Final Admitting Examination

Module 11

Advanced Financial Accounting

May 2013

Question 1

Group Cash flow y/e 30/04/13		
Cash flows from operating activities		
Profit before tax		24,600
Adjustments		
Interest receivable		(300)
Interest payable		5,700
Depreciation		2,800
Loss on disposal of asset		3,000
Impairment of goodwill		200
		36,000
Movements in working capital		
Inventory	(1,147)	
Receivables	2,175	
Payables	(2,486)	
		(1,458)
Interest paid	(5,700)	
Taxation paid	(3,768)	
		(9,468)
Net Cash generated from operations		**25,074**
Cash flows from Investing activities		
Acquisition of subsidiary		
Cash consideration	(8,600)	
Subsidairy net cash balance	400	
Net Consideration	(8,200)	
Purchase of non current assets	(15,000)	
Sale of non current assets	2,500	
Investment income	300	
		(20,400)
Cash flows from financing activities		
10% Bank Loan	(16,000)	
8% Loan stock	3,000	
Costs in relation to issue of share	(1,000)	
Dividends paid	(1,020)	
Dividend paid to Minority	(80)	
		(15,100)
Net Increase in cash and cash equivalents		**(10,426)**
Cash & cash equivalents at start		17,738
Cash& cash equivalents at end		**7,311**

Note 1

Major non cash transaction

The company issued 10,000 ordinary shares at €1.40 in addition to a net cash payment of €8,200 for the acquisition of 80% of Agri Fertilisers Ltd

W/N 1

Movements in working capital

	Opening	**plus**	**Closing**	**Net**
	Balance	**subsidiary**	**Balance**	**Movement**
Inventory	€6,849	€1,250	€9,247	(1,147)
Receivables	€8,561	€5,600	€11,986	2,175
Payables	€7,705	€3,000	€8,219	(2,486)

W/N 2 Taxes on income paid

	Opening	**Income**	**Closing**	**Taxes paid**
	Balance	**Statement**	**Balance**	
Taxes on income	€2,658	€3,075	€2,100	
Deferred tax	€1,485		€1,350	
	€4,143	**€3,075**	**€3,450**	**(€3,768)**

W/N 3 Purchase of non Current Assets

Net Book value at 30/04/12	**€175,000**
Non current asset of subsidiary at acquisition date	25,000
Increase in revaluation	12,000
less disposals at Net Book value [Qn note 1(ii)]	(5,500)
less depreciation charge for the year	(2,800)
Thus Closing Net book value at 30/04/13 should be	**203,700**
compared with	
Net Book value at 30/04/13 per group Balance Sheet	**218,700**
equals	
additions during the year	**15,000**

W/N 4 Dividends paid

Opening	Charged	Closing	Dividends
Balance	**to SOCE**	**Balance**	**paid**
€700	€1,600	€1,280	(1,020)

W/N 5 Dividends paid to minority

	Opening	Share of	Closing	Dividend
	Balance on B/S	**Profit**	**Balance on B/S**	**paid**
	0	€1,076	€5,646	
Minority % at acquisition date	€4,650	‘	‘	‘
	€4,650	**€1,076**	**€5,646**	**(80)**

Answer (b) analysis of cash and cash equivalents

	Balances	Movement	Balances	
	30/04/2012		**30/04/2013**	
Cash	200	120	320	1.50
Bank/ (Bank O/D)	9,538	(2,546)	6,991	1.50
sub total	9,738	(2,426)	7,311	0.75
Investments	8,000	(8,000)	0	1.00
Total	**17,738**	**(10,426)**	**7,311**	0.75
			layout-->	0.50
				6.00

Question 2

Group Statement of Comprehensive Income of Light Technologies Ltd for y/e 28/02/13

		Continued	Canadian sub	Total
		€	€	€
Revenue	**W/N 3**	1,462,500	240,000	1,702,500
Cost of Sales	**W/N 4**	(1,080,153)	(125,000)	(1,205,153)
Gross Profit		**382,347**	**115,000**	**497,347**
Distribution	**W/N 4**	(117,038)	(45,000)	(162,038)
Administration	**W/N 4**	(90,685)	(15,000)	(105,685)
Operating Profit		**174,624**	**55,000**	229,624
Finance Charges				
Leasehold interest **W/N 5**	8,000			
Preference dividend **W/N 6**	20,000			
Interest paid **W/N 7**	4,936			
		(32,936)	-	(32,936)
Profit before tax		**141,688**	**55,000**	**196,688**
Taxation		(11,700)	(€10,000)	(21,700)
Profit for Year		**129,988**	**45,000**	**174,988**
Other Comprehensive Income				
Revaluation of Land	**W/N 9**	(€95,000)		(€95,000)
X difference on F.C translation	**W/N 1**	-	(€25,625)	(€25,625)
Total Profit for Year		**34,988**	**19,375**	**54,363**

Note only the two columns on the right of I/S are published. Others for notes

Group statement of Changes in Equity of Light Technologies Ltd for y/e 28/02/13

		Capital	Premium	Profit	Fx Trans Reserve	Revaluation	Total
Retained Profits as at	**01/03/12**	240,000	60,000	750,000	0	95,000	1,145,000
Prior year adjustments				(35,000)			(35,000)
Restated balance as at	**01/03/12**	240,000	60,000	**715,000**	**0**	**95,000**	**1,110,000**
Profit for the year ended	**28/02/13**			174,988	(25,625)	(95,000)	54,363
Dividends paid				(7,500)			(7,500)
Retained Profits as at	**28/02/13**	**240,000**	**60,000**	**882,488**	**(25,625)**	**0**	**1,156,863**

An ordinary dividend of €12,000 was proposed by the board for authorisation at the AGM 15/03/13

Group Balance Sheet of Light Technologies as at 28/02/13

	€	€	€	€	€
Non Current Assets		adjust	subsidiary	sub tots	**Group**
Non Current Assets **W/N 2**	1,599,936		54,000		1,653,936
Intangibles					
Development costs **W/N 12**	143,312	(14,312)			129,000
Investment in Canada **W/N 1**	80,000		(80,000)		
Current Assets					
Inventories	70,660	(1,000)	39,375	109,035	
Trade receivables	123,288		17,500	140,788	
Bank	2,407		28,917	31,323	
					281,147
Total Assets			**59,792**		**2,064,083**
Equity interest					
Capital	240,000			240,000	
Premium	60,000			60,000	
Revaluation	95,000	(95,000)		0	
Retained Profits	837,488		19,375	856,863	
Total Equity					**1,156,863**
Non current Liabilities					
8% Redeemable Preference shares		400,000		400,000	
Loan on subsidiary			20,000	20,000	
0% Debenture Loan **W/N 7**		207,321		207,321	
Leasing loans **W/N 5**		53,840		53,840	
Deferred Income **W/N 3(a)**		12,500		12,500	
					693,661
Current Liabilities					
Payables	70,674		11,667	82,341	
Leasing loans **W/N 5**				23,968	
Taxation **W/N 8**	8,500		€8,750	17,250	
VAT				45,000	
Deferred Income **W/N 3(a)**				25,000	
Preference Dividend				20,000	
					213,559
Total Equity plus Liabilities			**59,792**		**2,064,083**

Note only the two right hand columns are published. Others only for notes

W/N 1
Canada Light translation of Income statement for year ended 28/02/13

					Sub totals
Revenue		$ 420,000	$1.75	€240,000	
Cost of goods sold		($ 218,750)	$1.75	(€125,000)	
Gross Profit		**$ 201,250**		€115,000	
Distribution	($ 78,750)		$1.75		(€45,000)
Administration	($ 26,250)	($ 105,000)	$1.75	(€60,000)	(€15,000)
Profit before tax		**$ 96,250**		€55,000	
Taxation		($ 17,500)	$1.75	(€10,000)	
Profit for year		**$ 78,750**		**€45,000**	

Canada Light -Movement in reserves

Movement in Reserves				
Profit at 28/02/12		€ -		
Profit for the year		$ 78,750	$1.75	€45,000
Dividends		($ 4,000)	$0.00	
Exchange difference				
Opening assets (**a) below**		$N/A		(€20,000)
Net Profit **(b) below**		$N/A		(€5,625)
Retained Profit 28/02/13		**$ 74,750**		**€19,375**

Analysis of exchange loss between opening net asset and income statement
(a)

Opening net assets	$120,000	OR rate $1.50 to €1.00	=	€80,000
Opening net assets	$120,000	CR rate $2.00 to €1.00	=	€60,000
Exchange loss on translation				**(€20,000)**

(b)

Profit for the year ended 28/02/13	$78,750	Av. Rate $1.75 to €1.00	=	€45,000
Profit for year at closing rate	$78,750	CR rate $2.00 to €1.00	=	€39,375
Exchange loss on translation				**€ 5,625**

Net Asset at end of year	$194,750		
Add back dividend proposed	$ 4,000		
Total Net Assets	$198,750	CR rate $2.0 to €1.00=	€99,375
Capital	$120,000		€80,000
Retained profits b/dividends	$ 78,750	<-balancing figure->	€19,375
	$198,750		€99,375

Profit for the year as shown above €45,000 less retained profits €19,375 equals exchange loss on translation of €25,625

W/N 2 Non Current Assets

			Delivery	leased	Sub equip	
	Land	Premises	Vans	Asset		Total
Per T/B Cost/ Value	1,200,000	800,000	100,000			2,100,000
Capitalisation of %		4,936				4,936
Revaluation	(120,000)					(120,000)
Additions lease	‘	‘	‘	100,000	60,000	160,000
Cost/Value as at 28/02/13	**1,080,000**	**804,936**	**100,000**	**100,000**	**60,000**	**2,144,936**
Accumulated depreciation						
Balance as at 28/02/12		400,000	60,000			460,000
Income Statement	‘	0	‘	25,000	6,000	31,000
Balance as at 28/02/13	**0**	**400,000**	**60,000**	**25,000**	**6,000**	**491,000**
Net Book Value as at 28/02/13	**1,080,000**	**404,936**	**40,000**	**75,000**	**54,000**	**1,653,936**
Net book value as at 28/02/12	**1,200,000**	**400,000**	**40,000**	**0**	**0**	**1,640,000**

**** (a) Should be depreciated for 3 months of use. No rate given.***

	Parent	Group
Sales	1,500,000	1,500,000
Adjust for after sales service	(37,500)	(37,500)
Canadian subsidiary		240,000
	1,462,500	1,702,500

(a)€40,000 plus 25%=€50,000 sales value of service contract of which ¾ not yet earned of which 12/18 months x €37,500= deferred income under CL and balance under NCL

W/N 4 Analysis of costs for Technology light + corresponding amounts for foreign subsidiary

		Total	Production	Distribution	Admin
Per Trial Balance		827,627	644,904	117,038	65,685
Lease Machine Depreciation	**W/N 5**		25,000		
Development costs-disallowed	**W/N 12**	429,936	429,936		
Under recovery from future inflows	**W/N 12**	14,312	14,312		
Write down of land	**W/N 9**				25,000
Stock NRV test	**W/N 10**		€1,000		
Prior year adjustment stock	**W/N 10**		(35,000)		
		1,271,876	**1,080,153**	**117,038**	**90,685**
plus					
Subsidiary costs			125,000	45,000	15,000
Group Total Costs			**1,205,153**	**162,038**	**105,685**

W/N 5 Leasing

Start of year	8%	Repayment	Balance
€100,000	€8,000	(€30,192)	€77,808
€77,808	€6,225	(€30,192)	€53,840
€53,840	€4,307	(€30,192)	€27,955
€27,955	€2,236	(€30,192)	(€1)

Asset	€100,000	
Loan		€100,000
Accumulated Depreciation		€ 25,000
Income statement depreciation	€25,000	
Loan-interest element of repayment		€8,000
Income statement finance charges	€8,000	
Current Liability [€30,192-€6,225]		€23,967 [allow for rounding]
Non Current Liability		€53,840

W/N 6 As the preference shares are redeemable they should be classified as non current liability and the dividends should be treated as finance charges

W/N 7- Zero interest debenture €197,449 repayable in four years a sum of €240,000

	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

Once of payment in PV factor terms is €197,449/€240,000 =0.8227
Thus the implied rate of interest is 5%

Interest in first year is €197,449 x 5% equals	€9,872	
Loan		€9,872

IAS 23 Capitalisation of interest up to start date of use i.e. 01/09/12 i.e. 6 months

Premises €9,872 x 6/12	€4,936	
Interest		€4,936

Thus interest charged to I/S net is €4,936 [€9,872 minus capitalised €4,936]
(b)Note if depreciation rate was say 2% then 2% xf €4936 x 6/12mths =€49
It could be argued that such an amount is immaterial if a rate of 2% was given

Balance Sheet total of Loan is thus €197,449 + €9,872 equals€207,321

W/N 8 Taxation
Amount underprovided for €3,200 plus current year €8,500 plus Sub €10,000
Amount owing at year end is €8,500

W/N 9 Revaluation

Land was originally re-valued by €95,000 and the current year re-valued downwards by €120,000.
€95,000 of the write down is written off against the revaluation account via other Comprehensive Income. The additional €25,000 is written off to administration expenses

W/N 10
Inclusion of marketing cost in opening stock is a fundamental error. IAS 8 requires prior year adjustments

Cost of sales current year		€35,000
Retained profits 28/02/13	€35,000	

The replacement costs for purchases is irrelevant as the reference is to the final goods into which those purchases are included and the comparison with the NRV of those final goods.

Closing inventory also includes and amount for €30,000 which can be sold for €35,000 after modification cost of €6,000 and thus requiring a write down of €1,000

Cost of sales	€1,000	
Closing inventory		€1,000

W/N 11 included only for purpose of showing the "cross total" of the "working columns"

Light Technologies retained profits at the start of the year		€750,000
Prior year adjustment-W/N 10		(€35,000)
Light Technologies own profit before other comprehensive income		€142,419
Dividend paid		(€ 7,500)
Total		€849,919
Canada Light own profit for the year	€45,000	
Foreign exchange translation loss	(€25,625)	
		€ 19,375
Per Balance Sheet/Statement of Financial Position		€869,294

Whilst Canada had authorised a dividend to be payable, it had not been accounted for in Technologies Light Ltd. The profit was thus taken before dividend deducted per Movement in Reserves in the accounts of Canada Light and the corresponding current Liability on its B/S or SOFP eliminated

W/N 12-Development costs

Per Trial Balance	**€573,248**
less disallowed 9 months ie. up to 30/11/12	
Disallowed cost ie. before recognition criteria met	€429,936
Allowed costs	€143,312
Impairment costs	(€14,312)
Balance Sheet 28/02/13	€129,000

Question 3
(a)- 2 marks

IAS 40 paragraph 7

Investment property is held to earn rentals or for capital appreciation or both. Thus an investment property generates cash flows largely independent of the other assets held by an entity.

By contrast owner/occupied property, to which IAS 16 applies, is used in the production of goods and services or for administration and whose cash flows are attributable not only to the property itself but to other assets used in the production and supply process within the entity.

(b)- Connemara Factory

Purchase of site	€ 200,000	€ 200,000
Clearance of	€ 80,000	€ 80,000
Planning fees	€ 13,000	€ 13,000
Construction	€ 400,000	€ 400,000
Legal fees	€ 35,000	€ 35,000
Cost of opening the facility	€ 60,000	para 19
Training of staff in familiarisation	€ 15,000	para 19
Head office allocations	€ 40,000	para 19
Total	**€ 843,000**	**€ 728,000**

As the property comes within the definition of an IAS 16 Non current asset it is treated accordingly

	Allowable costs	€728,000
	Less land -non depreciable	(€200,000)
[1 mark]	**Buildings-Depreciable amount**	**€528,000**
[1 mark]	I/S Depreciation 8/480 months	(€8,800)
[1 mark]	less Grant write off	€1,667
	Net Depreciation charge	(€7,133)

Note came into use on the 01/09/12 thus 8 months over the 480 months [40yrs x12]

Thus depreciation charge is 8/480 x €528,000 equals €8,800

Grant of €100,000 [Para 10A IAS 20] is the difference between the carrying value of the loan applying market rate 5.4% €400,000 as per IFRS 9 and the proceeds received €500,000.
Grant write off is €100,000 x 8months/480mths = €1,667

Connemara-continued- **journals for 30/04/13**

Loan account		€400,000
Capita grant deferred income		€100,000
Bank	€500,000	
Depreciation I/S	€ 8,800	
Accumulated deprecation		€ 8,800
Capital Grant-deferred income	€1,667	
Depreciation I/S		€ 1,667

Total [8 marks]

Brian Boru Complex-used for administration Thus IAS 16

		Land	Buildings
01/05/03	**Cost/value at acquisition per Question**	€700,000	€1,000,000
30/04/08	5 years/40 Yrs depreciation to 30/04/08		(€125,000)
30/04/08	Balance before revaluation	**€700,000**	**€875,000**
	Thus Revaluation surplus	€500,000	€595,000
30/04/08	**Balance at year at 30/04/08 per Question**	**€1,200,000**	**€1,470,000**
	Depreciation 4yrs to 30/04/12	‘	(€168,000)
30/04/12	Net Book Value	€1,200,000	€1,302,000
	Depreciation current year	N/A,	(€42,000)
	Net Book value before Revaluation	€1,200,000	€1,260,000
	Thus Revaluation deficit	(€500,000)	(€800,000)
	Finalised value per per question	**€700,000**	**€460,000**

Journals for 30/04/13

Depreciation expense I/S	€42,000	
Accumulated depreciation		€42,000

Other comprehensive income

Revaluation Land	€500,000	
Revaluation Buildings para 40 IAS16	€595,000	

I/S Write down -excess

Buildings-expense I/S para 40 IAS16	€205,000	
Land		€500,000
Buildings		€800,000

(8.0 marks)

Iii Thurles
Buildings let to subsidiary is not an investment para 15 IAS 40 From group perspective it should be treated as a non current asset under IAS 16.
Thus treat as per IAS 16 for 30/04/13

Depreciation	€12,500	
Accumulated depreciation		€12,500

(1.0 mark)

(iv)- Roscommon- Investment property-para 8(b) IAS 40 for 30/04/13

Investment property	€20,000	
Income statement -other gains and losses		€20,000

1.0 mark)

Total [20 marks]

END OF EXAMINATION PAPER .