IIPA

Advanced Financial Accounting
Module 11
June 2009

Suggested Solutions

Question 1

(a)

	Elm Ltd	40% **Cost of control**		**Associate**	
			S.Capital	€60,000	€24,000
			Preacquisition	€11,200	€4,480
Purchase		€30,120	Goodwill		€1,640
		€30,120			€30,120
Brought down at cost		€30,120			
Post acquisition share of associate profits					
B/fwd to start of year		€0			
Current year		€2,760			
less dividend rec		(600)			
Balance sheet		€32,280			**4.00**

W1 40% Elm Associate

W2 Net assets of associate

	At date of acq	At Bal Sheet
Share Capital	€60,000	€60,000
Profits	€11,200	€16,600
Total	€71,200	€76,600

W3

Cost of investment	€30,120
Group's share of net assets at acquisition	
40% x €71,200 =	(€28,480)
Goodwill	€1,640

W4 Interest in associate

Group's share of net assets at balance sheet	
(40% x €76,600)	€30,640
Goodwill not written off	€1,640
	€32,280

(b)

NB: Sold Ash half way through the year so only include 6 mths results in consolidated income statement.

	Oak Group Ltd	**Ash Ltd**	**Adjust**	**Total**
	€	€	€	€
Revenue	87,788	9,839		97,627
Cost of sales	(65,841)	(6,888)		(72,728)
Gross profit	21,947	2,952		24,899
Operatng Exp	(9,656)	(3,520)		(13,176)
Operating Profit	12,291	(568)		11,723
Associate co[7841 x40%]			3,136	3,136
Profit on Disposal				
Dividend [€1,500 x 40%]	600		(600)	0
Interest	(4,800)			(4,800)
Profit b tax	8,091	(568)	2,536	10,059
Taxation	(4,091)	68		(4,023)
Associate's tax (941x40%)			(376)	(376)
Profit for year	4,000	(500)	2,160	5,660
Other comprehensive Income				
Profit on disposal of subsidiary	26,000		(8,400)	17,600
(12,500 X 70% = 8,750 – 350 minority				
Total Comprehensive Profit for year	30,000	(500)	(6,240)	23,260
Attributable to				
Equity holders				**23,410**
Minority (€500 x 30%)		150		(150)
		(350)	(12,480)	23,260

(c)

Statement of changes in equity- extract

	Capital	**Group**
Opening balance	Oak Group Ltd	€35,000
Opening balance	Ash Ltd (€12,500 x 70%)	8,750
		43,750
[Group] Profit for the year		23,410
Dividends paid		(3,100)
		64,060

(d)

Para 10 IAS 27
" A parent need not present consolidated financial statements if and only if…………….."
The parent is itself a wholly owned subsidiary……

The parent debt or equity instruments are not traded in a public market

The parent did not file nor is it in the process of filing with a securities commission
The ultimate or intermediate parent

Question 2

W1

Closing stock €85,000

	€
Cost	21,250
NRV	17,000 (21,250 + 3,750 – 8,000)
Overvalued	4,250 Increase cost of sales

Closing stock €80,750

Sales Margin 15%
21,250/.85 = 25,000
25,000 – 21,250 = 3,750

W2

Machine

	€
NBV	57,600
NRV	36,000
Present value future cash flows	50,000

	€
Recoverable amount	50,000
Write down	7,600 (57,600 – 50,000) cost of sales

Opening accumulated depreciation

€300,000 x 20% =	€60,000
Per trial bal =	€108,000
This years depr	€48,000

W3

Premises	€
Cost	800,000
Addback Depre:	16,000 (800,000 x 2%)
Less; Accumulated depr	(112,000)
NBV	704,000
Revalued	1,000,000
Gain	296,000

Depreciation should have been

1,000,000 x 2% =	20,000
Provide for additional Depreciation	4,000 (20,000 – 16,000)

W4

Investment properties

	€
Cost	165,000
Revalued	189,750
Gain	24,750 other income

W5

Grants = €50,000 /25 x 10 = €20,000

Remove €50,000 from sales

Other income	€20,000
Deferred income	€30,000

W6

Taxes

Current liabilities	€16,200

Income statement
€16,200 – €3,500 = €12,700

W7

Convertible bond = €100,000 x 5% = €5,000

Present value
€5,000 x 0.926 = €4,630
€5,000 x 0.857 = €4,285
€5,000 x 0.794 = €3,970 €12,885

€100,000 x 0.926	€92,600
Total	€105,485

Increase finance cost by €3,439
Increase loan amount by €3,439

Present Value

€100,000 x 0.794 =	€79,400
PV Finance Costs	€12,885
Total Debt	€92,285
Overall	€100,000
Equity	€7,715

Debt	Interest 8%	Paid	Closing debt
€	€	€	€
92,285	7,383	(5,000)	94,668
	(€92,285 x 8%)		

€7,383 Finance cost Income Statement

W8

Share options
1,500 x €12 = €18,000
€18,000/3 = €6,000 income statement and equity

W9

Sale of division
Show separately discontinued activities

W10

Cost of sales	€
Per trial balance	400,000
Inventory (w1)	4,250
Loss on disposal of division	(5,000)
Depreciation (w3)	4,000
Machine impairment (w2)	7,600
	410,850

W11

Other gains and losses	€
Training workers (w5)	20,000
Gain on investment properties (w4)	24,750
Share expenses (w8)	(6,000)
	38,750

(a)

Income Statement for the year ended 31/12/08

	Total	**Discontinued**	**Continued**
	€	€	€
Revenue (650,000 – 50,000 W5))	600,000	97,500	502,500
Cost of sales (w10)	(410,850)	(60,000)	(350,850)
Gross profit	189,150	37,500	151,650
Distribution	(56,000)	(41,250)	(14,750)
Administration	(35,000)	0	(35,000)
Other Gains and losses (w11)	38,750	0	38,750
Operating Profit	136,900	(3,750)	140,650
Finance charges			
Pref dividend 350,000 x 6%	(21,000)		(21,000)
Convertible bonds (w7)	(7,383)		(7,383)
Profit before tax	108,517		112,267
Tax (w6)	(12,700)	(500)	(12,200)
Profit after tax	95,817	(4,250)	100,067
Loss on discontinued activities (4,250 + 5,000)			(9,250)
			90,817

(c)

Statement of changes in equity

	Ord Share Capital	Revalue	Retained Profit	Other	Total
	€	€	€	€	€
Per trial bal	500,000		48,000		548,000
Prior year tax			(3,500)		(3,500)
Restated bal	500,000	0	44,500	0	544,500
Profit for yr	0	0	90,817	0	90,817
Equity Bonds(w7)				7,715	7,715
Share Options(w8)				6,000	
Revaluation (w3)		296,000			296,000
Total	500,000	296,000	135,317	13,715	945,032

(d)

Disclosure note on non current assets

	Premises	Machinery	Total
	€	€	€
Cost	800,000	300,000	1,100,000
Revaluation (w3)	200,000	0	200,000
	1,000,000	300,000	1,300,000
Accumulated Depreciation			
Opening	96,000	60,000	156,000
(112,000 – 16,000)W3			
(300,000 x 20%)			
Revaluation	(96,000)		(96,000)
Impairment (w2)		7,600	7,600
Depreciation (w3)/(w2)	20,000	48,000	68,000
	20,000	115,600	135,600
Opening NBV	704,000	240,000	944,000
(€800,000 - €96,000)			
Closing NBV	980,000	184,400	1,164,400
(€1,000,000 - €20,000)			

(b)
Statement of Financial Position as at 31/12/08

			€
Non Current Assets			1,164,400
Investment properties (w4)			189,750
Current assets			
Inventories (w1)		80,750	
Receivables		35,000	115,750
			1,469,900
Share capital and reserves			
Ordinary share capital	500,000		
Revaluation	296,000		
Other reserves	13,715		
Profit	135,317		945,032
Non Current Liabilities			
6% Redeemable preference shares	350,000		
Convertible bonds (w7)	94,668		
Training grants (w5)	30,000		474,668
Current liabilities			
Payables	12,500		
Bank overdraft	500		
Preference dividends	21,000		
Tax (w6)	16,200		50,200
			1,469,900

(e)

Disclosure note on division closing

	€
Revenue	97,500
Costs of sales	(60,000)
Gross profit	37,500
Operating expenses	
(41,250 – 5,000)	(36,250)
Operating profit	1,250
Tax	(500)
Profit for the year	750
Loss on disposal	(5,000)
	(4,250)

The company decided to sell its robot toys division resulting in a loss overall of €4,250.

Question 3

Related Parties

para 9 IAS 24

(a) to (g)

Related party transaction is a transfer of resources, services, obligations between related parties regardless of whether a partice is charged

Some possible reference perhaps to short term lending by financial institutions to they did not appear on the Statements of financial positon or other examples from day to day . Need to restore investor confidence in the whole process of financial reporting standards, guidelines and integrity of management