IIPA

Advanced Financial Accounting
Module 11

Wednesday

24th November 2010

10am – 1pm

Instructions

Candidates must answer all three questions.

Candidates should begin each question on a new page.

Marking Scheme

Question 1	35 Marks
Question 2	50 Marks
Question 3	15 Marks

Total	100 marks

Question 1

Set out below are the Statements of Financial Position of Rose Ltd, Tulips Ltd and Daisies Ltd as at 31/10/10. Other statements in respect of those companies are shown on subsequent pages. Rose Ltd acquired 80% of Tulips and 25% of Daisies.

Statements of Financial Position as at 31/10/10

	Rose Ltd	**Tulip Ltd**	**Daisy Ltd**
	€	€	€
Non current Assets			
Land	150,000	100,000	75,000
Property Plant equipment	75,000	40,000	4,000
Investment in			
Tulips Ltd note (i)	see note		
Daisies Ltd note (ii)	14,440		
Current Asset			
Inventory note (iii)	52,000	21,000	14,000
Receivables	18,000	11,000	19,000
Total Assets	309,440	172,000	112,000
Equity			
Share Capital *N.V. €1.00	150,000	100,000	40,000
Retained Profits	61,900	17,500	16,600
Total equity	211,900	117,500	56,600
Non Current Liabilities			
Loans	80,000		
Payables	9,000	30,000	6,500
Bank	8,540	24,500	48,900
Total Equity & Liabilities	309,440	172,000	112,000

***N.V. stands for nominal value of each share**

Income statements for the year ended 31/10/10

	Rose Ltd	Tulip Ltd	Daisy Ltd
	€	€	€
Revenue note (iii)	192,688	42,406	64,930
Cost of sales	(144,516)	(29,684)	(51,944)
Gross Profit	48,172	12,722	12,986
Operating expense	(9,656)	(7,040)	(5,145)
Operating /Profit/(Loss)	38,516	5,682	7,841
Dividend income from associate	375		
Interest	(4,800)		
Profit before tax	34,091	5,682	7,841
Taxation	(4,091)	(682)	(941)
Profit for the year	30,000	5,000	6,900

Movements in retained profits for the year ended 31/10/10

		Rose Ltd	Tulip Ltd	Daisy Ltd
		€	€	€
Profit brought forward	**31/10/09**	35,000	12,500	11,200
Profit for the year end	**31/10/10**	30,000	5,000	6,900
Dividends charged		(3,100)		(1,500)
Total Retained Profits	**31/10/10**	61,900	17,500	16,600

Notes

(i) Rose Ltd acquired 80% of Tulip Ltd on the 01/02/10 by issuing 100,000 of its Ordinary shares at €1.21 each. Rose has not yet recorded the issue of such shares. At the date of acquisition the land in Tulip Ltd needed to be re-valued upwards by an amount of €25,000. No adjustments has been made to reflect the revaluation. All of the other assets and liabilities of Tulip Ltd were stated at fair value at date of acquisition.

(ii) Rose Ltd acquired 25% of Daisy Ltd on the 01/11/09. All of Daisy's assets and liabilities were stated at the fair value at date of acquisition

(iii) Sales by Tulip to Rose amounted to €8,400 in the post acquisition period. 30% of these sales by Tulip were still in the stock of Rose Ltd. Tulip has a mark-up on cost of 20%

(iv) The dividend paid by the Daisy to Rose was out of post acquisition profits.

(v) The share capitals of Tulip Ltd and Daisy Ltd are unchanged since their formation

(vi) Profits of Tulip Ltd and Daisy Ltd are assumed to accrue evenly through out the year

.

Required

(a) Prepare the Group Income statement of Rose Ltd for the year ended 31/10/10
[18 Marks]

(b) Prepare the Group Statement of Financial Position [Balance Sheet] as at 31/10/10
[17 Marks]

. **Total Marks 35**

Note

Requirement (b)

Some of the marks in relation to the Group Statement of Financial Position will be awarded in particular for the correct computation of amounts for Goodwill, Investment in Associate Company, Minority interest and an other item/s that require to be amended as result of consolidation along with presentation.

Candidates who wish to show workings to explain a particular computation should clearly reference such workings as follows; .

Example

W/N ? Computation of Goodwill etc

Question 2

Set out below is the Trial Balance of Multi-Products Ltd as at 31/10/10 together notes thereto

	Notes	Debits	Credits
Revenue	(i) & (ii)		€935,000
Production costs		€600,000	
Distribution costs		€79,000	
Administration costs		€65,000	
Deposit interest			€2,652
Inventories 31/10/09	(iv)	€50,000	
Interest chargeable		€40,000	
Income tax	(vi)	€1,485	
Dividend paid		€24,000	
Land	(x)	€500,000	
Factory Units	(viii)& (ix)	€350,000	
Machinery	(viii)	€120,000	
<u>Accumulated. Depreciation</u>			
Factory Units	(viii) & (ix)		€140,000
Machinery	(viii)		€58,560
VAT	(i) & (ii)	€7,500	
Revaluation	(x)		€100,000
Trade receivables	(iii)	€77,917	
Bank		€33,246	€0
Trade payables			€25,000
10% Long term loans			€400,000
Lease payments	(xi)	€11,046	
Deferred tax	(vii)		€982
Long term Contract	(v)	€30,000	
Ordinary Share capital €0.80 each	(xii)		€192,000
Share Premium			€10,000
Accumulated Profits 31/10/09			€125,000
Totals		**€1,989,194**	**€1,989,194**

Notes

(i) 10% of the sales in the Trial Balance had omitted the VAT charge when billing the customers. The revenue commissioners have insisted that such sales be treated as VAT inclusive and adjustments be made to reflect the liability due by the company in respect of that amount.

(ii) In a follow up investigation it was discovered that last year's sales, i.e. year ended 31/10/09, included an amount for €18,000 which should have been classified as VAT and is now thus owing to the commissioners.

Other than the adjustments required above for both (i) and (ii) there were no other tax implications arising in relation to same.

(iii) On the 15/11/10 a debtor L. Murphy went into liquidation owing €19,479 of which €15,583 was owing at the year end. The liquidator estimates a payment of only €0.25 was in the euro would be recoverable

(iv) The inventory at year end 31/10/10 was €50,000. Included in the inventory were 4,000 items of stock which costs €20 per unit and could be sold for €22 per unit to customer provided the company delivers at a cost of €12,000

(v) On the 01/11/09 the company entered into a long term contract with Gizmo Ltd. The contract price was for €132,300 and is 20% complete with final completion date estimated at 31/10/12. The cost to complete the contract are estimated as €100,800.

The amount per the Trial Balance is analysed as follows;

Cost incurred to date	€42,000
Cash received to date	(€12,000)
Amount per T/B	€30,000

(vi) The estimated tax liability on profits for the year ended 31/10/10 is €9,400. During the year the company paid €8,000 in full and final settlement of the tax liability for profits to year ended 31/10/09. The original estimate made in last year's accounts was for €6,515

(vii) The cumulative timing differences [excess of cumulative capital allowances over cumulative depreciation to date] was €12,000 . Corporation Tax is 12%

(viii) The depreciation rates on the depreciable assets and the allocation of their amounts amongst the different functional costs are as follows;

Factory Units	10% straight line	Production costs
Machinery	20% Reducing balance	Production costs

(ix) Having reviewed the slump in demand for its products over the last year the company entered into a firm commitment on the 31/10/10 to sell one of its factory units and reduce its overcapacity. The factory unit cost €52,000 and was purchased on the 01/11/05. The fair value of the factory unit at 31/10/10 is estimated at €42,000.

(x) Due to the down turn in the property the company sought a fresh revaluation of its land bank as at 31/10/10. O Lorcan & Co chartered surveyors re-valued the land at €350,00 . The revaluation balance in the Trial Balance relates entirely to previous revaluations of the land.

(xi) The company acquired a machine on the 01/11/09 under a five year finance lease. The cash price of the machine was €25,000 and the company was required to pay an initial deposit of €6,046 and thereafter an annual year end repayment of €5,000 for each of the five years. The interest rate implicit in the lease was 10% and the machine is to be written off on a straight line basis over 5 years.

(xii) During the year the company made a one for five rights issue at €1.30 each and which was correctly accounted.

Required

(a) Prepare the statement of Comprehensive income for Multi-Products for the year ended 31/10/10 in accordance with the relevant accounting standards

[20 Marks]

(b) Prepare the Statement of Financial Position as at 31/10/10

[19 Marks]

(c) Prepare the Statement of Changes in Equity for year ended 31/10/10

[11 Marks]

Total Marks 50

(i) Marks will be awarded for presentation and, where necessary, for clear working notes. Candidates need only present a working note if it is felt necessary to explain either the computation or the composition of particular amounts or to justify such computations or calculations by reference to an accounting standard.

(ii) If working notes are presented then these should be indicated as follows W/N1, W/N2 etc. accompanied by a suitable heading indicating the purpose of the working note.

Question 3

Set out below are extracts from the Statement of Financial Position as at 31/10/09 of Quantum Ltd and extracts from the Statements of Income for the company's first two years of trading.

	Balance Sheet "extract" of Quantum Ltd	**31/10/09**	
	Equity		
	Ordinary share capital[Nominal value €0.25]	€250,000	
	Share Premium	€350,000	
	Revaluation reserve	€85,000	
	Profit brought forward 31/10/09	€20,000	
	Total Equity		**€705,000**
	Non Current Liabilities		
10%	Convertible Loan notes	€125,000	
8%	Redeemable Preference Shares	€260,000	
			€385,000

Income statement extract for years ended	**31/10/10**		**31/10/09**
Profit before interest and tax	**€125,000**		**€74,300**
Less Loan interest	(€12,500)		(€12,500)
Less Redeemable Preference dividend	(€20,800)		(€20,800)
Profit before taxation	**€91,700**		**€41,000**
Less Taxation	(€28,900)		(€16,000)
Profit for the year	**€62,800**		**€25,000**
Less Ordinary Dividends	(€10,000)		(€5,000)
Profit Retained	**€52,800**		**€20,000**

Notes.

(i) On the 1st of May 2010 the company made a bonus issue of one share for every four shares held

(ii) On the 31/07/10 the company made a rights issue of one share for every five shares held. The issue price was €0.70 per share and the market value of the share at the date of issue was €1.40 per share

(iii) The terms of conversion of the loan notes were as follows

(a) From 2012 to 2016 100 ordinary shares for every €100 of loan stock

(b) From 2017 forward 100 ordinary shares for every €130 of loan stock

(iv) The rate of corporation tax is 20%

Required

(a) Calculate the basis Earnings per Share-EPS- for 2010 including the comparative EPS for 2009 that would be shown in the financial statements for year 2010

[6 Marks]

(b) Calculate the diluted EPS for 2010

[4 Marks]

(c) Explain briefly the importance of the P/E ratio

[5 Marks]

Total Marks 15

NB Show any EPS, or diluted EPS to THREE decimal places