Advanced Financial Accounting
Module 11
June 2009

<u>Instructions</u>

Candidates must answer all three questions.

The information supplied in Question 1 is to be used to answer Question 3. The answer in Question 3 is not dependent on the answer in Question 1.

Question 1 and Question 3 can thus be answered in any order.

Candidates should begin each question on a new page.

<u>Marking Scheme</u>

Question 1	25 marks
Question 2	60 marks
Question 3	15 marks
Total	100 marks

Question 1

Garden Specialist Ltd have recently expanded their operations in the production of Garden furniture and glass houses. Set out below are the Statements of Financial Positions and the Income Statements for the past two years.

<u>Statement of Financial Position as at 31/12/08</u>

	Oak Group Ltd	Ash Ltd	Elm Ltd
Non Current Assets	**€**	**€**	**€**
Land	190,000	62,000	
Property, plant & Equipment	85,000	55,000	75,000
Investment in			
Ash Ltd (note iii)			
Elm Ltd	30,120		
Current Asset			
Inventory	9,500	9,800	6,700
Receivables	7,200	5,800	7,300
Bank	9,080		
	330,900	132,600	89,000
Equity			
Share Capital	180,000	80,000	60,000
Retained Profits	61,900	11,500	16,600
Total Equity	241,900	91,500	76,600
Non Current Liabilities			
Loans	80,000		
Payables	9,000	35,000	5,630
Bank		6,100	6,770
Total Equity & Liabilities	330,900	132,600	89,000

<u>Statement of changes in Retained Profits</u>

	Oak Group Ltd	Ash Ltd	Elm Ltd
	€	**€**	**€**
Profit brought forward	35,000	12,500	11,200
Profit / (loss) for the year	30,000	(1,000)	6,900
Dividends charged	(3,100)		(1,500)
Retained Profits per SOFP	61,900	11,500	16,600

Statement of Comprehensive Income for year ended 31/12/08

	Oak Group Ltd	**Ash Ltd**	**Elm Ltd**
	€	**€**	**€**
Revenue	87,788	19,679	64,930
Cost of Sales	(65,841)	(13,775)	(51,944)
Gross Profit	21,947	5,904	12,986
Operating Expenses	(9,656)	(7,040)	(5,145)
Operating Profit /(loss)	12,291	(1,136)	7,841
Dividend income from associate	600	0	
Interest	(4,800)		
Profit before tax	8,091	(1,136)	7,841
Taxation	(4,091)	136	(941)
Profit for the year	4,000	(1,000)	6,900
Other comprehensive income			
Profit on disposal of investment in Ash	26,000		
Total Comprehensive Income for year	30,000	(1,000)	6,900

Notes

(i) Oak group has already properly accounted for all its other subsidiaries and associates other than Ash Ltd and Elm Ltd

(ii) Oak group acquired 70% of the Ordinary shares of Ash Ltd on the 01/07/07 for a consideration of €80,000 when the retained profits of that company were €6,250. The assets and Liabilities of Ash Ltd were equal to their fair value except for land. The fair value of the land in Ash Ltd was €15,500 greater than its book value. Ash did not adjust for this revaluation surplus in its own financial statements.

(iii) On the 01/07/08 Oak Group decided to sell its 70% investment in Ash Ltd for a €106,000. Apart from recording the profit on the sale of its €80,000 investment in Ash Ltd, Oak group made no other adjustment.

(iv) Oak Group acquired 40% in Elm on the 01/01/08 for €30,120

Required

(a) Show the amount that would appear in respect of Elm Ltd on the Group Statement of Financial Position [Balance Sheet] of Oak Ltd as at 31/12/08 **[4 Marks]**

(b) Show the Group Statement of Comprehensive Income for Oak Ltd for the year ended 31/12/08. **[18 Marks]**

(c) Show the "extract" from the Group Statement of Changes in Equity setting the movements in retained profits for year ended 31/12/08 **[4 Marks]**

(d) **"** A parent need not present consolidated financial statements if and only if " extract from paragraph 10 IAS 27. List the four situations that exempt a parent from presenting consolidated financial statements. **[4 Marks]**

Total Marks 30

Question 2

Set out below and on the following pages is the Trial balance of Gizmos Ltd for the year ended 31/12/08. Gizmos is involved in a number activities from robotic toys to home computers.

Trial Balance 31/12/2008

	Debit €	**Credit €**
€0.25 Ordinary share capital		500,000
6% Redeemable Preference Shares		350,000
Retained Profits		48,000
Buildings	800,000	
Machinery	300,000	
Accumulated Depreciation 31/12/08		
Premises		112,000
Machinery		108,000
5% Convertible Bond		100,000
Interest paid on bond	5,000	
Inventory – 31/12/08	85,000	
Revenue		650,000
Cost of Sales	400,000	
Distribution Costs	56,000	
Administration Costs	35,000	
Payables		12,500
Receivables	35,000	
Investment Property	165,000	
Bank Overdrawn		500
	1,881,000	1,881,000

Notes

(i) **Inventory**

Included in inventory is an amount for €21,250 which had been in the warehouse for six months. It is estimated it can be sold at a sales margin of 15% if modification costs of €8,000 are undertaken.

(ii) **Machinery** :

Machinery with a net book value of €57,600 and a cost of €90,000 was damaged accidentally on 31/12/08 resulting in a reduced capacity. It is estimated that the present value of the future cash flows over the asset's remaining life is €50,000 . The net realisable value of the machine is €36,000. No adjustment has been made in relation to the above event. Current year depreciation on machinery of 20% reducing balance has already been provided for and included in production costs.

(iii) **Buildings**

These are depreciated 2% straight line and this has already been provided for and included in production costs. The buildings were re-valued on the 01/01/08 up to €1,000,000. However due to an oversight no adjustment was made for the revaluation.

(iv) **Investment properties**

The company operates the fair value method in relation to its investment properties. Its current market value at 31/12/08 is €189,750.

(v) **Grants**

The company received €50,000 in a back to work training scheme for 25 mature workers. To date the company has trained 10 mature workers. The €50,000 received was included in Revenue.

(vi) **Taxation**

A taxation on profits of €16,200 is to be provided for. There was an overprovision of €3,500 in respect of tax for the profits year ended 31/12/07. This was credited to the opening retained profits.

(vii) **Convertible Bond**

Company issued a €100,000 5% bond at par on the 01/01/08. It is repayable in three years time. The market rate of interest at the date of the bond issue was 8% The present value factors for 8% were as follows

Year 1	Year 2	Year 3
0.926	0.857	0.794

(viii) **Share options**

The board of Gizmos granted 1,500 share options to one of its executives on condition that s/he remain in service with the company for the next three years. The exercise price is €30.00 and the fair value of the option on the grant date was €12.00

(ix) **Sale of Robotic toys division**

The company has decided to sell of its toy robot division. Its Profit and Loss for the current year to the date of sale were as follows:

Revenue	€97,500
Cost of Sales	(60,000)
Gross profit	€37,500
Operating expenses	(€41,250)
Operating Loss	(€3,750)
Taxation	(€ 500)
Loss for the year	(€4,250)

The operating expenses includes a loss of (€5,000) in respect of the disposal of the division. None of the other notes above relate to the sale of the division

Required

(a) Prepare the Income Statement of Gizmo Ltd for the year ended31/12/08 **[16 Marks]**

(b) Prepare the Statement of Financial Position [Balance Sheet] as at 31/12/08 **[16 Marks]**

(c) Prepare the Statement of Changes in Equity for Gizmo as at 31/12/08 **[7 Marks]**

(d) Set out the disclosure note on Non Current Assets in accordance with IAS 16 **[15 Marks]**

(e) Set out the disclosure note in relation to the sale of the division **[5 Marks]**

Total Marks 60

Note

in relation to IAS 1 candidates may answer using either the existing standard or the amended one effective for accounting periods after 01/01/09

- Marks will be awarded for presentation and, where necessary, for clear working notes. Candidates need only present a working note if it is felt necessary to explain either the computation or the composition of particular amounts or to justify such computations or calculations by reference to an accounting standard.

- If working notes are presented then these should be indicated as follows W/N1, W/N2 etc. accompanied by a suitable heading indicating the purpose of the working note.

Question 3

Given the general demand for more corporate governance the issue of the related party transaction is more urgent than ever.

Set out what is a related party and a related party transaction. Discuss how related party relationship are important in the context of financial statements and corporate governance objectives

[10 Marks]