Advanced Financial Accounting
Module 11
November 2009

Suggested Solutions

Question 1

(a)

Cash flow statement

		€
Operating cash flow		
Profit before tax		60,000
Add: Non cash		
Depreciation		19,000
Share issue costs		1,800
Loss on sale of asset (31,000 – 18,000)		13,000
Finance costs		19,000
Investment income		(14,000)
Impairment of goodwill (17,000 – 2,000)		5,000
Operating cash flows before movements in working capital		103,800
Increase in stock (62,000 – 44,000)		(18,000)
Increase in debtors (118,000 – 86,000)		(32,000)
Increase in trade payables (124,000 – 44,000)		80,000
Cash generated from operations		133,800
Interest paid (7 + 19 – 10)		(16,000)
Tax paid (w1)		(7,000)
Dividend paid		(15,000)
Net cash from operating activities		133,800
Investing activities		
Sale of plant	18,000	
Purchase of tangible asset (w2)	(300,000)	
Interest received (4 + 14 – 7)	11,000	(271,000)
Financing activities		
Share capital less issue costs		
(232,000 + 86,000 – 200,000 – 70,000-1,800)	46,200	
Inflow of long term funds		
(160,000 – 70,000)	90,000	
Lease capital repayments (w3)	(49,000)	87,200
		(88,000)
Opening cash and cash equivalents (12 + 10+10)		32,000
Closing cash and cash equivalents		(56,000)
(25 + 8 -89)		

Workings

W1

Taxation

		Bal b/d (14,000 + 8,000)	22,000
Bal c/d (10,000 + 13,000)	23,000	Profit and Loss	8,000
Cash (missing)	7,000		
	30,000		30,000

W2

Tangible fixed assets

Bal b/d	450,000	Disposal	31,000
Revalued	50,000	Depreciation	19,000
Finance lease	41,000		
Purchases cash (missing figure)	300,000	Bal c/d	791,000
	841,000		841,000

W3

Finance leases

Cash (missing figures)	49,000	Bal b/d (40,000 + 12,000)	52,000
		Additions	41,000
Bal c/d (30,000 + 14,000)	44,000		
	93,000		93,000

(b)

(i) Increase share capital, reduce retained profits – effects equity and profit

(ii) Reduce profit and loss for extra expense, reduce debtors – effect profofit

(iii)Extra expenses profit and loss account, extra accumulated depr bal sheet – effects profit

(iv)Reflect in next years statement of capital employed – effects profit

Question 2

W1

Defer revenue from follow up service to period of service

	€	
Contract price	362,500	
Service contract	(108,000)	90,000 x 120%
Contract price (excluding service part)	254,500	

	€	
	254,500	
Service portion for this year (2/36 x 108,000)	6,000	(2 months in y/e 31/10/09)
	260,500	

Decrease sales €102,000	(€108,000 – €6,000)	
Increased deferred income (non current liability)	€102,000	(€108,000 – €6,000)

W2

IAS 8 Prior year adjustment

	€
Decrease retained profit	75,000
Decrease production costs	75,000

W3

	Correct	Done	Difference
	€	€	€
Cost	700,000	700,000	
Depr 2 years			
(700,000 x 12.5% x 2)	(175,000)		
(700,000 x 20%) + ((700,000 – 140,000) x 20%)=112,000		(252,000)	(77,000)
NBV 1/11/08	525,000	448,000	
y/e 31/10/09			
525,000 x 20%	(105,000)		
448,000 x 20%		(89,600)	15,400
	420,000	358,400	(61,600)

PYA Reduced retained profits by €77,000
Reduce accumulated depreciation by €77,000

Profit and Loss
Increase production expense €15,400
Increase accumulated depreciation €15,400 Bal Sheet

W4

IAS 17

Year	Opening capital	Interest	Rental	Closing capital
	€	€	€	€
1	55,902	4,472 (55,902 x 8%)	14,000 - 4,472 int - 9,528 capital	46,374 (55,902 – 9,528)
2	46,374	3,710 (46,374 x 8%)	14,000 - 3,710 int - 10,290 capital	36,084 (46,374 – 10,290)

Income statement
Loan interest €4,472

Balance Sheet
Current liability €10,290
Non current liability €36,084
Accumulated depr €9,317 (55,902/6)
Can depreciate over life of asset as eventual ownership of asset will pass to lessee.

W5

Capitalise €409,317
(€400,000 + €9,317 (depr on leased machine to be used in development (w4))
Income statement = Production expenses €200,000 (€120,000 + €80,000)

W6

$600,000 x 20% = $120,000		$1.45	€82,759	
Cost of investment	$145,000			
Got	$120,000			
Goodwill	$25,000	$1.45	€17,241	
			€100,000	

Income statement (in translating we use average rate for the year)

Profit before tax	$160,000	$1.48	€108,108 x 20% =	€21,622
Tax	($16,000)	$1.48	(€10,811) x 20% =	(€2,162)
Profit after tax	$144,000	$1.48	€97,297 x 20% =	€19,460

Profit for year €19,460, add to operating profit

Closing net assets co	$1.50		
($500,000 + $144,000)			
$744,000	$1.50	€496,000 x 20% =	€99,200
Goodwill			
$25,000	$1.50		€16,667
Investment in Associate Balance Sheet			**€115,867**
Start (€100,000 + €19,460)			€119,460
Loss			**(€3,593)**

W7

400,000 x 0.80 = €320,000 Increase share capital
400,000 x 0.45 = €180,000 increase share premium

W8

€435,000 x 10% =	€43,500
€435,000 x 90% = €391,500 x 25% =	€97,875
Increase production costs	€141,375
Reduce production costs:	
Release of provision 31/10/07	(€7,000)
Use of provision 31/10/09	(€19,400)
(€6,900 + €12,500)	
Opening provision	€23,000
Less: Used	(€6,900)
	€16,100
This years	€141,375
Less: Repairs	(€12,500)
Current liability	€144,975

W9

Taxes	
Current liabilities	€9,000
Income statement	
€9,000 + €2,000 =	€11,000

W10

$\frac{1,200,000}{0.80}$ =	1,500,000
Share issue (w7)	400,000
Total	1,900,000 x 0.025 = €47,500

W11

Cost of sales	€
Per trial balance	900,000
PYA (w2)	(75,000)
Depreciation (w3)	15,400
Development (w5)	200,000
Release of provision (w8)	(7,000)
Use of provision (w8)	(19,400)
Provision (w8)	141,375
	1,155,375

W12

Preference Dividend
€100,000 x 5% = €5,000 income statement
€2,500 current liability

Debenture interest
€200,000 x 10% = €20,000 Income statement

W13

Fixed Assets

	Land	Premises	Machinery	F&F	Total
	€	€	€	€	€
Cost	1,550,000	1,420,000	700,000	100,000	3,770,000
Additions (w4)	0	0	55,902	0	55,902
	1,550,000	1,420,000	755,902	100,000	3,825,902
Accumulated Depreciation					
Opening	0	710,000	341,600	41,382	1,092,982
Adjustment (w3)	0	0	(77,000)	0	(77,000)
Depreciation (w3)/(w4)					
(€15,400 + €9,317)	0	0	24,717	0	24,717
	0	710,000	289,317	41,382	1,040,699
Closing NBV	1,550,000	710,000	466,585	58,618	2,785,203

a)

Income Statement for the year ended 31/10/09

		Total
		€
Revenue (1,450,000 – 102,000 W1))		1,348,000
Cost of sales (w11)		(1,155,375)
Gross profit		192,625
Distribution		(110,000)
Administration		(70,000)
Operating Profit		12,625
Share of associates profit (w6)		19,460
		32,085
Finance charges		
Pref dividend (w12)	(5,000)	
Debenture interest (w12)	(20,000)	
Lease interest (w4)	(4,472)	(29,472)
Profit before tax		2,613
Tax (w9)		(11,000)
Exchange loss (w6)		(3,593)
Loss after tax		(11,980)

(b)

Statement of changes in equity for the year ended 31/10/09

	Ord Share Capital	Share Premium	Retained Profit	Revaluation	FX	Total
	€	€	€	€	€	€
Per trial bal	1,200,000	120,000	900,000	120,000		2,340,000
Prior year Ad						
(w2)			(75,000)			(75,000)
(w3)			(77,000)		0	(77,000)
Restated bal	1,200,000	120,000	902,000	120,000	0	2,342,000
Profit			(8,387)		(3,593)	(11,980)
Dividend			(37,500)			
Share Issue (w7)	320,000	180,000		0	0	0
Total	1,520,000	300,000	856,113	120,000	(3,593)	2,792,520

(c)

Statement of Financial Position as at 31/10/09

Non Current Assets			
Fixed Assets (w13)			2,785,203
Development costs (w5)			409,317
Investment in associate (w6)			115,867
Current assets			
Inventories		125,000	
Receivables		119,178	244,178
			3,554,565
Share capital and reserves			
Ordinary share capital (1200+320)	1,520,000		
Share premium(120+180)	300,000		
Revaluation	120,000		
Profit (856,113-3,593)	852,520		2,792,520
Non Current Liabilities			
5% Redeemable preference shares	100,000		
10% Debentures	200,000		
Obligations under finance lease (w4)	36,084		
Provision (w8)	144,975		
Deferred income (w1)	102,000		583,059
Current liabilities			
Payables	98,630		
Bank overdraft	13,566		
Preference dividends (w12)	2,500		
Obligations under finance lease (w4)	10,290		
VAT	45,000		
Tax (w9)	9,000		178,896
			3,554,565

Question 3

Five ratios x 1 mark for eachyear	10.00	
Reasonable suggestions	5.00	
		15.00

Liquidity

	31/10/09		31/10/08	
Current Asset :CL	220 / 250		166 / 71	
	0.88 :1		2.34 :1	
Quick Asset	158 / 250		122 / 71	
	0.63 :1		1.72 :1	

<u>Profitability</u>

Gross Profit to sales	324 / 1,080	30%	360 / 900	40%
Op Profit to sales	65 / 1,080	6%	90 / 900	10%
Profit before tax	60 / 1,080	6%	77 / 900	9%
Profit avail to OSH	52 / 1,080	5%	67 / 900	7%

Efficiency

Inventory/Sales x 365	62 / 756	30	44 / 540	30
Receivables	118	40	86	35

(debtors/sales)x365	1,080		900	
Payables	124	60	44	30
(creditors/cost of sales) x 365	756		540	
Investor ratios				
Return on Investments				
ROSF	52	9.08%	67	15.30%
(Profit after tax/Equity)	573		438	
EPS	52	17.93	67	26.80
Profit after tax/No of ord shares)	290	cents	250	cents
Gearings	160	27.92%	70	15.98%
(Long term loans/Equity)	573		438	
Dividend per share	15	5.17	10	4.00
(Dividends/No or ord shares)	290		250	
Dividend cover		3.47		6.70
(EPS/.Dividend per share)				

(b)
Collect in debtors quicker.
Look for more credit days with creditors.