Advanced Financial Accounting
Module 11
Wednesday 22nd June 2011
10am – 1pm

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 heading that will clearly indicate the purpose of that note.

Candidates should begin each question on a new page.

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Marking Scheme

Question 1	35 marks
Question 2	50 marks
Question 3	15 marks
Total	100 marks

Question 1

Set out below are the individual statements for Pears Ltd, Plum Ltd, and Cherries Ltd for the year ended 30/04/11 together with notes thereto.

	Pears Ltd	Plums Ltd	Cherries Ltd
	€	€	€
Non current Assets			
Land		70,000	
Property Plant equipment	210,000	5,000	55,000
Investment in			
Plums Ltd	see note		
Cherries Ltd	21,000		
Current Asset			
Inventory	35,000	18,500	7,500
Receivables	17,600	10,800	6,800
Bank		26,200	5,900
Total Assets	**283,600**	**130,500**	**75,200**
Equity			
Share Capital *N.V. €1.00	140,000	80,000	50,000
Retained Profits	56,000	20,500	18,000
Total equity	196,000	100,500	68,000
Non Current Liabilities			
5% Loans	75,000		
Payables	8,500	30,000	7,200
Bank	4,100		
Total Equity & Liabilities	**283,600**	**130,500**	**75,200**

*N.V. is Nominal value of each Ordinary share

Income statements for year ended 30/04/11

	Pears Ltd	Plums Ltd	Cherries Ltd
	€	**€**	**€**
Revenue	170,596	64,545	70,455
Cost of sales	(127,947)	(45,181)	(56,364)
Gross Profit	42,649	19,364	14,091
Operating expense	(11,500)	(8,000)	(5,000)
Operating /Profit/(Loss)	31,149	11,364	9,091
Dividend income from associate	360		
Dividend from Subsidiary	1,400		
Loan Interest	(4,500)		
Profit before tax	28,409	11,364	9,091
Taxation	(3,409)	(1,364)	(1,091)
Profit for the year	25,000	10,000	8,000

Statement of Movements in Retained Reserves for year ended 30/04/11

	Pears Ltd	Plums Ltd	Cherries Ltd
	€	€	€
Profits brought forward as at 01/05/10	35,000	12,500	11,200
Profit for the year ended 30/04/11	25,000	10,000	8,000
Dividends Paid	(4,000)	(2,000)	(1,200)
Retained profits 30/04/11	56,000	20,500	18,000

Notes

Acquisition of Plum Ltd

(i) Pears Ltd acquired 70% of Plum Ltd on the 01/05/09 when the retained profits in Plum Ltd was €6,720. The consideration for the acquisition was in two parts.

The first part consisted of the issue by Pears Ltd to Plum Ltd of 25,000 Ordinary shares at €1.25 each .

The second part was a commitment to pay the shareholders of Plum Ltd a total cash sum of €33,487 by 30/04/12 i.e. three years from the date of acquisition.
The cost of funds in Pears Ltd is 10% and the present value for €1 received in year N is as follows;

Year 1 is .9091 Year 2 is .8264 and Year 3 is .7513

At the date of acquisition it was agreed that the Land should be re-valued downwards by €42,000. All other assets of Plum Ltd were stated at fair value.
No adjustments to date have been made in the financial statements of Pear Ltd in respect of either the shares issued or the cash sum promised for the acquisition of Plum Ltd
No adjustment to date has been made in Plum Ltd to reflect any changes in the value of assets at acquisition date.

(ii) Sales by Plum Ltd to Pears Ltd during the year amounted to €12,800. Of these 18% were still in the stock of Pearl as at 30/04/11. The mark up on cost made by Plum Ltd on those sales was 15%

(iii) Pears Ltd acquired 30% of Cherries Ltd on the 01/08/10 for a consideration of €21,000. The dividend paid by Cherries Ltd was paid out of post acquisition profits.

(iv) The profits of Plum Ltd and Cherry Ltd are assumed to accrue evenly through out the year

Required

(a) Prepare the Group Income statement of Pears Ltd for year ended 30/04/11 **(17 Marks)**

(b) Prepare the Group Statement of Financial Position [Balance Sheet] of Pears Ltd as at 30/04/11 **(18 Marks)**

Total (35 Marks)

Note
Any amounts computed should be rounded to the nearest euro where relevant

Question 2

Set out below is the Trial Balance of Saturn Products Ltd as at 31/03/11 together with notes thereto.

	Notes	Debits	Credits
		€	**€**
Revenue	**note (4)**		1,256,000
Production Costs		540,000	
Distribution		98,000	
Administration	**note (10)**	55,000	
Sundry receipt	**note (1)**		200,000
Inventory- **Note (3)**	**31/03/11**	85,000	
Income tax expense	**note (11)**	3,200	
Ordinary Dividend paid		12,500	
Land	**note (7)**	985,000	
Buildings		1,150,000	
Delivery Vans	**note (5)**	450,000	
Wind energy Equipment	**note (9)**	90,000	
Revaluation [relating to Land only]	**note (7)**		95,000
<u>Accumulated. Depreciation</u>			
Buildings	**31/03/11**		575,000
Delivery Vans	**31/03/11**		270,000
Wind energy Equipment	**31/03/11**		37,243
VAT			45,000
Development Costs	**Note (8)**	480,000	
Trade receivables		103,233	
Bank balances			6,512
Trade payables			59,178
0% Debenture Loan	**note (2)**		150,000
Lease rentals	**note (6)**	17,000	
Ordinary Share Capital N.V*. €0.75			375,000
Share Premium			250,000
Accumulated Profits 01/04/10			750,000
	Totals	**<u>4,068,933</u>**	**<u>4,068,933</u>**

***** N.V. is the Nominal Value of each Ordinary share

Notes to Trial Balance

(1) The sundry receipt represents the cash received from the issue of 8% Redeemable Preference Shares on the 01/10/10 Dividends payable half yearly on the 30th September and the 1st April

(2) The company received a loan of €150,000 at zero interest on the 01/04/09 which is repayable on the 31/03/14 with a sum of €220,400
On checking the loan contract details a brief note indicated that the effective rate of interest was 8%. Other than recording the receipt of the loan monies no other accounting entries, where relevant, were made.

(3) The following is an analysis of the inventory per T/B as at year end

	Purchases Total Cost	**Total Units**	**Selling price per unit**	**Total Delivery costs**
Product Model 1	€17,000	8,500 u	€2.15	€1,000
Product Model 2	€18,000	4,500 u	€4.05	€1,100
Product Model 3	€16,000	5,000 u	€3.00	€1,800
Product Model 4	€11,500	8,000 u	€1.75	€1,200
Product Model 5	€22,500	15,000 u	€1.58	see note below*
Total	€85,000	41,000 u		

***Foreign exchange purchases**
Raw Material Type 5 was purchased from the UK for £18,000 sterling when the UK pound to Euro was £0.80 to €1.00 euro. The material has not yet been paid for and the exchange rate at the 31/03/11 was £0.75 sterling to €1.00 euros

(4) The sales revenue per T/B includes a contract sale for €314,000. The contract for €314,000 was signed on the 01/10/10 and includes a three year "after sales" service contract that will cost the company €75,000 to provide same. The company normally makes a profit of 25% on providing such "after sales" services

(5) The delivery vans-costing €450,000- were bought on the 01/04/08 and depreciated at 10% straight line. Following a review of the estimated useful lives of the vans on the 01/04/10 the depreciation was revised to 20%
The Trainee accountant did a retrospective adjustment and recalculated depreciation from 01/04/08 putting through the relevant accounting adjustments.

(6) Lease Rentals-€17,000
The lease is a five year finance lease in respect of machinery acquired on the 01/04/10 with a fair value of €64,445 at that date.
Payments are made every 31st March. The cost of finance is 10%. The estimated useful life of the machine is 5 years with no residual value

(7) Land which is used within the business for providing access roads to the factory and parking for customers is regularly reviewed for its fair value. At the 31/03/11 the land was re-valued to €900,000

(8) Development Costs
During the year the company incurred €480,000 costs in developing a new product. It satisfied the recognition criteria in accordance with IAS 38 by the 31/12/10. Costs incurred are deemed to accrue evenly through out the year.
As of the 31/03/11 the recoverable amount [including recovery of budgeted further future cash outflows] was estimated at €108,000

(9) One of the company's major divisions was the manufacture and supply of domestic windmills for the local home owners market. The results which are set out below were disappointing and the board had decided on the 31/03/11 to discontinue the operations and close down the division The wind energy equipment used in manufacturing domestic windmills has been put up for sale

Income Statement for year end	**31/03/11**
Domestic Windmills division	**€**
Sales	**220,000**
Cost of sales	**(143,000)**
Gross Profit	**77,000**
Distribution	**(70,840)**
Admin	**(30,360)**
	(24,200)
Tax saving from losses	**3,025**
Profit after tax savings	**(21,175)**

A prospective offer of €50,000 has been made by another Energy company for the purchase of the Wind energy equipment provided Saturn Ltd deliver the machine to them. The delivery costs are estimated to costs Saturn Ltd €1,000. There were no other assets in relation to this division as at 31/03/11

None of the other notes to the Trial Balance viz (1) to (9) and (10) to (12) relate to the discontinued division above

(10) The administration expense includes a payment of €9,500 in respect of a defined benefit scheme for the company employees. Further details are as follows;

Fair value of plan assets as at	**01/04/10**	**€122,000**
Fair value of plan of obligations	**01/04/10**	**€122,000**
Contribution paid to the fund	**€7,500**	
Current service costs	**€12,000**	
Benefit paid	**€11,800**	
Interest rate payable	**11%**	
Return on Investment	**13%**	
Fair value of plan assets as at	**31/03/11**	**€131,000**
Fair value of plan of obligations	**31/03/11**	**€135,000**

There were no actuarial gains or losses at the start of the period. It is the company's policy to recognise the full actuarial gain or loss that arises

(11) A corporation tax of €8,500 is to be provided on the profits for the year ended 31/03/11. The amount of €3,200 represents an under-provision of corporation tax on profits for the year end 31/03/10 The €3,200 under-provision relates entirely to similar continued operations for year end 31/03/10

(12) An ordinary dividend of €0.04 was proposed on the 15/04/11

Required

(a) Prepare the Income Statement of Saturn Ltd for the year ended 31/03/11 **(24 Marks)**

(b) Prepare the Statement of Financial Position [Balance Sheet] of Saturn Ltd as at 31/03/11 **(20 Marks**)

(c) Prepare the Movement in Reserves [i.e extract from S.O.CE.] for Saturn Ltd for year ended 31/03/11 **(6 Marks)**

(50 Marks)

Note finalised amounts for inclusion in the Income statement, and/or Statement of Financial Position and/or SOCE may be rounded to the nearest euro where relevant

Question 3

Set out below are the Trading and Balance Sheet of Children accessories- owned and run by the Byrne family, has been in business for the past two years.

Trading & Income Statement

	31/01/11	**31/01/10**
Sales volume in units	5,750 u	5,000 u
	€	€
Sales Revenue	84,525	75,000
Cost of Goods Sold	(67,620)	(56,250)
Gross Profit	16,905	18,750
Operating Expenses	(10,143)	(10,500)
Operating Profit	6,762	8,250
Finance charges	(3,600)	(3,600)
Profit before tax	3,162	4,650
Taxation	(395)	(581)
Profit for the year	2,767	4,069

Statement of Retained Earnings/Movement in Reserves

	31/01/11	**31/01/10**
	€	€
Profit brought forward	2,469	0
Profit for the year	2,767	4,069
Ordinary Dividends	(1,600)	(1,600)
	3,636	2,469

	Balance Sheets as at	
	31/01/11	**31/01/10**
Non Current Assets	€	€
Property Plant & Equipment	93,500	101,500
Current Assets		
Inventory	8,892	4,623
Debtors	11,579	6,781
Total Assets	113,971	112,904
<u>Equity and Liabilities</u>		
Equity		
Ordinary Share Capital of €1 each	40,000	40,000
Retained Earnings	3,636	2,469
Total Equity	43,636	42,469
Non Current Liabilities		
12% Debentures	30,000	30,000
Current Liabilities		
Payables	4,632	5,394
Bank	35,704	35,042
Total Equity plus Liabilities	113,971	112,904

Required

(a) Compute 4 ratios one for each year under the following headings
(i) Liquidity (ii) Profitability (iii) Efficiency (iv) Investor appraisal

(6 Marks)

(b) Write a brief commentary on the results of the company

(6 Marks)

(c) Explain to the owner/s the difference between cash flow and profit flow

<u>(3 Marks)</u>

Total <u>(15 Marks)</u>

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