Final Admitting Examination

Module 11

Advanced Financial Accounting

August 2012

SOLUTION DO NOT DISTRIBUTE

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 a heading that will clearly indicate the purpose of that note.

Candidates should begin each question on a new page.

Marking Scheme

Question 1	30 marks
Question 2	50 marks
Question 3	20 marks
Total	100 marks

Question 1-solution answer (a)

taking in only 3/4 of the profits >		75%		
Control--------->		80%		

	Beers Ltd	**Wines Ltd**	**Adjust**	**Total**
	€	€	€	€
Revenue	190,000	34,286	(9,600)	203,686
*[proceeds sale of associate]	(11,000)			
Cost of sales	(142,500)	(24,000)	9,600	
*Unrealised stock Profit	_	(480)	_	(157,380)
Gross profit	36,500	9,806		46,306
Operating Expenses	(9,614)	(6,000)		(15,614)
Operating Profit	26,886	3,806		30,691
Finance Charges				
Interest	(3,600)			(3,600)
Gain on disposal of Associate	1,800			1,800
Profit before tax	25,086	3,806		28,891
Taxation	(4,286)	(536)	_	(4,821)
Profit for year	20,800	3,270		24,070
Attributable to				
Owners of the company	20,800	2,616		23,416
Non Controlling Interest		654		654

Note only the final column is required viz "Group Total". The other three to the immediate left are optional for working note purposes only and are not required

* Note "unrealised stock profit" and "Proceeds sale of Associate" are not part of published headings and included only for working note information

** Profit on sale of associate equals €8,000 plus post acquisition profits €1,200 [[i.e.€6,000 x20%] minus consideration €11,000 equals €1,800 profit

Stock profit is [20%/120%] x 30% x €9,600 = 1/6th x €2,880=€480

Non Controlling interest is €3270 x 20% equals €654

Allow for some rounding in the above amounts

Group statement of changes in Equity of Beers for year ended 31/07/12

	Capital	Share Premium	Reserves	Total	*Non C %
As at 31/07/11	200,000	25,000	(a)39,200	264,200	
Share Issue	75,000	27,000		102,000	
**Non controlling interest					22,550
Income statement			23,416	23,416	654
Dividends	-	-	(3,100)	-	-
As at 31/07/12	**275,000**	**52,000**	**59,516**	**389,616**	**23,204**

* "No C %" Non Controlling interest
** Non controlling interest arising on acquisition of 80% of Wines Ltd.
(a) Retained profits brought forward are €38,000 for Beers Ltd plus 20% share of post acquisition profits of Associate to 31/07/11 ie. €6,000 x 20%=€1,200

Non Controlling interest [Minority interest]

Approach 1

Net Assets per question is	€144,000	
Less revaluation of land [downwards]	(€ 27,500)	
Less unrealised stock profit	(€ 480)	
Amended net assets	€116,020	
Non Controlling interest is thus	20% =	€23,204

Approach 2

Share Capital €125,000	x 20% =	€25,000	
Share of profits b/fwd €14,000	x 20% =	€ 2,800	
Share of current Profits [€5,000-€480]	x 20%=	€ 904*	
Less land revaluation (€27,500)	x 20% =	(€5,500)	
		equals	€23,904

* Current profits pre-acquisition €5,000 x 3/12th x 20% equals €300
***** Current profits post acquisition[[€5,000 x 9/12]-€480] x20% €654
€904*

Goodwill

Share Capital €125,000 x 80%	€100,000	
Profits b/fwd to start of year €14,000 x 80%	€ 11,200	
Current Yr profit pre-acquisition €5,000 x 3/12 x 80%	€ 1,000	
Revaluation land (€27,500) x 80%	(€22,000)	
Total Share of Net Assets at acquisition date	€90,200	
Consideration was 100,000 x €1.02	€102,000	
Thus Goodwill [positive-intangible asset]		**€11,800**

Group Statement of Financial Position of Beers Ltd as at 31/07/12
[NOT ASKED FOR]

	Group
Non Current assets	
Land	257,500
Property Plant & Equipment	130,000
	387,500
Intangibles	
Goodwill	11,800
Current Assets	
Inventory	64,520
Receivables	29,500
Bank	24,400
Total Assets	**517,720**
Equity	
Share Capital	275,000
Share Premium	52,000
Retained profits	59,516
Owners equity	**386,516**
Non Controlling interest	23,204
Total Equity	**409,720**
Non current Liabilities	
Loans	60,000
Current Liabilities	
Payables	38,000
Bank	10,000
Total Equity plus Liabilities	**517,720**

Non Current Assets €175,000 plus €110,000 less revaluation (€27,500)=€257,500
Inventory €48,000 plus €17,000 minus €480 unrealised stock profit = € 64,520
Goodwill see note on computation.

Retained profit = see Statement of Changes in Equity
Share Capital and Share Premium see Statement of Changes in Equity
All others are a “cross totals” of Beers and Wines assets and liabilities

Question 2-solution(a)
Statement of Comprehensive Income of Teletron Ltd for Y/E 30/04/12

		€
Revenue	**W/N 2**	192,500
Cost of Sales	**W/N 1**	(136,610)
Gross Profit		55,890
Distribution	**W/N 1**	(23,000)
Administration	**W/N 1**	(14,500)
Operating Profit/(Loss)		18,390
Finance Charges		
Leasehold interest	**W/N 6**	(2,100)
Interest [€100,000 x 8% for full year]		(8,000)
Profit before tax		8,290
Taxation	**W/N 3**	(2,925)
Profit for year from continuing operations		5,365
Discontinued Operations		
Profit for the year from discontinued operations [**Note 1]**		725
Profit for the year		6,090
Other Comprehensive Income		
Revaluation of land	W/N 8	(30,000)
Total comprehensive income for year		**(23,910)**

W/N 1 Analyses of →		**Production**	**Distribution**	**Administration**
per T/B		€75,000	€14,000	€16,000
Discontinued Division Costs per	**Qn.N /3**	(€8,000)	(€1,000)	(€1,500)
Opening stock		€16,000		
Contract cost	**W/N 5**	€42,000		
Depreciation	**W/N 8**	€31,200		
Grant -credit	**W/N 6**	(€2,000)		
Impairment	**W/N 8 (a)**	€4,410		
Closing stock		(€22,000)		
Fines for non compliance	**W/N 7**	‘	€10,000	‘
		€136,610	**€23,000**	**€14,500**

W/N 2 Revenue;

Trial Balance of €165,000 minus Discontinued . Division..€15,000 minus minus Grant €10,000 [see Qn Note 6] plus Contract revenue €52,500 [**W/N5]=€192,500**

W/N 3-Computation of Tax charge on continuing profits

Taxation charge estimate on whole company profits 2012	€2,500-**B/S C.L**.
Under provision of tax on whole company profits for 2011	€800
Deferred Tax charge increase **W/N 4**	€400
Chargeable Tax on whole company profits for 2012	€3,700
Less Taxation on profit on discontinued activities	(€900)
Taxation savings on loss sale of discontinued activities	€125
Taxation charge on profits of continuing activities	**€2,925**

W/N 4 Deferred tax charge

Closing temporary differences €51,200 x 12.50%	€6,400 **B/S**
Less Opening balance deferred tax per T/B	(€6,000)
Deferred tax charge to I/S	**€400**

Solution 2 (b)Note 1 Discontinued operations -included in published accounts

		€
Revenue		€15,000
Cost of sales		(€8,000)
Gross profit		€7,000
Distribution costs		(€1,000)
Administration		(€1,500)
Profit before tax		€4,500
Taxation		(€900)
Profit for the year		€3,600
Loss on disposal of division	(€3,000)	
Tax savings on loss	€125	
Net loss on sale of division		(€2,875)
Profit on discontinued operations		€725

Solution 2(c) Statement of Changes in Equity of Teletron Ltd y/e 30/12/12

	Ordinary share Capital	**Share Premium**	**Retained reserves**	**Revaluation**	**Total**
Balances at 30/04/2011	150,000	50,000	60,000	35,000	295,000
Total comprehensive income			6,090	(30,000)	(23,910)
Dividends paid			(2,000)		(2,000)
Balances at 30/04/12	**150,000**	**50,000**	**64,090**	**5,000**	**269,090**

On 02/05/12 the board of the company declared an ordinary dividend of €0.02 per share amounting in total to €4,000

Answer 2 (d)

Statement of Financial Position/Balance Sheet of Teletron Ltd as at 30/04/12

Non Current Assets			
Fixed Tangible	**W/N 8**		€338,390
Current Assets			
Inventories		€22,000	
Amounts receivable in respect of construction	**W/N 5**	€44,500	
Trade and other Receivables		€44,000	
Cash		€500	€111,000
Total Assets			**€449,390**
Equity interest			
Ordinary share capital of €0.75 each		€150,000	
Share Premium		€50,000	
Revaluation see SOCE & W/N 8 (b)		€5,000	
Retained Profits [see SOCE]		€64,090	
Non current Liabilities			
8% Debentures		€100,000	
Leasing loans	W/N 6	€26,420	
Provisions		€10,000	
Grant	W/N 6 (b)	€6,000	
Deferred tax	W/N 4	€6,400	€148,820
Current Liabilities			
Payables		€15,000	
Leasing loans	W/N 6	€7,980	
Interest on debentures[1/2 O/S at y/end]		€4,000	
Grants	W/N 6 (b)	€2,000	
Taxation	W/N 3	€2,500	€31,480
Total Equity plus Liabilities			**€449,390**

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W/N 5 Construction contact

Contract Price	€175,000
Total costs over contract €42,000 Qn/N7+€98,000 equals	€140,000
Total Profit over entire contract	€ 35,000
30% Sales to be included in I/S	€52,500
Profit to be accrued for €35,000 x 30% equals	€10,500
Thus Costs to included in Income statement	€42,000

Amount recoverable on B/S Recoverable €52,500 minus €8,000 cash received=€44,500

W/N 6-Leasing

	Opening	Charge to I/S		
	Balance	5%	**Bank**	**Closing**
	€52,000		**repay**	**Balance**
Grant	(€10,000)			
Year 1	€42,000	€2,100	(€9,700)	€34,400
Year 2	€34,400	€1,720	(€9,700)	€26,420
Year 3	€26,420	€1,321	(€9,700)	€18,041
Year 4	€18,041	€902	(€9,700)	€9,243
Year 5	€9,243	€462	(€9,700)	€5

Analysis of closing balance 30/04/12

Current Liability €9,700 minus €1,720 interest Year 2 = **€** 7,980
Non Current Liability **€**26,420
Total outstanding at end of year 1 **€**34,400

(b)Grant

Revenue	€10,000	
Grant		€10,000
Grant-Write off over 5 years	€ 2,000	
Credit depreciation expense in I/S		€2,000

Of the remaining €8,000 , another €2,000 is due to be credited within 12 months and is thus deferred income C.Liability whilst the remaining €6,000 is Non Current Liability

Depreciation charge over 5 years is €50,000 divided 5 years equals €10,000
*No connection with deposit amount. Simply a coincidence of amounts.

The rest of the analysis of non current assets is in W/N 8

W/N 7-Provision

There is no unavoidable or present obligation by the company at the Balance Sheet to incur costs in relation to the instalment of filters as they not have entered into any binding commitment with suppliers for the instalment of such filters.. Assessment of the detailed legislation as to how and in what circumstances such fines are imposed is required to determine the amount and probability of a fine. . However In the absence of contrary information it would be prudent to assume that such a fine is probable and should be provided for..

W/N 8 Analysis of Non Current Assets or similar workings. Detailed layout not asked for

				W/N 6	
			Machine	**Machine**	
	Land	**Buildings**	**One**	**Two-leased**	**Total**
Cost or value as at 30/04/11	€120,000	€200,000	€90,000		€410,000
Revaluation	(c)(€30,000)				_
Additions	‘	‘	‘	€52,000	€52,000
Cost or value as at 30/04/12	**€90,000**	**€200,000**	**€90,000**	**€52,000**	**€462,000**
Depreciation					
Accumulated as at 30/04/11		(€40,000)	(€18,000)		(€58,000)
Income statement 30/04/12 (a)		(€6,400)	(€14,400)	(€10,400)	(€31,200)
Impairment	‘	‘	(b)(€4,410)	‘	(€4,410)
Accumulated as at 30/04/12	‘ N/A	(€46,400)	(€36,810)	(€10,400)	(€93,610)
Net Book value as at 30/04/12	**€90,000**	**€153,600**	**€53,190**	**€41,600**	**€338,390**

Net Book value as at 30/04/11 €120,000 €160,000 €72,000 €0000**

***** Note Not asked for but would be required if IAS 16 note was requested to be attached***

Depreciation charges

(a) [Buildings €200,000 minus €40,000] x revised rate 4% equals €6,400

Machine One [€90,000 minus €18,000] x 20% R.B. equals €14,400
Machine Two per W/N 6 i.e. €52,000 divided by 5 years equals €10,400

(b)**Impairment review at year end**
Carrying value of €90,000-[€18,000+€14,400]=€57,600 compared with recoverable amount

Recoverable Amount is Higher of Net Realisable Value or N.R.V. and Value in USE

Value in USE is four years annual net cash flows i.e. €15,000 x PV annuity for 5% ie.3.546
Thus value in use equals €53,190 which is higher than NRV of €25,000 and thus represents the recoverable amount

The carrying value at 30/04/12 is €90,000 minus[€18,000+€14,400] equals	€57,600
The recoverable amount is	€53,190
Thus the impairment is	€4,410

(c) **Land revaluation**. Land is in use for the business and is not held for investment purposes. Thus accounted per IAS 16

Credit Land and debit Revaluation €30,000 showing unrealised loss under other comprehensive income
The revaluation will thus reduce from €35,000 to €5,000

Question 3 solution

	31/03/12	31/03/11
Profit after tax	€ 6,420	€ 4,150
Preference dividend	(€ 150)	(€ 150)
Profit after tax	€ 6,270	€ 4,000
	Divided by	
Weighted Average number of shares	27,880 **W/N 2**	20,000
EPS	€0.22 (b)	€0.20 (a)
Restated [in 2012 financial statements]		€0.15 (c) **W/N3**
Summary of Share Issues		
Diluted EPS	€0.20 (d)	

No of share in issue	20,000
Bonus 1 for 4	5,000
Share in Issue pre rights	25,000
Rights Issue 1 for 5	5,000
Total post rights issue	30,000

W/N 1-Computation of theoretical ex-right price of share

Ordinary Share Capital at 31/03/11€10,000 divided by N.V. €0.50 =20,000 shares

W/N 2- Computation of ex rights price

5 Ordinary shares at pre rights M.V. of €1.50 equals total of		€7.50
1 Ordinary share at issue price of €0.80		€0.80
6 Ordinary shares equals	**€1.38**	€8.30

W/N 2 Computation of weighted average number of shares in issue

Weighed average no of shares in issue is

25,000 Shares in Issue pre rights x $\frac{\text{M.V. pre rights}}{\text{Ex right price}}$ $\frac{\text{€1.50}}{\text{€1.38}}$ $\frac{\text{x 9 mths}}{\text{12 mths}}$ =20,380

30,000 Post rights x $\frac{\text{3mths}}{\text{12 mths}}$ 7,500

Total weighted average 27,880

W/N 3 Computation of revised previous year EPS

€0.20 x $\frac{\text{prior bonus 20,000}}{\text{Post bonus 25,000}}$ x $\frac{\text{Ex rights}}{\text{Cum Rights}}$ x $\frac{\text{€1.38}}{\text{€1.50}}$ equals €0.1455=€0.147=€0.15

Question 3

W/N 5 Diluted EPS		2012
Profit after tax		€ 6,420
Add back convertible loan stock interest net of tax€400 x[1-.125]		€ 350
Total		€6, 770
Less Preference shares dividend		(€ 150)
Profits available to ordinary share holders		€6, 620
Existing weighted average number shares in issue [W/N 2]	27,880	
120 shares for every €100 of loan stock totalling €4,000	4,800	
		32,680
Diluted EPS		€0.202
	Say	€0.20

(e) Para 32 and 41 of IAS 33

Note slightly different answers for EPS, Diluted etc depending on the number of decimal points attached to an amount and left in the calculator when multiplying that amount by another number.
Thus it is most important to leave a clear trail of working notes showing HOW final amounts were arrived at and which, even if slightly different from above answers, could still earn full marks..