Institute of Incorporated Public Accountants

Final Admitting Examination

Module 11: Advanced Financial Accounting

Monday 25 August 2014

2pm – 5:30pm

Time Allowed: Three and a half hours

Instructions

Candidates must answer all three questions**.** Candidates should clearly indicate the number of the question and the part of that question (a),(b),(c) etc on every page on which the answer to that part of the question is written.

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. If a candidate chooses to use a separate answer book for working notes then s/he must indicate the question to which the working note refers, the working note number together with a suitable description on each and every page on which that working note is written.

Example

Qn ? W/N ?? "Composition of amount for €???" shown under- say Cost of Sales- in the Statement of Comprehensive Income?

Candidates should begin each question on a new page

Marking Scheme

Question 1	25 marks
Question 2	50 marks
Question 3	25 marks
Total	100 marks

Question 1

Set out below are the Financial statements of the Packer Group Ltd.

Group Income statements Packers Ltd

	30/06/14	30/06/13
	€	€
Sales/ Revenue	1,212,000	1,000,000
Cost of Goods Sold	(945,360)	(800,000)
Gross Profit	266,640	200,000
Operating Expenses	(157,560)	(100,000)
Operating Profit	109,080	100,000
Finance charges	(3,000)	(4,000)
Profit before tax	106,080	96,000
Taxation	(13,260)	(12,000)
Profit for the year	92,820	84,000
Other comprehensive income		
Revaluation	5,000	8,000
Profit for the year [note1]	97,820	92,000
Controlling interest	96,220	92,000
Non-Controlling interest	1,600	0
	97,820	92,000

Note 1 Profit is after charging depreciation of 48,750 44,200

Group Statements of Changes in Equity for years 30/06/13 and 30/06/14

	Share Capital	Share premium	Revaluation	Retained Profits	Total	Non Controlling Interest
Balance at 30/06/12	50,000		7,000	11,000	68,000	
Profit for year end 31/12/13			8,000	84,000	92,000	
Balance 30/06/13	**50,000**	**0**	**15,000**	**95,000**	**160,000**	**0**
Acquisitions						15,125
Shares issued during year	45,000	45,000			90,000	
Profit for the year 30/06/14			5,000	91,220	96,220	1,600
Dividends				(9,500)	(9,500)	(50)
Balance 30/06/14	**95,000**	**45,000**	**20,000**	**176,720**	**336,720**	**16,675**

Group Statements of Financial Position of Packers Ltd as at

	30/06/14	30/06/13
Non-Current Assets	€	€
Property Plant and Equipment	202,750	154,000
Goodwill note 2	11,100	
Current Assets		
Inventory	103,601	54,795
Receivables	116,220	82,191
Bank	21,975	0
Total Assets	455,646	290,986
Equity and Liabilities		
Equity		
Ordinary Share Capital of €1 each	95,000	50,000
Share Premium	45,000	0
Revaluation	20,000	15,000
Retained Earnings	176,720	95,000
Controlling interest	336,720	160,000
Non-Controlling interest(a)	16,675	0
Total Equity	353,395	160,000
Non-Current Liabilities		
10% Debentures	25,000	40,000
Current Liabilities		
Payables	64,751	76,712
Interest	1,500	2,100
Taxation	11,000	9,000
Bank		3,174
Total Equity plus Liabilities	455,646	290,986

Note 2

During the current year ended 30/06/14 Packers Group Ltd. bought an 80% share in Parcels Ltd when the assets and liabilities of that company at the acquisition date were as follows:

Parcels Ltd

Property Plant &Equipment	€ 62,500
Inventory	€ 5,000
Receivables	€ 7,500
Cash	€ 2,500
less Payables	(€ 1,875)
Total Net Assets	€ 75,625
Share Capital	€ 50,000
Retained Profits	€ 25,625
Total Equity	€ 75,625

All the assets and liabilities were stated at their fair value

The consideration for the acquisition of 80% of Parcels Ltd was:

20,000 ordinary shares in Packers at an issue price of €2.00 each equals €40,000

.A cash payment of <u>€34,000</u>

Total consideration <u>€74,000</u>

Required

(a) Prepare the Group Cash flow of Packers Ltd for the year ended 30/06/14 including the components on the cash and cash equivalents in accordance with IAS 7 and any other relevant standard. 21 marks

(b) Set out briefly the objective of cash flow statements. 4 marks

Total **<u>25 marks</u>**

Question 2
Set out below is the Trial Balance of Mining Equipment Ltd for 30/06/14 together notes

	Notes		€ Debit	€Credit
Buildings	Note 5		1,550,000	
Accumulated depreciation	Note 5 &7			220,000
Ordinary share capital	N.Value	€0.80 per share		1,000,000
Share Premium				250,000
Retained Profits				520,000
Revenue/Sales				4,700,000
Administration expense			705,000	
Purchase			2,726,000	
6% Debentures	Note 5			450,000
Machinery			1,800,000	
Accumulated depreciation	Note 6&7	30/06/13		878,400
Drilling Equipment	Note 4		254,285	
Accumulated depreciation	Note 4 &7	30/06/13		80,000
Munster Farm Machinery Ltd	Note 1		0	
Company pension scheme	Note 8		90,000	
Sundry receipts	Note 1&4			535,000
Inventory	Note 3		327,120	
Payables				391,667
Auzzie Drillings Ltd	Note 2		165,000	
Taxation	Note 9			5,471
Selling and distribution			940,000	
Debenture interest paid			13,500	
Trade receivables			392,000	
Dividends paid			37,500	
Cash/Bank			30,133	
Totals			**9,030,538**	**9,030,538**

Note 1-Acquistion [and subsequent disposal] of Munster Farm Machinery Ltd.
On the 01/07/13 the company acquired an 80% control of Munster Farm Machinery Ltd. However a major shareholder Brian Fennis objected to the acquisition because he did not feel that the purchase was a good strategic fit. Despite his objections, he was out-voted at the board meeting and the purchase of Farm Machinery Ltd went ahead at that date.

Details of the Trial Balance of Munster Farm Machinery Ltd at 30/0/6/14 are shown on the next page.

Question 2-continued

***Note 1-cotinued* –acquisition of 80% of Munster Farm Machinery Ltd on 01/07/13**

Trial Balance of Farm Machinery as at 31/06/14

			€ Debit	**€Credit**
Sales/Revenue				220,000
Cost of sales			88,000	
Inventory		30/06/14	8,000	
Ordinary Share Capital				300,000
Buildings			500,000	
Accumulated depreciation		30/06/14		100,000
Distribution expenses			44,000	
Administration			4,400	
Taxation on profits y/e		30/06/14	9,200	
Taxes owing				4,600
Payables				7,233
Receivables			18,333	
Profits brought forward		30/06/13		80,000
Cash in Bank			39,900	
Totals			**711,833**	**711,833**

Acquisition consideration
The consideration for acquisition of 80% of the ordinary share capital of Munster Farm Machinery Ltd at 01/07/13 was the issue of 260,000 Ordinary shares in Mining Equipment Ltd at a value of €1.20 per ordinary share.

The net assets of Munster Farm Machinery Ltd. at the date of acquisition were stated at their fair value.
There was no change in the amount of share capital of Munster Farm Machinery Ltd through out the year ended 30/06/14.
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No accounting adjustments were made to reflect the issue of Ordinary share capital by Mining Equipment Ltd as consideration for the acquisition of Munster Farm Machinery Ltd.

Subsequent disposal of Munster Farm Machinery Ltd
Subsequent to the purchase of the subsidiary Brian Fennis-a major shareholder-continued to argue against the suitability of the purchase. Finally he succeeded in convincing a majority of the board and the subsidiary was sold again for €400,000 cash on 01/01/14 .

Apart from recording the receipt of cash €400,000 by crediting sundry receipt and debiting the bank no other adjustments in relation to the sale were made.

Note 2- Acquisition of 30% share of USA company called Aussie Drill Bits Ltd.
On the 01/07/13 the board also acquired a 30% share in Aussie Drill Bits Ltd. for €165,000.

The total Ordinary Share capital and retained profits of Aussie Drill Bits Ltd at 01/07/13 were as follows

Ordinary Share Capital	$500,000
Retained Profits	$250,000

The profit for the year ended 30/06/14 was $255,000
No dividend was paid out by Aussie Drill Bits Ltd. from any profits during the current year.
The exchange rates between the Australian dollar and the euro were as follows;

As at 01/07/13	$1.50 to €1.00
Average during year ended 30/06/14	$1.51 to €1.00
As at 30/06/14	$1.52 to €1.00

The remaining notes set out hereunder are separate from either note 1 and/or note 2

Note 3-Closing inventory of Mining Equipment Ltd
The inventory of Mining Equipment Ltd at 30/06/14 was €359,832

Note 4-Drilling Equipment
The Drilling equipment was purchased on the 01/07/11 for €200,000 and to be depreciated at 20% straight line per annum.

On the 01/07/13 the company engaged in a Sale & Leaseback agreement with Mighty Finance Ltd in order to raise some cash without going to the shareholders.

The agreement involved the sale of the equipment for €135,000 to Mighty Finance Ltd and it being leased back to Mining Equipment Ltd at a rental of €54,285 payable on the 30th June each year for three years.

At the end of the three year period the company can buy back legal ownership of the drilling equipment for €1.00 The implicit rate of interest in the lease agreement is 10%.

The first payment was made on the 30th June 2014. The amount was debited to the Drilling equipment asset account and credited to the bank

The €135,000 monies received was credited to sundry receipts and debited to the bank. No other adjustments were made.

Question 2-continued

Note 5-Buildings

On the 01/07/13 the company obtained a 6%loan of €450,000 in order to extend the size of its buildings. Work commenced immediately.
However on the 01/09/13 work ceased owing to a trades dispute. The matter was finally resolved by 30/11/13. Work recommenced and the extension was completed by the 30/06/14. The extension was available for use from the 01/07/14. The building amount in the trial balance includes the €450,000 spent on the extension.
Buildings are depreciated at 2% straight line. No depreciation has been provided for the current year on any part of the buildings.

Note 6 Machinery

Depreciation of machinery is at 20% reducing balance. No depreciation has been provided for in current year.

Note 7 Classification of depreciation costs by function

With the exception of buildings, any current year depreciation required in relation to any other non-current asset is to be allocated to Production costs.
In relation buildings any current year depreciation required is to be allocated 50% to Production costs, 20% to Selling & Distribution costs 30% to Administration costs.

Where an accounting standard requires an amount of an asset to be depreciated then it is company policy to depreciate that asset in full in in its year of acquisition and not to depreciate it at all in the year of its disposal.

Note 8 Employee pension scheme

The company runs a defined benefit pension scheme for its employees
At the 01/07/13 the present value of the scheme's assets were €700,000
At the 01/07/13 the present value of the scheme's obligations were €700,000
The company contribution towards the scheme for year ended 30/06/14 was €90,000.
This amount was paid into the pension scheme and accounted for accordingly.
The following information in relation to the scheme was also established.
Benefits paid by the pension scheme during the year ended 30/06/14 was €60,000.

Current service cost for the year ended 30/06/14 was €50,000.

The return on the scheme's plan of assets was estimated at 5% at start of year.

The interest cost on the scheme's obligations was estimated at 6% at start of year.

The fair value of the plan of assets at 30/06/14 was €740,000.

The present value of the obligations at 30/06/14 was €750,000.

Apart from the recording the €90,000 payment by the company no other adjustments have been made.

Note 9 Taxation

The amount of €5,471 represents an overprovision for taxation for the year ended 30/06/13. A provision of €12,000 is to be made for taxation on profits for year ended 30/06/14.

Required

(a) Prepare the statement of Comprehensive Income of Mining Equipment Ltd for the year ended 30/06/14. **24 marks**

(b) Prepare the Statement of Changes in Equity of Mining Equipment Ltd for the year ended 30/04/14. **5 marks**

(c) Prepare the Statement of Financial Position of the Mining Equipment Ltd as at 30/06/14. **21 marks**

Total 50 marks

Question 3

(a) IAS 37 –Provisions, Contingent Liabilities and Contingent Assets-outlines three conditions necessary for a provision to be recognised.

Required Set out the three conditions for recognition of a provision. **6 marks**

(b) Set out below are five issues to be accounted for in accordance with IAS 37.

Required

For each issue listed below, discuss with reference to the three conditions outlined above and the requirements of IAS 37 in general, as to how that issue should be dealt with. It may be assumed that the accounting year for the particular company with an issue is 30/06/14.

<u>Issue 1</u>

Byrne Ltd. manufacturer gives warranties at the time of sale to purchases of its product. Under the terms of the contract for the manufacturer undertakes to make good, by repair or replacement manufacturing defects that become apparent within three years from the date of sale. On past experience it is probable that there will be some claims under the warranties.

4 marks

<u>Issue 2</u>

Lodi Ltd, a retail store, has a policy of refunding money on purchases returned by dissatisfied customers even though it is under no legal obligation to do so.

4 marks

<u>Issue 3</u>

The government introduced a number of changes in the income tax system. As a result of these changes Monies Ltd., a financial services company, will have to retrain a large number of its workforce in order to ensure continued compliance with financial services regulation. At the end of its accounting period 30/06/14 no retraining has taken place.

4 marks

<u>Issue 4</u>

Widgets Ltd operates profitably from a factory that it has leased under an operating lease. During the year end 30/06/14 it relocates the operations to a new factory. The lease on the old factory continues for another four years, it cannot be cancelled and the factory cannot be re-let to another user.

4 marks

<u>Issue 5</u>

Bye-Bye Ltd- an airline- is required by law to overhaul its aircraft every three years.

<u>3 marks</u>

Total <u>25 marks</u>

END OF EXAMINATION PAPER .