



# Advanced Financial Accounting Module 11

November 2010

Suggested Solutions

**Question 1****Group Statement of Comprehensive Income of Rose Ltd year ended 31/10/10**

				<b>31/10/2010</b>
	Rose Ltd	Tulips Ltd	Adjust	<u>Group</u>
	€	€	€	€
taking in only 3/4 of the profits ----->		75% of yr		
Revenue	192,688	31,804	(8,400)	216,092
Cost of sales	(144,516)	(22,263)	8,400	
Unrealised Profit		(420)		(158,799)
Gross profit	48,172	9,121	0	57,293
Operating Exp	(9,656)	(5,280)		(14,936)
Operating Profit	38,516	3,841	0	42,357
Associate co			1,725	1,725
Dividend	375		(375)	0
Interest	(4,800)			(4,800)
Profit b tax	34,091	3,841	1,350	39,282
Taxation	(4,091)	(511)		(4,602)
Profit for year	30,000	3,330	1,350	34,680
<b>Other Com Income</b>				
Total Comprehensive Profit for year	30,000	3,330	1,350	34,680
Attributable to				
<b>Non controlling interest</b>		666		666
<b>Owners of the Group</b>	30,000	2,664	1,350	34,014

**Solution 1 (b) [17 marks]**

Group Statement of Financial Position of Rose Ltd as at 31/10/10

	<b>Rose Ltd</b>	<b>Tulips Ltd</b>		<b>Group [publish]</b>
<b>Non Current assets</b>				
Land	150,000	100,000	25,000	275,000
Property Plant equip	75,000	40,000		115,000
Goodwill			10,000	10,000
Investments				
Tulips Ltd	121,000		(121,000)	
Daisies Ltd	14,440		1,725	
<b>Investment in associate</b>			(375)	15,790
<b>Current Assets</b>				
Inventory	52,000	21,000	(420)	72,580
Receivables	18,000	11,000		29,000
<b>Total Assets</b>	430,440	172,000	(85,070)	517,370
<b>Equity</b>				
Share Capital	150,000	100,000	(100,000)	250,000
Issue of share capital	100,000			
Share Premium	21,000			21,000
<b>Retained Profits</b>	61,900	17,500	(11,000)	65,914
minority % share of			(3,416)	
Inter-stock profit			(420)	
Associate co			1,350	
<b>Owners Equity in Company</b>	332,900	117,500	(113,486)	336,914
<b>Non controlling interests</b>			20,000	
			3,416	
			5,000	28,416
<b>Total Equity</b>	332,900	117,500	(85,070)	365,330
<b>Non current Liabilities</b>				
Loans	80,000	0		80,000
<b>Current Liabilities</b>				
Payables	9,000	30,000		39,000
Bank	8,540	24,500		33,040
<b>Equity plus Liabilities</b>	430,440	172,000	(85,070)	517,370

## Solution 1 working notes including SOCE

### Statement of Changes in Equity-not asked for

		Capital	Share premium	Retained Earnings	Non Controlling Interests	Total
As at 31/10/09		150,000		35,000		185,000
Acquisition 80% subsidiary		100,000	21,000		27,750	148,750
Profit for the year				34,014	666	34,680
Dividends paid				(3,100)		(3,100)
As at 31/10/10		<b>250,000</b>	<b>21,000</b>	<b>65,914</b>	<b>28,416</b>	<b>365,330</b>

### Working Notes

#### Cost of Control of Tulip Ltd

	80% Cost of control		Tulips Ltd	
Investment	121,000		<b>100%</b>	<b>80%</b>
		Share Capital	100,000	80,000
		Pre-Acq Brought forward	12,500	10,000
		Pre-Acq Current Year	1,250	1,000
		Revaluation	25,000	20,000
		Goodwill		10,000
	<b>121,000</b>			<b>121,000</b>

#### Minority interest Tulip Ltd

	<b>100%</b>	<b>20%</b>
Minority %		<b>20%</b>
Share Capital	100,000	20,000
Profits brought forward	12,500	2,500
Pre-Acq Current Year	1,250	250
Revaluation	25,000	5,000
Post Acq Current Year	3,330	666
	<b>142,080</b>	<b>28,416</b>

## Solution 1 Working Notes

### Analysis of Retained Profit to date of Tulip [not really necessary]

<u>Majority interest by Rose Ltd</u>		<b>100%</b>		
Brought forward 31/10/09		12,500	10,000	<b>80%</b>
Current year pre acquisition		1,250	1,000	<b>80%</b>
Group Profit post acq	3,750			
Stock Profit in post Acq period	(420)	3,330	2,664	<b>80%</b>

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### **Non Controllable- Minority interest**

Brought forward 31/10/09		12,500	2,500	<b>20%</b>
Current year pre acquisition		1,250	250	<b>20%</b>
Group Profit post acq	3,750			
Stock Profit in post Acq period	(420)	3,330	666	<b>20%</b>
			17,080	

Total Retained profits for Tulip per question €17,500 less stock profit €420 equals €17,080

Acquisition of Associate Company

	<b>Daisies Ltd</b>	<b>Cost of control</b>	<b>Associate</b>	<b>25%</b>	
			Share Capital	€40,000	€10,000
			Pre-acquisition	€11,200	€2,800
Investment		€14,440	Goodwill		€1,640
		€14,440			€14,440

<b>Cost of Investment</b>	14,440
Share of Post acquisition profit	
€6,900 x 25%	1,725
Less Dividend received 1,500 x 25%	<u>(375)</u>
Investment in Associate at Balance Sheet date	15,790

Solution 2 (a) [20 marks]

Statement of Comprehensive Income of Multi-Productions Ltd for year end 31/10/10

	Published	Comments
<b>Revenue</b>	945,233	<b>W/N 1</b>
Cost of Sales	(693,248)	<b>W/N 2</b>
Gross Profit	251,985	
Distribution	(79,000)	<b>W/N 2</b>
Administration	(76,688)	<b>W/N 2</b>
Operating Profit	96,297	
<b>Investment income</b>	2,652	
<b><u>Finance Charges</u></b>		
Leasehold interest	(1,895)	W/N 4
Interest paid	(40,000)	
<b>Profit before tax</b>	57,054	
Taxation	(11,343)	W/N 6
	45,711	
Other Comprehensive Income		
Loss on revaluation of properties	(€50,000)	W/N 7
<b>Profit for the year</b>	(4,289)	

W/N 1 Sales amount

Sales per Trial Balance

€935,000

Note (i) VAT  $[(€935,000 \times 10\%)/121\%] \times 21\%*$

(€ 16,227)

\*Assuming VAT rate of 21%

Different answer if different VAT rate assumed

Note (v) Contract Sales Contract Price €132,300 x 20%

€ 26,640

€945,233

## Solution 2 (a) Working Notes

### Working Note 2 Analysis of Costs

		Production	Distribution	Administration	Total
Per Trial Balance		600,000	79,000	65,000	744,000
Opening stock		50,000			50,000
Contract cost <b>W/N 3</b>		36,960			36,960
Depreciation <b>W/N 5</b>		52,288		0	52,288
Bad debts <b>W/N 8</b>				11,688	11,688
Closing stock		(46,000)			(46,000)
	€50,000				
Note iv	(€4,000)	<b>693,248</b>	<b>79,000</b>	<b>76,688</b>	<b>848,936</b>

### Working Note 3 Long Term Contract

Contract Price (note v)	€132,300
less	
Costs incurred to-date (note v)	(€ 42,000)
Estimate costs to complete	<u>(€100,800)</u>
Thus overall loss on contract	( €10,500)

Contract price included in sales €132,300 x 20% complete [note v]  
 €26,460

Add overall losses €10,500  
 Costs to Income statement included in W/N 2 €36,960

Statement of Financial Position – Balance Sheet

Cost incurred todate [note v]		
€42,000		
Transferred to Income statement		<u>(€36,960)</u>
Work in Progress		€ 5,040
Sales to date	€26,460	
Cash received	<u>(€12,000)</u>	

Amount owing  
€14,460

Total contract  
€19,500

**W/N 4 [Note XI] Calculation of lease interest charges and amounts owing etc**

Leasing		10%	Repay	Closing bal
	€25,000			
Deposit	(€6,046)			
01/11/2009	€18,954	€1,895	(€5,000)	€15,849
01/11/2010	€15,849	€1,585	(€5,000)	€12,434
01/11/2011	€12,434	€1,243	(€5,000)	€8,678
01/11/2012	€8,678	€868	(€5,000)	€4,545
01/11/2013	€4,545	€455	(€5,000)	€0

Finance Charges in Income statement year ended 31/10/10 €1,895

Statement of Financial Position Current Liability [€5,000-€1,585]

€ 3,415

Statement of Financial Position Non Current Liability [€15,849-€3,415]

€12,434

Depreciation straight line €25,000 divided by 5 years €5,000

**Working Note 5 Depreciation and note viii**

	Cost	Production
Factory Units	€350,000	
	=====	
Depreciation 10% straight line [note viii]	€35,000	€35,000
Leasing depreciation [W/N 4]		€ 5,000

**Machinery**

Cost	€120,000
Accumulated Depreciation per T/B	(€ 58,560)
Net Book Value as at 31/10/09	€ 61,440
Reducing balance [note viii]	20%
Depreciation	€12,288
Total Working Note 2	€52,288

**Working Note 6 Taxation [Note vii]**

Deferred Tax Note vii closing balance €12,000 x 12% equals

€1,440

Less Opening balance on deferred tax per Trial Balance (€ 982)

Increase in deferred tax charge € 458

Note vi charge for the current year €

9,400

Note vi underestimation of last years tax [€8,000 -€6,515] €

1,485

Charge for the year €11,343



## Working note 7 Revaluation write off and note x

### Note (x)

Land per Trial Balance	€500,000
Revaluation note (x)	<u>€350,000</u>
Write down	€150,000
Related Revaluation on Trial Balance	€100,000
Excess to Income Statement	€ 50,000

## Working note 8

Note (iii)	Amount owing at year end	€15,583
Write off	€15,583 x [€1.00-€0.25]	<b>(€11,688]</b> to W/N 2

## Answer (c )

### Statement of Changes in Equity for year ended 31/10/10

	Capital	Premium	Profit	Revaluation	Total
Opening balance (a)	160,000(a)		125,000	100,000	385,000
Prior year adjustment			(18,000)		(18,000)
Restated balance	<b>160,000</b>	<b>0</b>	<b>107,000</b>	<b>100,000</b>	<b>367,000</b>
Profit			(4,289)		(4,289)
Additions				(100,000)	(100,000)
Dividends paid			(24,000)		(24,000)
Issue of shares	32,000	20,000			52,000
Legal costs (b)		(10,000)			(10,000)
	<b>192,000</b>	<b>10,000</b>	<b>78,711</b>	<b>0</b>	<b>290,711</b>

\*(a) The Trial balance amount for share capital is at the end of the year and thus includes the issue made during the year of a 1 for 5 rights [note xii] .

Total number shares including issue during the year is €192,000 divided by €0.80 =240,000

Thus issue during the year must have been 240,000 x 1 / [5+1] equals 40,000 shares.

40,000 shares x €0.80 equals €32,000.

The opening balance must have been €192,000 minus €32,000 equals €160,000

The share premium of issue should have been 40,000 x [€1.30-NV€0.80] equals €20,000

(b)

The Trial Balance shows a share premium of €10,000. The assumption is made that the difference between this amount and share premium on issue represents legal costs.

### Working Note 9

#### Schedule of Non Current Asset FORMAL NOTE not required

		<b>Land</b>	<b>Factory Units</b>	<b>Machinery</b>	<b>Machine</b>	<b>Total</b>
<b>Cost /value 31/10/09</b>		500,000	350,000	120,000		970,000
Revalue		(150,000)	0			(150,000)
Additions					25,000	25,000
Disposal/for sale			(52,000)			(52,000)
<b>Cost/value 31/10/10</b>		<b>350,000</b>	<b>298,000</b>	<b>120,000</b>	<b>25,000</b>	<b>793,000</b>
<b>Depreciation</b>						
Accum Dep 31/10/09			(140,000)	(58,560)		(198,560)
Disposal /sale			26,000			26,000
P&L charge			(35,000)	(12,288)	(5,000)	(52,288)
<b>Accum.Dep 31/10/10</b>		<b>0</b>	<b>(149,000)</b>	<b>(70,848)</b>	<b>(5,000)</b>	<b>(224,848)</b>
31/10/2010	N.B.V.	<b>350,000</b>	<b>149,000</b>	<b>49,152</b>	<b>20,000</b>	<b>568,152</b>
31/10/2009	N.B.V.	<b>500,000</b>	<b>210,000</b>	<b>61,440</b>	<b>0</b>	<b>771,440</b>

**Solution 2 (b)****Statement of Financial Position of Multi-products as at 31/10/10****Non Current Assets**

Fixed Tangible **W/N 9** 568,152

**Current Assets**

Inventories 46,000

Construction contract **W/N 3** 19,500

Debtors 77,917

less bad debts (11,688) 66,229

Cash 33,246

164,976

Non current assets held for sale 26,000

**Total Assets**

759,128

**Equity**

Capital 192,000

Premium 10,000

Retained Profits 78,711

**Total Equity**

280,711

**Non current Liabilities**

Long term loans 400,000

Leasing loans **W/N 4** 12,434

Deferred tax **W/N 6** 1,440

413,874

**Current Liabilities**

Payables 25,000

Leasing loans **W/N 4** 3,415

Taxation note vi 9,400

64,542

**Total Equity and Liabilities**

759,127

### Question 3

#### Answer (a) and (b)

#### Basic information

	31/10/10	30/10/09
Profit after interest after tax	€62,800	€50,000
Loan stock interest net of 20% tax	€10,000	(€10,000)
Profit adjusted for net of tax interest savings	€72,800	€40,000
Ordinary shares	1,000,000	1,000,000
Bonus issue 1 for 4	250,000	250,000
	<u>1,250,000</u>	<u>1,250,000</u>
Rights issue one for 5	<b>250,000</b>	

#### Weighted average shares in current period incorporating the rights issue Computation of theoretical ex rights price

Issue price of one share was	€0.70
Market value of 5 shares prior to rights issue 5 x €1.40	<u>€7.00</u>
Six shares total value of	€7.70
Theoretical ex rights price of a share €7.70 divided by 6 rounded	€1.28

## Computation of the weighted average number of shares for current year

$\frac{\text{Cum Rights}}{\text{Ex Rights}} \times \text{Share in existence pre-rights} \times \text{proportion of the year}$

Plus Total Post rights shares  $\times$  proportion of the year

ie.  $\frac{1.40}{1.28} \times 1,250,000 \times 9/12$  months equals 1,025,391

Plus 1,500,000  $\times$  3/12 months equals 375,000  
Total weighted average 1,400,391

Basic EPS	31/10/10	31/10/09
Profit after interest after tax	€62,800	€50,000
Number of Wt Ordinary shares in issue	1,400,391	1,250,000
		x
Previous year basis EPS adjusted for R.I.		1.28/1.40
Basic [rounded]	€0.045	€0.037

Note both years are adjusted for bonus without pro-rata as no funds involved.

Diluted EPS for current year

	31/10/10
Profit net of tax interest savings	€72,800
Weighted average shares outstanding	
1,400,390 + 130,000 [para 49 IAS 33]	1,530,390
Diluted EPS is	€0.048

The EPS is fact anti-dilutionary

### Importance of EPS

Comments should include reference to use EPS as an input for both Price Earning and Earning Yield and which quoted regularly on the business pages in respect of listed companies.

The dangers of comparing P/E ratios with other companies where alternative accounting approaches are permitted for the same transactions example IAS 23 alternative treatment for borrowing costs

Differences in P.E ratio of similar type and scale of companies arising because one entity is listed and the other is private.

The need for other ratios and other factors to be incorporated in any assessment for example the current cash squeeze the greater emphasis may be on liquidity and the need to meet day to day commitments