Institute of Incorporated Public Accountants

Professional 2 – Module 8

Financial Accounting

26 August 2014

10am – 1pm

Instructions
Candidates must answer all four 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.

Candidates should begin each question on a new page.
There is an answer sheet for Question four -multi-choice-attached at the back of the exam paper. Please complete, detach and return with your answer script

Marking Scheme

Question Limited Company accounts	**35 marks**
Question 2-Cash flow	**25 marks**
Question 3-Ratios	**20 marks**
Question 4 Multi-choice question	**20 marks**

Total	**100 marks**

<u>Question 1</u>
Set out below is the Trial Balance as at 31/07/14 of Crockery Ltd a family owned pottery business that produces hand made plates, cups and saucers for selling to the high street shops.

	€	€
Premises	1,800,000	
Accumulated depreciation		360,000
8% Debentures		200,000
Machinery	950,000	
Accumulated depreciation		463,600
Bank overdrawn		3,100
Inventory	650,000	
VAT	35,600	
Trade receivables	770,000	
Payables		350,000
Ordinary share capital [NV 0.75]		1,275,000
Share Premium		250,000
Revaluation account		220,000
Revenue/Sales		9,250,000
Purchase	5,200,000	
Taxation	3,600	
Selling and distribution	1,850,000	
Administration expense	1,387,500	
Debenture interest paid	8,000	
Retained Profits 31/07/13		300,000
Dividends paid	17,000	
Totals	**12,671,700**	**12,671,700**

Notes to Trial balance

(i) Inventory at the 31/07/14 was €715,000 Included in the closing inventory was a batch of Celtic crockery at a cost of €35,000 which had been in the warehouse for the last seven months.. The marketing director has identified a buyer who will purchase the batch for €37,500 provided certain modifications are made to the painted designs. The modifications will cost €4,000.

Question 1-continued

(ii) Depreciation rates are as follows:

(a) Premises 2% straight line
(b) Machinery 20% reducing balance

It is company policy to depreciate an asset for a full year in the year of its acquisition and not to depreciate it at all in the year of its disposal.
The allocation of depreciation expense by function is as follows:

	Production	**Selling & Distribution**	**Administration**
Premises	50%	30%	20%
Machinery	100%		

On the 01/05/14 the company purchased machinery for €84,000 financed by a loan for €84,000 with interest at 10% payable quarterly in arrears. No adjustments have been made to reflect the above transaction. The first interest due on the machine loan was paid on the 01/08/14.

On the 31/07/14 a professional valuation of the premises was undertaken and it assessed the value of premises at €1,100,000 as at that date.

(iii) **V.A.T**

There was an error in the computation of the VAT liability for the months of August and September 2013 resulting in an understatement of VAT amount owing of €15,000. Following discovery of that error, a review of the accounts for previous year ended 31/07/13 was undertaken. Another understatement of VAT liability in that period amounting to €35,000 was identified. The company subsequently paid out a cheque for €50,000 to the revenue commissioners in October 2013. This was accounted for by crediting the bank and debiting the VAT account in October 2013. No other adjustments were made.

(iv) **Taxation on profits**

The taxation of €3,600 per Trial Balance represents an underestimation of the tax liability on profits for the year ended 31/07/13. That amount was paid during the year ended 31/07/14. The estimation of tax liability on profits for the year ended 31/07/14 is €70,465 and has not yet been provided for.

(v) **Proposed Dividend**

The company proposed a dividend of €0.02 per ordinary share.

The requirements are set out on the next page

Question 1-Crockery Limited continued

Required

(a) Set out the Income Statement of Crockery Ltd for the year ended 31/07/14 in accordance with IAS 1 and other relevant standards [14 marks]

(b) Set out the Statement of Changes in Equity for year ended 31/07/14 in accordance with IAS 1 and other relevant standards [5 marks]

(c) Set out the Statement of Financial position [Balance Sheet] of Crockery Ltd as at 31/07/14 [16 marks]

Total Marks[35 marks]

Note where working notes are provided to explain the composition of a particular amount shown in your answer then such notes should be referenced W/N 1 [ie. working note 1] W/N2 etc. with a suitable heading indicating the purpose of that working note.

Question 2

Set out below and on the next page are the Statement of Financial Position, Income statements and other related information in relation to Oracle Ltd for the years ending 30/04/14 and 30/04/13 respectively.

Statement of Financial Position of Oracle Ltd as at

	30/04/14		30/04/13
	€		€
Non current assets			
Tangible assets **[Note 1]**	435,000		400,000
Intangible assets	6,000		11,000
Total Non Current Assets	**441,000**		**411,000**
Current Assets			
Inventories	60,000		50,000
Trade receivables	19,000		17,000
Interest receivable	1,200		800
Investments	16,000		0
Cash	5,000		3,000
Total Current Assets	**101,200**		**70,800**
Total Assets	**542,200**		**481,800**
Shareholders equity			
Ordinary share capital 80 cent shares	198,000		150,000
Share premium	69,000		45,000
Revaluation surplus	23,000		8,000
Retained Earnings **[see note 2]**	102,600		80,000
Total Equity	**392,600**		**283,000**
Non- current Liabilities			
10% Debentures	25,000		50,000
Current Liabilities[see note 3]	124,600		148,800
Total Equity plus Liabilities	**542,200**		**481,800**

Note 1

Assets with a Net Book value of €30,000 were sold for €16,500. The profit/(loss) arising was included in operating costs.

Question 2-continued

Note 3 Analysis of Current Liability amounts on the Statements of Financial Position

Analysis of Current Liabilities	**30/04/14**		**30/04/13**
Trade payables	€40,000		€38,000
Income taxes	€10,500		€9,000
Interest payable	€3,800		€3,000
Bank overdraft	€70,300		€98,800
Total Current Liabilities	**€124,600**		**€148,800**

Income statements of Oracle Ltd for the years ended

	30/04/14		**30/04/13**
Income statement	€		€
Revenues	80,500		55,500
Operating costs	(36,000)		(30,000)
Operating profit before interest	**44,500**		**25,500**
Investment income	2,100		3,500
Finance charges			
Interest expense	(2,500)		(5,000)
Profit before taxation	**44,100**		**24,000**
Taxation	(6,500)		(3,000)
Profit for the year –note 4	**37,600**		**21,000**

Note 4 Profit is after a depreciation charge of: €25,000 €20,000

Note 5 analyses of retained profits on the Statements of Financial Position

	30/04/14		**30/04/13**
	Retained		**Retained**
	Profits		**Profits**
Brought forward at start of year	80,000		70,000
Profit for the year	37,600		21,000
Dividends paid	(15,000)		(11,000)
Retained Profits at year end	**102,600**		**80,000**

Required

(a) Prepare the Cash flow statement of Oracle Ltd for the year ended 30/04/14 in accordance with IAS 7 and other relevant standards **[25 marks]**

Question 3

Set out below are the Income Statements and Statements of Financial Position of Bio Technology Ltd for the first two years of its operations. The company is listed on the stock exchange.

Income statements for y/ended	**30/04/2014**		**30/04/2013**
Sales Volumes	66,000 Units		60,000 Units
	€		€
Revenues/ Sales	97,020		90,000
Cost of Goods Sold	(67,914)		(58,500)
Gross Profit	29,106		31,500
Operating Expenses	(17,464)		(18,900)
Operating Profit	11,642		12,600
Finance charges	(4,000)		(2,500)
Profit before tax	7,642		10,100
Taxation	(955)		(1,262)
Profit for the year	6,687		8,838

Profit above computed after charging;
Depreciation of €40,000 €24,000

Statement of movement in reserves

	30/04/14		**30/04/13**
	€		€
Retained profits at start of year	8,038		0
Profit for the year	6,687		8,838
Ordinary Dividends	(1,600)		(800)
Retained profits at end of year	**13,125**		**8,038**

Question 3 continued
Statement of Financial Position of Bio Technology Ltd as at

	30/04/14		30/04/13
Non Current Assets	€		€
Property Plant Equipment	**136,000**		**96,000**
Current Assets			
Inventory	7,443		4,808
Receivables	10,632		6,164
Bank			11,674
Total Current Assets	**18,075**		**22,647**
Total Assets	**154,075**		**118,647**
Equity and Liabilities			
Equity			
Ordinary Share Capital of €1 each	80,000		80,000
Retained Earnings	13,125		8,038
Total Equity	**93,125**		**88,038**
	-		-
Non Current Liabilities			
10% Debentures	40,000		25,000
Current Liabilities			
Payables	5,582		5,610
Bank	15,368		
Total Equity plus Liabilities	**154,075**		**118,647**

Market value of one share at Statement of Financial date €0.48 €0.44

Required

(a) Analyse the performance of the company over the first two years of its operations by computing two ratios for each year under the following headings; ***See next page for suggested layout***

(i) Liquidity
(ii) Profitability
(iii) Efficiency
(iv) Investment appraisal/Investor satisfaction

[16 marks]

(b) Select two ratios that have significantly changed and comment thereon.

[4 marks]

Total [20 marks]

Suggested layout for ratios

Example

Name of formula	**Formula**	**2014 Amounts**	**2013 Amounts**
(ii) Profitability ratios			
Gross Profit	$\frac{??}{??}$ x ??	$\frac{?? \text{ x } ??}{??}$ =??	$\frac{?? \text{ x } ??}{??}$=??
??	$\frac{??}{??}$ x ??	$\frac{?? \text{ x } ??}{??}$ =??	$\frac{?? \text{ x } ??}{??}$=??
(i) Efficiency ratios			
??	$\frac{??}{??}$ x ??	$\frac{?? \text{ x } ??}{??}$ =??	$\frac{?? \text{ x } ??}{??}$=??
??	$\frac{??}{??}$ x ??	$\frac{?? \text{ x } ??}{??}$ =??	$\frac{?? \text{ x } ??}{??}$=??

and so on

Alternative formats that convey the same information are acceptable

Question 4-multi-choice

Set out on the next and following pages are ten items numbered Item 1 to item 10. Each item has four possible answers. There is only one correct answer. Students should detach the answer sheet provided at the back of this exam paper for entering their answers onto.

For each item students should mark X over the letter corresponding to their choice of answer on the answer sheet provided.

Only one **X** will be accepted for each item.

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2 marks for each correct answer. Maximum marks is 10 items x 2 marks =20

The following information is to be used in answering **items 1 to 4**

Statement of Financial Position of Big Ltd and Small Ltd as at 31/07/14

	Big Ltd	**Big Ltd**	**Small Ltd**	**Small Ltd**
Non Current Assets		€22,500		€8,000
Investment in Small Ltd		€5,000		
Current Assets		€2,500		€2,000
Total Assets		**€30,000**		**€10,000**
Share Capital		€10,000		€4,000
Retained Profit 31/07/13	€14,500		€2,500	
Profit for year end 31/07/14	€3,500		€1,600	
Total Equity		€18,000		€4,100
Current Liabilities		€2,000		€1,900
Equity plus Liabilities		**€30,000**		**€10,000**

(a) Big Ltd acquired 80% of the ordinary share capital of Small Ltd
(b) The assets of Small Ltd were properly stated at fair value at the acquisition dates listed in item 1 and item 2 on the following page

(c) The profit of Small Ltd for year ended 31/07/14 is assumed to accrue evenly throughout the year.

Question 4-multi-choice-continued

Item 1

From the information on the previous page, and if Big Ltd acquired its 80% control of Small Ltd on the 01/08/13 then the goodwill on acquisition would be

(a) €1,800 positive goodwill

(b) € 200 positive goodwill

(c) (€1,800) negative goodwill

(d) (€200) negative goodwill

Item 2

If Big acquired 80% control of Small Ltd on the 31/01/14 then the goodwill on acquisition would be

(a) €1,480 positive goodwill

(b) €840 positive goodwill

(c) (€840) negative goodwill

(d) (€1,480) negative goodwill

Item 3

If Big Ltd acquired 80% control of Small Ltd on the 31/01/14 then the amount of retained profits attributable to the Controlling interest that would be shown on the Group Balance sheet at the 31/07/14 would be

(a) €18,000 [credit balance]

(b) €18,640 [credit balance]

(c) €19,280 [credit balance]

(d) €22,100 [credit balance]

<u>Question 4</u> multi-choice continued

<u>Item 4</u> [

Using the information given at the start of this question and if Big Ltd acquired 80% control of Small Ltd on the 31/01/14 then the amount for the non-controlling interest [minority interest] that would appear on the Group Balance sheet as at 31/07/14 would be

(a) € 800 [credit balance]

(b) €1,620 [credit balance]

(c) €1,300 [credit balance]

(d) None of the above

<u>Item 5</u>

A company has previously depreciated its vehicles on a reducing balance basis at 30% but it now proposes to use a straight line method at 20% as fairer representation of the asset's use.

This represents

(a) A change in recognition but no change in accounting policy

(b) A change in estimation but no change in accounting policy

(c) A change in estimation and a change in accounting policy

(d) A change in recognition and a change in accounting policy

<u>Item 6</u>

A Liability might be described as :

(a) A present obligation of the entity arising from past events the settlement of which is expected to result in the outflow of resources embodying economic benefits

(b)A future obligation of the entity arising from current events the settlement of which is expected to result in the outflow of resources embodying economic benefits

(c) A present obligation of the entity arising from current events the settlement of which is expected to result in the outflow of resources embodying economic benefits

(d) A future obligation of the entity arising from past events the settlement of which is expected to result in the outflow of resources embodying economic benefits

Question 4-multi-choice continued

Item 7

During the course of preparation of the financial statements for year end 31/07/14 it was discovered that the opening inventory i.e. at 01/08/13 had erroneously included non-production costs of €44,000. The current year income statement for year ended 31/07/14 has already been adjusted for the change in opening inventory .The accountant needs to

(a) Write a note describing the circumstances necessitating the need to change the value of the inventory at 01/08/13 and state that the combined profits for the two years of accounting are unchanged.

(b) Restate the comparative Income statement for year ended 31/07/13 and the balance brought forward at 01/08/13 in the statement of changes in equity

(c) Do nothing because a retrospective adjustment is not required

(d) Omit the inclusion of any note concerning the change in value of inventory at 01/08/13 because the Balance totals at 31/07/14 are unchanged.

Item 8

According to IAS 36 an asset is said to be impaired when

(a) It is has suffered physical damage

(b) When the carrying value is greater than the sales value less costs to sell

(c) When its value in use is greater than its sales value

(d) When its carrying value is greater than its recoverable amount

Question 4 multi-choice continued

Item 9

In general it might be said that revenue should be recognized when

(a) It is certain that economic benefits will flow to the entity

(b) It is probable that economic benefits will flow into the entity

(c) It is certain that economic benefits will flow into the entity and they can be measured exactly

(d) It is probable that economic benefits will flow to the entity and they can be measured reliably.

Item 10

Cobalt Ltd has the following equity

	31/07/14	**31/07/13**
Ordinary share capital of €0.75 each	€150,000	€150,000
Profit for the year	€312,500	€200,000

On the 31/01/14 the company made a 1 for 4 bonus issue to its existing shareholders. No adjustment has yet been made for the bonus issue. In the financial statements for year ended 31/07/14 the earnings per share-EPS- to the nearest two decimal places for the current and comparative year would be:

	31/07/14	**31/07/13**
(a)	€1.25	€0.80
(b)	€1.25	€1.00
(c)	€1.56	€1.00
(d)	€1.56	€0.80

END OF MULTI-CHOICE QUESTION

END OF EXAMINATION PAPER

AN ANSWER SHEET FOR QUESTION 4 MULTICHOICE IS ATTACHED NEXT

PLEASE RETURN THE COMPLETED ANSWER SHEET WITH YOUR ANSWER SCRIPT

Q4 Multiple choice – Module 8 Answer sheet August 2014

Candidate number__________ _Location________ date____

Candidates should mark "**X**" on the letter corresponding to their choice of answer in respect of each Item which are numbered 1 to 10 respectively.

Only one letter should be "**X**" ed in respect of each MCQ. If more than one letter **"X"**ed in respect of a item then no marks will be awarded for the answer to that particular item.

Two marks for each item answered correctly. Total possible marks 20 marks

Item

1	A	B	C	D
2	A	B	C	D
3	A	B	C	D
4	A	B	C	D
5	A	B	C	D
6	A	B	C	D
7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D

PLEASE RETURN THIS ANSWER FORM WITH YOUR ANSWER BOOK