



Advanced Financial Accounting Module 11 June 2010

Instructions

Candidates must answer all three questions.

Candidates should begin each question on a new page.

Marking Scheme

Question 1	25 Marks
Question 2	55 Marks
Question 3	20 Marks

Total	<u>100 marks</u>

Question 1

Kellar Group Ltd- a building and property development group -and which had commenced business on the 01/05/07 has just held an emergency board meeting. Due to the ongoing illness of the financial controller, there are no properly prepared consolidated financial statements for the years ended 30/04/08 and 30/04/09 in respect of Kellar Ltd

Pat Young, the recently recruited deputy, has been ordered to take full charge and do everything possible to ensure that Group financial statements for both years are produced for the board's next meeting in a month's time.

In that regard s/he has hired you as an advisor S/he would like your advice on whether each of the non current assets, listed at the locations below, should be treated in accordance with IAS 40-Investment Property- or in accordance with IAS 16-Property Plant & Equipment.

The board has indicated that where IAS 16 is applicable then the revaluation model is to apply. Each non current asset was estimated at its purchase date to have a useful life of 40 years. Depreciation, if required, is to be on a straight line basis.

Carlow

Land & Building purchased on the 01/05/07 for €2,000,000 of which €600,000 related to the land.

The building functions as the administrative and operational centre of the Kellar Group Limited

The valuation of the land and buildings at the end of each accounting date were;

	<u>30/04/08</u>	<u>30/04/09</u>
Value of Land	€ 720,000	€ 600,000
Value of Buildings	€1,521,000	€1,312,000

Dublin

Land & Buildings purchased on 01/05/07 for €1,500,000 of which €300,000 related to the land.

Kellar Group Limited let the property to Mojo Ltd a subsidiary who occupies it.

Following an inspection of the building on 01/05/08 and a review of ancillary matters it was decided that with affect from 01/05/08 that the remaining useful life of the building should be revised to 35 years.

The valuation of the land and buildings at the end of each accounting date were as follows

	<u>30/04/08</u>	<u>30/04/09</u>
Value of Land	€500,000	€ 300,000
Value of Buildings	€1,610,000	€1,150,000

Cork

Land purchased on the 01/09/07 for €1,800,000

Kellar Group Limited has not yet determined what it will do with it in the future.

	<u>30/04/08</u>	<u>30/04/09</u>
Value of Land as at	€2,200,000	€ 1 590,000

Waterford

Construction of Office block which commenced on the 02/05/08

On the 01/05/08 Kellar group purchased land for €500,000 and commenced the next day on the construction of a fully furnished block of offices.. The total costs to date, as at 30/04/09, were €1,800,000 including the purchase of land.

The Group intends to lease out the fully furnished offices at a commercial rate to USA Gadgets Limited who have recently signed rental/tenancy contracts

Galway

Purchased Buildings on the 01/05/08 for €1,200,000 including land of €620,000. Kellar Limited has let the property to Slogo Ltd an associate company.

	<u>30/04/09</u>
Value of Land as at	€ 480,000
Value of Buildings as at	€1,110,000

Required

- (a) In respect of each non current asset at each of the locations listed, state with reasons whether IAS 16-Property Plant & Equipment- or IAS 40- investment Property-should be applied.

[5 Marks]

- (b) For each location listed show the relevant amounts and the headings that would appear in either ;

- (i) The Group statement of Comprehensive Income for year ends 30/04/08 and 30/04/09

and/or

- (ii) The Group Statement of Financial Position at each year end

[20 Marks]

Total Marks 25

Where relevant working notes numbered W/N1, W/N 2 etc, with appropriate headings, should be given.

Question 2

Set out below is the Trial Balance of Engine Parts Ltd for the year ended 31/05/10 together with notes in relation to same.

		Debit	Credit
		€	€
€0.25 Ordinary share capital	[note 10]		250,000
6% Redeemable Preference Shares issued 30/11/09			50,000
Retained Profits to 31/05/09	[note 3]		42,000
Revenue	[note 2 and note 7]		600,000
Cost of sales	[note 8]	300,000	
Inventory-31/05/10	[note 1]	40,000	
Provision	[note 6]		21,000
Premises		100,000	
Machinery	[note 4]	280,000	
<u>Accumulated Depreciation 31/05/10</u>			
Premises			10,000
Machinery			84,000
Distribution Costs		72,000	
Administration costs		84,000	
Research and Development	[note 5]	163,000	
8% Debentures [issued 30/11/09]			35,000
Receivables		50,000	
Payables	[note 8]		25,000
Interest paid on debentures		1,400	
Investment Property -omit			
Ordinary dividends	[note 9]	12,000	
Bank		14,600	
Totals		<u>1,117,000</u>	<u>1,117,000</u>

Acquisition of an 80% share of Triffids Ltd

On the 01/06/09 Engine Parts Ltd purchased an 80% share in Triffids Ltd a major distributor of engine parts. The consideration is to be the issue of shares in Engine Parts Ltd to Triffids Ltd. No entries of any kind have been made to date.

The details of the acquisition are set out on Note 10

The remaining notes 1 to 9 refer specifically to Engine Parts Ltd itself and its Trial Balance as set out on the previous page.

Note 1 - Closing Inventory

Included in closing inventory is an amount for €16,000 for items which have been in stores for the past five months. The sales directors says s/he has located a customer in Italy but shipping and other costs will come to €3,840 . Subsequently however it was sold to a French customer on the 20/06/10 for €15,617 who was prepared to the pay the shipping costs himself.

Note 2 - Warranties

Included in revenue are the sale of 1,500 special pads for €30 each with a two year warranty attached commencing 01/06/10. A rival competitor Bit Parts Ltd is selling the same special pad at €26 each without the two year warranty. An insurance company will cover warranty costs for a premium of €12 per special pad.

Note 3 – Taxation

A provision of €11,000 corporation tax is to be made on the profit. There was an over provision of tax of €2,000 on profits for year end 31/05/09. This amount was credited to the opening retained profits because it related to last years tax estimate.

Note 4 - Damaged machinery

Machinery includes one machine with a net book value of €58,800 which was damaged by fire on the 31/05/10. As a consequence its output has been reduced so that future net cash inflows are estimated to be €12,522 per annum for the remaining five years of its useful life. Its net realisable value is €17,640.

The alternative use value was estimated at €45,000

The appropriate discount rate is 8% and the table is set out below

Year 1	Year 2	Year 3	Year 4	Year 5	Total
0.926	0.857	0.794	0.735	0.681	3.993

Note 5 - Research and Development Costs €163,000

The amount per the Trial Balance is made up as follows;

Marketing awareness of new product	€70,000
Direct wages of staff involved in the development	€55,000
Allocated general overheads	€38,000
	<u>€163,000</u>

Note 6

Engine Parts has set aside a provision for €21,000 to improve its systems and distribution networks.

Note 7

The company received a €36,000 grant to train 18 workers in operating office computers as part of the governments “change skills” programme. The amount was credited in full to Revenue/Sales.

As of the 31/05/10 Engine Parts Ltd has trained seven workers.

Note 8

The company purchased tools from the UK for £36,000 sterling on the 30/11/09. On the 31/01/10 it paid £24,469 sterling leaving an amount owing at year end of £11,531 sterling. The amount purchased and the amount subsequently paid were correctly translated and recorded in the books of Engine Parts Ltd. Apart from those two entries no others were made.

A selection of exchange rates during the accounting year is set out below

Date	UK	Euro
01/06/09	£0.92	to €1.00
30/11/09	£0.90	to €1.00
31/01/10	£0.85	to €1.00
31/05/10	£0.82	to €1.00
Average	£0.87	to €1.00

Note; Any final amounts computed should be rounded to the nearest euro

Note 9

Engine Parts proposed an ordinary dividend of €0.01 per share on June 1st 2010

Note 10 - Acquisition of 80% of Triffids on 01/06/09

Engine Parts Ltd acquired 80% of the share capital of Triffids on 01/06/09 .

The consideration is to be the issue by Engine Parts Ltd of 200,000 ordinary shares valued at €1.09 each in exchange for 80% of the share capital of Triffids Ltd.

No entries have been made by Engine Parts Ltd for the issue of the 200,000 shares.

Details of Triffids Ltd financial statements are set out on the next page.

Set out below is the Statement of Comprehensive Income of Triffids Ltd for the year ended 31/05/10 together with the Statement of Financial Position [Balance Sheet] as at that date

Statement of Comprehensive Income of Triffids for year ended 31/05/10

Revenue				120,000
Cost of sales				<u>(72,000)</u>
Gross Profit				48,000
Distribution costs				(14,400)
Administration cost				<u>(16,800)</u>
Profit before tax				16,800
Taxation				<u>(1,680)</u>
Profit for the year				€15,120

Statement of Financial Position as at 31/05/10

Non Current Assets

Premises	240,000	
Machinery	<u>40,000</u>	
		280,000

Current Assets

Inventory	12,000	
Cash in bank	<u>8,120</u>	
		20,120

Total Assets

300,120

Equity

Capital		100,000
Retained profits to 31/05/09	150,000	
Profit for year	<u>15,120</u>	
		<u>165,120</u>
Total Equity		265,120

Current Liabilities

Payables		35,000
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Total Equity and Liabilities

300,120

Triffids Ordinary Share Capital and Retained Profits at acquisition date

The Ordinary share capital as at 01/06/09 was 100,000 €1. each	€100,000
The retained profits as at 01/06/09	€150,000

The assets and liabilities of Triffids Ltd at date of acquisition of 01/06/09 were stated at fair value with the exception of :

Premises which requires a revaluation increase by €20,000

Machinery which requires a revaluation decrease by €10,000

The revaluation adjustments have not yet been put through the books of Triffids Ltd.

There were no inter-company transactions between Engine Parts and Triffids. There were no dividends paid or proposed by Triffids during the year

Required

- (a) Prepare the Group Statement of Comprehensive Income of Engine Parts Ltd for year ended 31/05/10 **[20 Marks]**
- (b) Prepare the Group Statement of Changes in Equity for Engine Parts for ended 31/05/10 **[5 Marks]**
- (c) Prepare the Group Statement of Financial Position [Balance Sheet] of Engine Parts Ltd as at 31/05/10 **[25 Marks]**
- (d) Show working note on “Cost of Control”, “Minority interest” **[5 Marks]**
- (i) 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 a stated accounting standard.
- (ii) If working notes are presented then these should be indicated as follows W/N1, W/N 2 etc. accompanied by a suitable heading indicating the purpose of the working note.

Total Marks 55

Question 3

(a) Define the following terms;

- (I) Liability
- (II) Provision
- (III) Constructive Obligation
- (IV) Onerous contract

[6 Marks]

(b) Discuss with reference to the relevant standard the accounting treatment, if any, for each of the following issues;

In relation to each issue it is to be assumed that the accounting year end of the entity is the 31/03/10

Issue 1

An entity operates in an industry which causes contamination to the local environment. It is located in a country where there is no environmental legislation.

The entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes

Issue 2

Hdryolux a group pharmaceutical company decided on the 24/03/10 to close down one of its divisions. The provisional cost of the redundancies is estimated at €40,000.

The decision was not communicated to any of those affected nor were any other steps taken by accounts year end to implement the decision.

Issue 3

Under new legislation passed by the government and with effect from the 30/06/10 companies involved in burning industrial rubbish are obliged to have their chimney stacks fitted with specialist filters

Sludge Limited estimated on the 25/03/10 that it will cost €70,000 to have their chimney stacks fitted with such filters

Issue 4

Pat Limited operates profitably from a factory that it has leased under an operating lease. On 28/02/10 the company relocated to a larger custom built factory. The lease on the old factory still has two years to run and it cannot be cancelled or sub let to some one else.

[14 Marks]

Total Marks 20