Institute of Incorporated Public Accountants

Module 11:

Advanced Financial Accounting

Monday 27th. May 2013

2pm – 5:30 pm

Time Allowed: Three and a half hours

<u>Marking Scheme</u>

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

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 candidates choose to attach working notes to explain the composition of a particular amount presented in their formal answer then such working notes should be numbered W/N1, W/N2 etc accompanied by a suitable heading that will clearly indicate their purpose.

Example:
The final amount for say Revenue shown in an Income Statement may sometimes consist of a number of amounts such as Revenue per Trial Balance less incorrectly included VAT, less sales returns, etc.

The method chosen by a candidate, - a working note or some other equally suitable method, - should enable an examiner to ascertain how that final Revenue amount was computed.

If it is not possible to ascertain how a final amount was computed then it may not be possible to award marks for that particular amount.

Candidates should begin each question on a new page.

Question 1

Set out below are the Income statements, Statement of Changes in Equity and Balance Sheets of Organic Fertilisers Group Ltd for two years ended 30th April.

		30/04/13	30/04/12
Income statement		€	€
Revenue		**125,000**	**104,167**
Cost of sales		(75,000)	(62,500)
Gross Profit		**50,000**	**41,667**
Operating Expenses	**note 1**	(20,000)	(16,667)
Operating Profit		**30,000**	**25,000**
Interest receivable		300	400
Interest payable		(5,700)	(6,200)
Profit before tax		**24,600**	**19,200**
Tax		(3,075)	(1,200)
Profit for the year		**21,525**	**18,000**
Other comprehensive Income			
Revaluation of properties		12,000	15,000
Total Comprehensive income		**33,525**	**33,000**
Analysed as follows			
Minority interest	**note 2**	1,076	0
Parent company		32,449	33,000
		33,525	**33,000**

Question 1-continued

Group Statement of Changes in Equity of Organic Fertilisers Ltd

		Ordinary Share Capital	Share Premium	Revaluation	Retained Profits	Total	Minority Interest
		€	€	€	€	€	€
Balance as at	**01/05/11**	70,000	10,000	11,000	8,000	99,000	0
Comprehensive profit year end	**30/04/12**			15,000	18,000	33,000	
Dividends					(1,400)	(1,400)	
Balance	**30/04/12**	**70,000**	**10,000**	**26,000**	**24,600**	**130,600**	0
Issue of shares		10,000	4,000			14,000	
Share issue expenses			(1,000)			(1,000)	
Non Controlling interest **Note 2**							4,650
Comprehensive profit year end	**30/04/13**			12,000	20,449	32,449	1,076
Ordinary dividends					(1,600)	(1,600)	(80)
Balance as at	**30/04/13**	**80,000**	**13,000**	**38,000**	**43,449**	**174,449**	**5,646**

Question 1-continued

Balance Sheets of Organic Fertilisers Group as at

			30/04/13		**30/04/12**
Non Current Assets		€	€	€	€
Tangible Assets	**note 1**		218,700		175,000
Goodwill	**note 1**		3,800		
Current Assets					
Investment					8,000
Inventory			9,247		6,849
Receivables			11,986		8,561

Bank			6,991		9,538
Cash on hand			320		200
Total Assets			**251,044**		**208,148**
Equity					
Called up share capital of €1.00	**note 2**		80,000		70,000
Share Premium Account			13,000		10,000
Revaluation reserves	**note 3**		38,000		26,000
Retained earnings			43,449		24,600
			174,449		130,600
Minority interest	**note 2**		5,646		0
Total Equity			**180,095**		**130,600**
Non Current Liabilities					
8% Loan stock		18,000		15,000	
10% Bank Loan		40,000		50,000	
Deferred Tax		1,350		1,485	
			59,350		66,485
Current Liabilities					
Payables		8,219		7,705	
Corporation tax		2,100		2,658	
Dividends Payable		1,280		700	
			11,599		11,063
Total Equity and Liabilities			**251,044**		**208,148**

This question continues on the next page

Question 1-continued

Note 1

Operating expenses include the following;

(i) A depreciation charge of €2,800

(ii) A loss of €3,000 on the sale of a non current tangible asset which had a net book value at date of sale of €5,500.

(iii) €200 in respect of subsequent impairment of goodwill in relation to the acquisition of Agri Fertilisers as set out in Note 2.

Note 2 (i)

On the 30/09/12 Organic Fertilisers Ltd bought an 80% share in a small local company called Agri Fertilisers Ltd. he fair value of the assets and liabilities at date of acquisition was as follows;

Agri Fertilisers Ltd as at 30/09/12	€
Property, Plant & Equipment	25,000
Inventory	1,250
Receivables	5,600
cash	500
Bank overdraft	(100)
Payables	(3,000)
Bank Loans	(6,000)
Fair value of Net Assets	**23,250**

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(ii) -Consideration
The consideration was the issue of 10,000 ordinary shares in Organic Ltd at a price of €1.40 each and a cash payment of €8,600. The cost of the share issue was €1,000. There were no other acquisitions or disposals of subsidiaries during the year

Note 3
The revaluation account relates exclusively to tangible non current assets

Required

(a) Prepare the Group Cash flow of Organic Fertilisers Ltd for the year ended 30/04/13 including any relevant note. (**24 marks)**

(b) Show analysis of the cash and cash equivalents at 30/04/12 and 30/04/13. **(6 marks)**

Total **(30 marks)**

Question 2

Light technologies Limited develop low cost technology support systems for automatic manufacturing systems. Set out below is the Trial Balance as at 28/02/13 together with notes thereto.

Trial Balance	**Notes**	**Debits**	**Credits**
		€	**€**
Ordinary Share Capital N.V*. €0.80			240,000
Share Premium			60,000

Accumulated Profits 01/03/12			750,000
Investment- Canadian subsidiary	**note 1**	80,000	
0% Debenture Loan	**note 2**		197,449
Lease rentals	**note 3**	30,192	
Revenue	**note 4**		1,500,000
Production costs		644,904	
Distribution costs		117,038	
Administration costs		65,685	
5% Preference shares	**note5**		400,000
Inventory- 28/02/13	**Note10**	70,660	
Income tax expense	**note 6**	3,200	
Ordinary Dividend paid	**note 7**	7,500	
Land	**note 8**	1,200,000	
Premises	**note 2**	800,000	
Motor cars		100,000	
Revaluation	**note 8**		95,000
Accumulated. Depreciation			
Premises-28-02/13			400,000
Motor cars-28/02/13			60,000
VAT			45,000
Development Costs	**note 9**	573,248	
Trade receivables		123,289	
Trade payables			70,674
Bank balances		2,407	`
	Totals	**3,818,123**	**3,818,123**

Question 2- Light Technologies Ltd -Notes to Trial Balance

Note 1-Canada Light Ltd a 100% owned foreign subsidiary

Light Technologies decided to break into the Canadian market and to that end it set up a company there, called Canada Light Ltd, on the 01/03/12. It invested funds of $120,000 at a cost of €80,000 in the Canadian subsidiary.
The accountant has sent over a draft set of accounts which are fully compliant with the relevant accounting standards of the Group

Income statement of the 100% subsidiary Canada Light Ltd for year ended 28/02/13

Revenue		$ 420,000
Cost of goods sold		($ 218,750)
Gross Profit		**$ 201,250**
Distribution	($ 78,750)	
Administration	($ 26,250)	($ 105,000)
Profit before tax		**$ 96,250**
Taxation		($ 17,500)
Profit for year		**$ 78,750**

Statement of Movement in Reserves for Canada Light Ltd for year ended 28/02/13

Movement in Reserves	
Profit for the year 28/02/13	$ 78,750
Dividends (note a)	($ 4,000)
Retained Profit 28/02/13	**$ 74,750**

Note (a)
Whilst the dividend had been approved and authorised before the reporting year end by Canada Light Ltd it had not been paid by the Balance Sheet date. The parent Light Technologies Ltd. had not yet accrued for the dividend receivable of $4,000 from its 100% owned subsidiary Canada Light Ltd.

The Balance Sheet of the 100% owned Canada Light Ltd is set out on the next page

Question 2-Light Technologies Ltd

Balance Sheet of 100% Subsidiary Canada Light Ltd as at 28/02/13

Non Current Assets		
Cost		$ 120,000
Less accumulated depreciation 28/02/13		($ 12,000)
		$ 108,000
Current Assets		

Inventory	$ 78,750	
Receivables	$ 35,000	
Cash at bank	$ 57,833	
		$ 171,583
Total Assets		**$ 279,583**
Equity		
Ordinary share Capital [N.V. $1]	$ 120,000	
Retained Profits	$ 74,750	
Total Equity		$ 194,750
Non Current Liabilities		
Loan		$ 40,000
Current Liabilities		
Payables	$ 23,333	
Taxation	$ 17,500	
Dividends	$ 4,000	
		$ 44,833
Equity plus Liabilities		**$ 279,583**

The exchange rates were as follows

As at 01/03/12	$1.50 to €1.00
Average during year ended 28/02/13	$1.75 to €1.00
As at 28/03/13	$2.00 to €1.00

Question 2-Light Technologies Ltd -notes to Trial Balance continued

All of the remaining notes [note 2 to note 10] set out hereunder refer to matters arising within Light Technologies Ltd itself and are not related in any way to the subsidiary Canada Light Ltd.

Note 2- Zero interest debenture €197,449

The company raised a zero interest debenture for the amount of €197,449 on the 01/03/12. The loan is repayable in 4 years at a total amount €240,000 on the 28/02/16. Included in the loan note file was the following table prepared by the accounts department.

	5%	**8%**	**10%**
Year 1	0.9524	0.9259	0.9091
Year 2	0.9070	0.8573	0.8264
Year 3	0.8638	0.7938	0.7513
Year 4	0.8227	0.7350	0.6830

The debenture was raised in order to finance an extension of the premises, which extension came into use on the 01/09/12.

Note 3-Lease rental €30,192
The above rental refers to the payment on a four year lease of a machine which was acquired on the 01/03/12. The fair value of the machine was €100,000 and it was established that the lease was a finance lease. The cost of finance is 8%. The machine has a useful life of 4 years with no residual value.

Note 4- Revenue
The company sells equipment with and without support services. Included in revenue are sales of €375,000 which include a two year contract for support services that will cost the company €40,000. The contract was signed on the 31/08/12 and the company makes a profit on cost of 25%

Note 5- 5% Preference shares.
These are repayable by 28/02/2020.

Note 6 Income Taxes - €3,200
The amount represents an under-provision of tax on income for the year ended 28/02/12. A provision of €8,500 is to be made in respect of tax on profits for year ended 28/02/13.

Question 2-Light Technologies continued

Note 7-Ordinary dividend
A proposed ordinary dividend of €0.04 per share was approved by the board for authorisation by the members at the AGM to be held on the 25/03/13.

Note 8- Land
Land is held for its functional value in providing overflow facilities for parking. The land had first been re-valued upwards some years ago by

€95,000. At the 28/02/13 a second revaluation was undertaken which put the total value of the land at €1,080,000.

Note 9 -Development costs €573,248
The company engaged in researching and development a remote operated robot for inspecting machinery. The costs which accrued evenly throughout the year did not satisfy the criteria for development costs until 30/11/12.

A review was undertaken of the present value of future net cash flows and these were estimated to a present value of €129,000

Note 10 –Inventory
Inventory at year end includes €60,000 of raw material purchases whose Replacement costs are €40,000. The remaining inventory consists entirely of finished goods. Finished goods include an amount for €30,000 which the sales director estimates could be sold for €35,000 after modification costs of €6,000.

Opening inventory at 01/03/12 was discovered to include marketing costs of €35,000.Closing inventory did not include any marketing costs.

Required

(a) Prepare the Group Income statement of Light Technologies Ltd for the year ended 28/02/13. **(20 marks)**

(b) Prepare the Group Statement of Changes of Equity for Light Technologies Ltd for the year ended 28/02/13. **(6marks**)

(c) Prepare the Group statement of Financial Position of Light Technologies Ltd as at 28/02/13. **(24 marks**)

Total (50 marks)

Question 3

Variety Industry Group Ltd, is finalising its group financial statements for the year ended 30/04/13. It has a number of properties, details of Which are set out below.

Where relevant it is company policy to write off depreciable assets over 40 years. Where IAS 40 applies the fair value model method is adopted. No adjustments or postings have been made in the current year ended 30/04/13. It may be assumed that all entries required, up to the previous year end of the 30/04/12, were correctly executed.

(i) **Connemara Factory**

During the current financial reporting year the Group constructed a state of the art factory in the record time of four months. The factory came into use on the 01/09/12. The costs involved in its construction were as follows;

Purchase of the land site	€ 200,000
Clearance of site	€ 80,000
Planning fees	€ 13,000
Construction costs materials etc	€ 400,000
Legal fees	€ 35,000
Cost of opening the facility	€ 60,000
Training of staff in building's health and safety requirements	€ 15,000
Head office allocations	€ 40,000
Total	**€ 843,000**

As an incentive to locate in Connemara the government offered the company a 2% €500,000 loan towards its construction. A loan with similar repayment period and risk profile would have cost the company 5.51% which implied a market value of the loan at the time it was given of €400,000

Question 3-Variety Industries continued.

(ii) **Brian Boru Complex**

This consists of land and buildings near Dublin from which the Group conducts its operations. They were acquired on 01/05/03 for €1,700,000 consisting of land €700,000 and buildings €1,000,000.

On the 30/04/08 the land was re-valued to €1,200,000 and the buildings were re-valued to €1,470,000.
On the 30/04/13, in light of the current economic climate, a second review was undertaken and the land was re-valued to €700,000 and the buildings were re-valued to €460,000.

(ii) **Thurles**.
A building which was acquired in Thurles on the 01/05/12 for €500,000 and was let to Low Tech Ltd a subsidiary of the group.

(iv) **Roscommon**
Land was acquired in Roscommon at 01/05/12 for €600,000. Currently it is held for an undetermined use. A review was undertaken and it was re-valued to €620,000.

Required

(a) Explain briefly the difference between a Non Current Asset as per IAS 16 and an Investment property as per IAS 40. **(2 marks)**

(b) In respect of each of the above properties state briefly with reasons whether the asset is a non current assets per IAS 16 or an investment property per IAS 40 and set out ,where relevant, any journal entries for financial statements year ended 30/04/13 **(18 marks)**

(20 marks)

END OF EXAMINATION PAPER .