for full accrual	Recognise	Recognise	Too early	
Contract price x % complete	€82,500	€39,000	(b)€22,000	€143,500
40% already accrued for y/e 31/07/10	(€44,000)	N/A	N/A	
Revenue for Y/E 31/07/11	€38,500	€39,000	€22,000	€99,500
Total costs x % complete	(€73,125)	(€45,500)	(b)(€22,000)	(€140,625)
40% already accrued for y/e 31/07/10	€39,000			
Future loss		(a)(€3,500)		
Costs for Y/E 31/07/11	(€34,125)	(€49,000)	(€22,000)	(€105,125)
Profit/(Loss)for Y/E 31/07/11	€4,375	(a)(€10,000)	€0	(€5,625)
Prior year adjustment for 31/07/10	€5,000			€5,000
Statement of Financial Position				
Cost incurred to date	€85,000	€50,000	€24,000	€159,000
less to Cost of sales	(€73,125)	(€49,000)	(€22,000)	(€144,125)
Long term contracts	€11,875	€1,000	€2,000	€14,875
Amount receivable	€82,500	€39,000	€22,000	€143,500
less received	(€48,000)	(€36,000)	(€23,000)	(€107,000)
Amounts receivable under contract	€34,500	€3,000	€0	€37,500
Progress Payments received			€1,000	€1,000

(a) **Contract 2** Full loss over the entire contract to be recognised immediately

(b) **Contract 3** Revenue recognised only to the extent that costs are incurred and are recoverable

W/N 6

Acquisition of Green Energy Ltd 31/07/11	100%	80%	20%
Share Capital	€50,000	€40,000	€10,000
Retained Profits	€25,000	€20,000	€5,000
		€60,000	€15,000
Revaluation of premises	<u>€12,000</u>	€9,600	<u>€2,400</u>
Total Equity	€87,000		€17,400
Goodwill [Consideration- F.V. of N.A.]		€8,400	
Consideration		€78,000	

Question 2 solution continued

W/N 7 Computation of Share Option payments expense

				SOFP	
500 X 100 X €1.50	X 85%	x 1/ 3 years	equals	€21,250	Per T/B
500 X 100 X €1.50	x 88%	x 2/ 3 years	equals	€44,000	31/07/11

			Dr	Cr
Admin expenses	I/S for y/e	31/07/10	€21,250	
Provision	SOFP as at	31/07/10		€21,250
Closing provision	SOFP as at	31/07/11		€44,000
Admin expenses	I/S for Y/E	31/07/11	€22,750	

W/N 8 Adjustment for Grants

Capital Grant of €190,000 written over the EUL of 5 years = € 38,000

Training Grant €15,000 x 10 trainees/ estimated total trainees of 30 = €5,000

		CL	NCL
Deferred Income-Capital Grant	€152,000	€38,000	€114,000
Production costs-write off Capital grant	€38,000		
Production costs- Training Grant	€5,000		
Deferred income- Training Grant		€10,000	
Balance as at	31/07/11	€48,000	€114,000

Question 3 Solution

Answer (a) Computation of Goodwill on acquisition York Ltd by Dublin Ltd

		100%	80%	20%
At acquisition date		£0.80	Majority	Minority
	£UK	€	€	€
Share Capital	£50,000	€62,500	€50,000	€12,500
Retained Earnings	£1,200	€1,500	€1,200	€300
Net Asset at 01/08/10	£51,200	€64,000	€51,200	€12,800
Goodwill at date of acquisition			€4,800	
Investment in subsidiary			€56,000	

Translation Gain arising on goodwill at 31/07/11

Translation of Goodwill at 31/07/11 €4,800 x £0.80/£0.70 equals €5,485

Translation gain arising is €5,485 less €4,800 equals €686 [rounded up]

Answer (b) Dublin Group Ltd Stat. of Comprehensive Income Y/E 31/07/11

	Col 1	Col 2	Col 3	Publish
	York Ltd	York Ltd	Dublin Ltd	Group
		£0.75		
	£	€	€	€
Revenue	£18,000	€24,000	€200,000	€224,000
Cost of sales	(£12,600)	(€16,800)	(€140,000)	(€156,800)
Gross Profit	£5,400	€7,200	€60,000	€67,200
Operating expenses	(£2,700)	(€3,600)	(€30,000)	(€33,600)
Operating Profit	£2,700	€3,600	€30,000	€33,600
Investment income				€0
				€0
Income tax expense	(£324)	(€432)	(€3,600)	(€4,032)
Profit for the year	£2,376	€3,168	€26,400	€29,568
Controlling Interest				€634
Non Controlling interest				€28,934

Note first three columns not required in answer. Part of workings. Columns have been conveniently "rearranged" to have foreign currency amounts in the extreme left column 1 with "translated" Col 2 added to Col 3 to equal Group

Question 3 Solution

Answer (c)

Statement of Changes in Equity of Dublin Group for year ended 31/07/11

	Share	Retained	Translation	Total	Non	
	Capital	Profits	Reserves	Controlling	Controlling	Total
				Interest	Interest	
Balance 01/08/10	€80,000	€23,000		€103,000		€103,000
						€0
Acquisition					€12,800	€12,800
Profit for year		€28,934	€7,495	€36,429	€2,508	€38,937
Goodwill			€686	€686		€686
Dividends		(€1,600)		(€1,600)		(€1,600)
Balance	€80,000	€50,334	€8,181	€138,515	€15,307	€153,823

Answer (d)

Computation of Gains or Loss on Translation of Foreign subsidiary

				Total	80% Majority	20% Minority
£Rates						
£0.75	Profit at average rate	answer (a)	€3,168			
£0.70	Profit at year end rate	€3,168 x [£0.75/£0.70]	€3,394	€226	€181	€45
£0.80	Opening Net Assets	£51,200	€64,000			
£0.70	Opening Net Asset restated	£51,200	€73,143			
				€9,143	€7,314	€1,829
				€9,369	€7,495	€1,874

Note

Minority interest

Per answer (a) at date of acquisition		€12,800
Share of current year's profits (ans. (b))	€ 634	
Share of translation gain	<u>€ 1,874</u>	
		<u>€ 2,508</u>
Total per Statement of Financial Position [allow for rounding]		€15,308

Not asked for

Group Statement of Financial Position of Dublin Group Ltd as at 31/07/11

	Col 1	Col 2	Col 3	Col 2 +3
	York Ltd	York Ltd	Dublin Ltd	Group
Non current assets		£0.70		Publish
Property Plant Equip	£50,000	€71,429	€80,000	€151,429
Goodwill [see below]			€56,000	€5,486
			//\See below	
Current Assets				
Inventories	£6,000	€8,571	€7,200	€15,771
Trade Debtors	£4,200	€6,000	€6,500	€12,500
Cash in Bank	£5,876	€8,394	€2,050	€10,444
Cash		€0	€550	€550
Total Assets	£66,076	€94,394	€152,300	€196,180
Equity				
Share Capital	£50,000	€62,500	€80,000	€80,000
Retained earnings	£3,576	€4,668	€47,800	€50,334
Translation reserve				€8,181
Controlling interest	£53,576	€67,168	€127,800	€138,515
Non Controlling interest				€15,308
Exchange Gain		€9,369		
Non Controlling Interest				
Non Current Liabilities				
Loans	£12,500	€17,857	€18,000	€35,857
Current Liabilities				
Trade Payables			€6,500	€6,500
	£0		€0	
Equity + Liabilities	£66,076	€94,394	€152,300	€196,180

Col 1 to Col 3 are working notes only.

“Investment in York Ltd” for €56,000- on Statement of Financial Position of Dublin Ltd as per original question - has been replaced by “Goodwill” for the purpose of the Group Headings only

←-----END OF SOLUTIONS-----→