Institute of Incorporated Public Accountants

Module 11:

Advanced Financial Accounting

Monday 28th. May 2012

2pm – 5pm

Instructions:

Candidates must answer all three questions.

Candidates should clearly indicate the number of the question and the part of that question that they are 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 a heading that will clearly indicate the purpose of that note.

Candidates should begin each question on a new page.

Marking Scheme

Question 1	30 marks
Question 2	50 marks
Question 3	20 marks
Total	100 marks

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Question 1

Set out below are the Income statements and Balance Sheets for Rosetta Limited as at 31st March for two years.

	31/03/12		**31/03/11**
	€		€
Non current assets			
Tangible assets **Note 4**	464,000		385,000
Intangible assets **Note 5**			
Goodwill	6,000		16,000
Total Non Current Assets	**470,000**		**401,000**
Current Assets			
Inventories	64,500		62,000
Trade receivables	12,500		14,500
Interest receivable	8,000		11,000
Investments **Note 6**	18,000		0
Cash	9,000		12,000
Total Current Assets	**112,000**		**99,500**
	-		-
Total Assets	**582,000**		**500,500**
Shareholders equity			
Ordinary share capital 75 cent shares	187,500		150,000
Share premium	67,500		45,000
Revaluation surplus **Note 4**	26,000		8,000
Retained Earnings **Note 2**	111,500		80,000
Total Equity	**392,500**		**283,000**
Non current Liabilities			
10% Debentures	25,000		50,000
Finance Leases	35,000		25,000
Deferred Tax	12,000		10,000
Total Non Current Liabilities	**72,000**		**85,000**
Current Liabilities [see note 1 }	**117,500**		**132,500**
Total Equity plus Liabilities	**582,000**		**500,500**

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Question 1 continued
Note 1

Analysis of Current Liabilities	**31/03/12**		**31/03/11**
Trade payables	€35,000		€60,000
Income taxes	€13,500		€12,000
Interest payable	€11,000		€8,000
Finance leases	€6,000		€15,000
Bank overdraft	€52,000		€37,500
Total Current Liabilities	**€117,500**		**€132,500**

Income statements of Rosetta for two years ending 31st March

	31/03/12		**31/03/11**
Income statement	€		€
Revenue	85,000		55,100
Operating costs	(36,000)		(28,000)
Operating profit before interest	**49,000**		**27,100**
Investment income	18,000		11,000
Finance charges			
Interest expense	(14,000)		(3,600)
Profit before taxation	**53,000**		**34,500**
Taxation	(6,500)		(3,500)
Profit for the year	**46,500**		**31,000**

Note 2 Summary of movements in retained profits as at 31st March

	31/03/12		**31/03/11**
	Retained		**Retained**
	Profits		**Profits**
Brought forward at start of year	80,000		60,000
Profit for the year	46,500		31,000
Dividends paid	(15,000)		(11,000)
Retained Profits at year end	**111,500**		**80,000**

Note 3
During the year Rosetta issued 50,000 Ordinary shares at €1.20 incurring legal costs of €3,600

Note 4- **Tangible non current assets**

(i) Depreciation for the year was €19,000
(ii) An asset with a net book value of €24,000 was disposed for €19,500
(iii) Assets capitalised under Finance Leases amounted to €35,000
(iv) The revaluation amounts relate entirely to the tangible non current assets.

Note 5- There were no acquisitions or disposals of non current intangible assets during the year

Note 6 The €18,000 represents the investment of temporary surplus cash

Required

(a) In the context of IAS 7 explain briefly the meaning of the term "Cash Equivalents" **(3 marks**)

(b) Prepare the cash flow statement for year ended 31/03/12 **(25 marks**)

(c) Set out the note on Cash and Cash equivalents **(2 marks)**

Total **(30 marks)**

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Question 2 -
Set out below is the Trial Balance of Machine Parts Ltd as at 30/04/12

		Notes	Debits	Credits
			€	**€**
Revenue		**3**		1,500,000
Production Costs		**5**	680,000	
Distribution			96,000	
Administration			68,000	
Development Costs		**7**	150,000	
Inventory	30/04/12	**1**	125,000	
Ordinary dividends			7,000	
Preference share dividend			2,400	
Land		**4**	1,000,000	
Premises			1,200,000	
Trucks			580,000	
Equipment			90,000	
Accumulated. Depreciation	-			
Premises	30/04/12			480,000
Trucks	30/04/12			232,000
Equipment	30/04/12			30,951
VAT		**3**	45,000	
Sundry Profit		**2**		125,000
Corporation tax		**9**		1,100
Trade receivables			123,288	
Deferred tax		**9**		5,200
Bank			62,953	
Trade payables				55,890
5% Loan stock		**8**		150,000
Interest on Loan stock			7,500	
Ordinary Share Capital N.V*. €0.50		**10**		350,000
Share Premium				420,000
Accumulated Profits	01/05/11			682,000
Preference share capital		**6**		80,000
Revaluation		**4**		125,000
		Totals	**4,237,141**	**4,237,141**

Question 2 -continues on the next page

Question 2 continued

Notes

(1) Included in closing inventory is an amount for €15,000 which can be sold for €16,500 after modification costs of €1,800

(2) Machine Parts Ltd had acquired 80% of Oils Ltd on the 01/05/08 for a consideration of €800,000. Due to the downturn in the economy the company sold its 80% control of Oils Ltd for €925,000 on the 01/05/11. The sundry profit of €125,000 is computed by comparing the €925,000 with the initial investment

Further details in relation to the subsidiary were as follows

(i) Total Net Assets at date of acquisition €900,000. All stated at fair value
(ii) Total Net Assets at date of sale €980,000 All stated at fair value

(3) Of the total sales only 75% were liable to VAT and the amounts in relation to same were correctly computed and accounted for. However following a revenue investigation it was discovered that the company had claimed to set off VAT on its total purchases instead of only 75% of those purchases. The total purchases were €1,350,000 including VAT. Previous years were correctly computed.

(4) The land has been used as part of the company's ongoing activities. The board has had the land re-valued at €850,000 as at 30/04/12 The revaluation surplus relates entirely to previous revaluations of land.

(5) The company received a €42,000 training grant in respect of 14 employees to upgrade their skills and knowledge of machinery. The amount received was credited to costs of production. As at 30/04/12 six employees have had their skills upgraded

(6) The Preference Share Capital is more correctly described as Redeemable Preference Share Capital [2018]

(7) Development costs are analysed as follows

Expenditure on promotional activities	€50,000
Allocation of general overheads	€30,000
Wages of staff involved in its development	€70,000
Total	€150,000

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Question 2-continued

(8) The company issued 5% Loan stock on the 01/05/11 for €150,000 to be redeemed in four years time. The loan stock holders have the option to convert into Ordinary Share Capital. It is considered that a similar loan, without the option to convert into Ordinary Share Capital, would have an effective rate of 8%
The discount tables for 8% are as follows;

	Yr 1	**Yr 2**	**Yr 3**	**Yr 4**	**Total**
8% discount rate as follows	0.926	0.857	0.794	0.735	3.312

(9) The cumulative timing differences as at 30/04/12 was €62,000
The standard rate of corporation tax is 12%
Provision for corporation tax for year ended 30/04/12 is to be €3,850
The amount for €1,100 shown in the Trial Balance represents an overprovision for tax on profits for the year ended 30/04/11

(10) During the year the company issued 200,000 ordinary shares at an issue price of €1.20 each The legal and accountancy fees related to the issue amounted to €3,500 and were included in administration

(11) A dividend for the amount of €0.01 per share was proposed on the 15/05/12 but before the financial statements were authorised

Required

(a) Prepare the statement of Comprehensive Income of Machine Parts Ltd for the year ended 30/04/12 (**21 marks)**

(b) Prepare the Statement of Financial Position of Machine Parts Ltd as at 30/04/12 (**18 marks)**

(c) Prepare the statement of changes in equity of Machine Parts Ltd **(11 marks**)

(50 marks)

Where working notes are used to support relevant computations then these should be designated W/N1, W/N 2 etc with clear headings stated and their purpose and where necessary a reference to the particular standard.

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Question 3

The following issues relate to IAS 18

(a) Explain briefly the meaning of the term "substance over form" **(3 marks)**

(b) Set out the five conditions that IAS 18 requires to be satisfied before recognising the sale of a good. **(5 marks)**

(c) Barton Ltd. with year end 29/02/12 sells goods to the following three customers

(i) Sells to Pat Murphy -Dublin Shopkeeper- on a "Sale or Return" Pat is entitled to return the goods to the Barton and obtain a full refund if s/he does not sell to his/her own customers within three months

(ii) Sold to Joe Doherty-Donegal Shopkeeper for €125,000 on the 01/03/11 on the following terms

€50,000 will be paid for immediately and of the remaining amount 50% will be paid the following year i.e. 28/02/13 and the other 50% will be paid by 28/02/14 Assume effective interest rate of 10%

(iii) Sold goods valued at €250,000 on the 01/03/11to LowLay Ltd for a consideration of €200,000. The agreement includes a right by Barton to repurchase the goods on the 29/02/12 for €250,000 plus compound interest calculated at 10%. It is expected that repurchase will in fact take place

Required

For each of the above situations state clearly, with reference to computations where relevant, how each transaction should be accounted for?

(12 marks)

Total (20 marks)

The following are the discount tables for 10% which may or may not be relevant to any of the above

	Year 1	Year 2	Year 3	Year 4
10%	.909	.826	.751	.683

END OF EXAMINATION PAPER. .