



Professional 2
Financial Accounting
Module 8
Tuesday 30th August 2011
2pm – 5pm

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 1-Partnership | 25 marks |
| Question 2-Company Accounts | 30 marks |
| Question 3-Ratios and Report | 25 marks |
| Question 4 Multi-choice question | 20 marks |
| Total | ----- <u>100 marks</u> |

Question 1

Set out below is the Trial Balance of Billy and Elizabeth as at 30/06/11
They are partners in a haberdashery business

| | | Debits | Credits |
|---------------------------------|---------------|----------------|----------------|
| | | € | € |
| Capital Accounts | | | |
| Billy | | | 40,000 |
| Elizabeth | | | 25,000 |
| Current Accounts | | | |
| Billy | 01/07/10 | 1,200 | |
| Elizabeth | 01/07/10 | | 2,600 |
| Receivables | | 2,200 | |
| Bank Overdraft | | | 1,200 |
| Payables | | | 500 |
| Buildings | | 80,000 | |
| Equipment | | 25,000 | |
| Motor Car | | 20,000 | |
| Accumulated depreciation | | | |
| Buildings | 30/06/11 | | 11,400 |
| Equipment | 30/06/11 | | 3,504 |
| Motor Car | 30/06/11 | | 8,000 |
| Profit for year end | 30/06/11 | | 40,000 |
| Inventory as at | 30/06/11 | 3,804 | |
| | Totals | 132,204 | 132,204 |

Notes

- (1) The partnership agreement provides for the following
- (i) Elizabeth is entitled to a salary of €12,000
 - (ii) Each partner is entitled to 8% per annum on their Capital accounts
 - (iii) Profits are shared Billy 60% and Elizabeth 40%

Question 1 -Billy and Elizabeth continued

- (2) Billy and Elizabeth decide to convert the partnership into a Limited Company - Habo Services Limited- with effect from the 01/07/11
- (3) Billy is to take over the motor car at an agreed value of €16,000. The new company is taking over the remaining assets other **than** the bank overdraft. The buildings are to valued at €100,000 in the new company
- (4) The consideration is to be issue to the partners, in their profit sharing ratio, of 100,000 Ordinary shares in Habo Ltd. The shares have a nominal value of €0.90 each and are to be valued at €1.30 each.
- (5) Any short fall on the combined capital/current accounts of a partner at the 30/06/11 is to be rectified by that partner putting the equivalent amount of money into the partnership bank account. Any surplus on the combined capital/current account at 30/06/11 is to be paid out to that partner from the partnership bank account.

Required

- (a) Show the dissolution/realisation account for year ended 30/06/11 **(7 marks)**
- (b) Show the appropriation account for year ended 30/06/11 **(6 marks)**
- (c) Show the combined capital and current accounts of each partner for the period ended 30/06/11 **(6 marks)**
- (d) Show the Statement of Financial Position of Habo Limited as at 01/07/11 **(6 marks)**

Total (25marks)

Question 2

Set out below is the Trial Balance of Learning Toys Ltd as 31/07/11

| | | Debit | Credit |
|---------------------------------|----------|------------------|------------------|
| | | € | € |
| Land | | 400,000 | |
| Offices and Showrooms | | 450,000 | |
| Motor Vehicles | | 90,000 | |
| Retained Profits | 01/08/10 | | 95,000 |
| Ordinary Share capital | €0.80 | | 200,000 |
| 8% Redeemable Preference Shares | | | 100,000 |
| Share Premium | | | 25,000 |
| 5% Debentures | | | 40,000 |
| | | | |
| Accumulated Depreciation | | | |
| Offices and Showrooms | 01/08/10 | | 270,000 |
| Motor Vehicles | 01/08/10 | | 36,856 |
| | | | |
| Inventory | 01/08/10 | 33,000 | |
| Purchases | | 380,000 | |
| Revenue | | | 625,000 |
| Sundry Asset | | 18,000 | |
| Taxation | | | 850 |
| Trade receivables | | 68,000 | |
| Trade payables | | | 22,000 |
| Sales returns | | 9,375 | |
| Purchase Returns | | | 4,200 |
| Settlement discount allowed | | 1,100 | |
| Settlement discount received | | | 2,300 |
| Revaluation of Land | | | 60,000 |
| Provision for doubtful debts | | | 1,848 |
| Bank | | | 95,473 |
| Ordinary dividends | | 10,000 | |
| Preference dividend | | 4,000 | |
| Buildings maintenance | | 12,000 | |
| Bad debts | | 4,652 | |
| Interest on Debenture | | 1,000 | |
| | | | |
| VAT | | 1,200 | |
| Salaries | | 85,000 | |
| Transport expenses | | 11,200 | |
| Totals | | 1,578,527 | 1,578,527 |

Question 2 Learning Toys-continued-notes to Trial Balance

Notes

- (1) The inventory at year end was €49,500
- (2) Included in wages is €25,000 paid to staff involved in extending the showroom. Material amounting to €15,000 which are included in purchases were used in the construction of the extension
- (3) A customer owing €4,000 has gone bankrupt and will only be able to pay €0.25 in the euro. A provision for doubtful debts of 5% is to be maintained
- (4) Following a VAT inspection it was discovered that the company was applying the incorrect rate of VAT. It had applied a 10% rate to its sales instead of 12.5%
- (5) Depreciation is to be provided on non current depreciable assets as follows;

| Non Current Asset | Rate | Basis | Allocation of Depreciation Charge | | |
|-----------------------|------|------------------|-----------------------------------|--------------|----------------|
| | | | Production | Distribution | Administration |
| Offices and Showrooms | 15% | Straight line | 70% | 10% | 20% |
| Motor Vehicles | 10% | Reducing balance | 0% | 70% | 30% |

- (6) The sundry asset in the Trial Balance for €18,000 is in respect of an advance payment for advertising for sales promotion for the year ended 31/07/12

- (7) Allocation of the other expenditures are as follows

| Expense | ALLOCATION | | |
|-----------------------|------------|--------------|----------------|
| | Production | Distribution | Administration |
| Transport expenses | 0% | 65% | 35% |
| Buildings maintenance | 60% | 30% | 10% |
| Salaries | 70% | 20% | 10% |
| | | | |

- (8) In order to improve its cash flow the company entered into a binding contract on the 31/07/11 to sell its land for €440,000. No adjustments have been made.
- (9) A provision of €4,500 is to be made for taxation in respect of profits. The amount in the Trial Balance represents an over-estimation of the taxation liability for the year ended 31/07/10
- (10) A final ordinary dividend of €0.01 per share was proposed on the 15/02/11

Required

- (a) Prepare the Income Statement of Learning Toys Ltd for the year ended 31/07/11 in accordance with the relevant accounting standards. **(19 marks)**
 - (b) Prepare the Statement of Financial Position of Learning Toys Ltd as at 31/07/11 in accordance with the relevant standards **(16 marks)**
- Total (35 marks)**

Question 3

Set out below is the draft set of accounts of Pebbles Ltd for its first year of Trading. They were prepared by your assistant a trainee in your accountancy practice.

| Statement of Financial Position | 31/07/11 | Income Statement Y/E | 31/07/11 |
|---------------------------------|----------------|----------------------------|----------------|
| | € | | € |
| Non current assets | | Revenue | 450,000 |
| Land | 120,000 | Cost of sales | (315,000) |
| Buildings | 125,000 | Gross Profit | 135,000 |
| Machinery | 100,000 | Operating expenses | (67,500) |
| Motor Vehicles | 85,000 | Operating Profit | 67,500 |
| Total Non Current Assets | 430,000 | Loss on Disposal | |
| | | Other losses | |
| | | Finance Charges | (2,500) |
| Current Assets | | Profit before tax | 65,000 |
| Inventories | 8,500 | Income tax expense | (8,100) |
| Receivables | 7,600 | Profit for the year | 56,900 |
| Cash | 550 | | |
| Total Assets | 446,650 | | |
| | | | |
| | | | |
| Equity | | | |
| Ordinary Share Capital | 120,000 | | |
| 5 % Preference Share Capital | 70,000 | | |
| Share Premium | 109,500 | | |
| Revaluation | 17,000 | | |
| Retained earnings | 51,800 | | |
| | | | |
| Total Equity | 368,300 | | |
| | | | |
| Non Current Liabilities | | | |
| 10% Debentures | 25,000 | | |
| | | | |
| Current Liabilities | | | |
| Trade Payables | 8,500 | | |
| Bank Overdraft | 44,850 | | |
| | | | |
| Equity + Liabilities | 446,650 | | |

| Movement in Reserves | |
|-------------------------------|----------------|
| | 31/07/11 |
| | €0 |
| Balance as at 31/07/10 | |
| | |
| Profit for year | €56,900 |
| Ordinary Dividend paid | (€1,600) |
| Preference dividend paid | (€3,500) |
| | |
| Balance as at 31/07/11 | €51,800 |

The question continues on the next page

Question 3

The following matters have come to your attention during your review of the financial statements prepared by your assistant

Item

- (1) Light and Heat amounting to €1,800 has been omitted
- (2) The nominal value of each of the 150,000 issued Ordinary Share shares was €0.75. The assistant had incorrectly "rounded" the nominal value to €0.80
- (3) Preference share capital was on in fact Redeemable Preference Share capital
- (4) A note from the company's sales director had indicated that €1,275 of the closing inventory was un-sellable. The assistant did not know what to do and ignored the note.
- (5) A machine with a Net Book Value of €25,000 was sold on 31/07/11 for €18,000. The amount received had been credited to the Sales. No other adjustment was made
- (6) Receivables were after providing for 5% for provision for doubtful debts. Given the present economic climate a 10% provision would be more appropriate
- (7) Rental costs included €1,650 in respect of August 2011
- (8) The land had its value revised to €101,300 on the 31/07/11

Required

- (a) Show the Journal entries required for each of the above with a with a brief explanation for the journal made **(14 marks)**
 - (b) Show the finalised amended balances in the SOCE **(6 marks)**
- Total (20 marks)**

Suggested format

| Note | Account | <u>Debit</u> | <u>Credit</u> |
|-------------|----------------|---------------------|----------------------|
| ? | A/C ? | ?? | |
| | A/C ? | | ?? |

Comment

Being the ???

Question 4-Multi-choice- instructions

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 answer onto.

Students should mark x over the letter corresponding to their choice of answer in respect of each of the items listed

Only one X will be accepted for each item.

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

Items 1 to 4 are based on the information set out below. Each answer is independent

TOYLINGS LTD

| Statement of Financial Position | 30/04/11 | Income Statement Y/E | 30/04/11 |
|---------------------------------|----------------|-----------------------------|---------------|
| | € | | € |
| Non current assets | | Revenue | 100,000 |
| PPE | 125,000 | Cost of sales | (75,000) |
| | | Gross Profit | 25,000 |
| Current Assets | | Operating expenses | (18,000) |
| Inventories | 5,000 | Operating Profit | 7,000 |
| Receivables | 4,500 | | |
| Total Assets | 138,600 | Finance Charges | (1,200) |
| | | Profit before tax | 5,800 |
| Equity | | Income tax expense | (464) |
| Ordinary Share Capital | 100,000 | Profit for the year | 5,336 |
| Retained earnings | 7,936 | | |
| Total Equity | 107,936 | Movement in Reserves | |
| | | Retained Profit 01/05/10 | 4,200 |
| 8% Debentures | 15,000 | Profit for the year | 5,336 |
| | | Less Dividends | |
| Current Liabilities | | Ordinary Dividend paid | (1,600) |
| Trade Payables | 8,500 | Retained Profit | 7,936 |
| Bank Overdraft | 3,064 | | |
| Equity + Liabilities | 134,500 | | |

Question 4-multi-choice continued

The first four items relate to the financial statements of Toylings Ltd on the previous page. Each of the four answers is independent.

Item 1

The "Return on Capital Employed" of Toylings Ltd is, to the nearest two decimal places

- (a) 5.34%
- (b) 5.69%
- (c) 4.94%
- (d) None of the above

Item 2

The receivable days of Toylings Ltd rounded to the nearest whole number

- (a) 16 days
- (b) 22 days
- (c) 31 days
- (d) None of the above

Item 3

The interest gearing of Toylings Ltd to the nearest two decimal places where relevant is;

- (a) 4.45
- (b) 12.50
- (c) 5.83
- (d) None of the above

Item 4

The "Quick Asset" or "Acid test" ratio of Toylings Ltd to the nearest two decimal places where relevant is

- (a) 1.12 to 1
- (b) 0.39 to 1
- (c) 16.31 to 1
- (d) None of the above

Multi-choice Question 4 continued

Item 5

When preparing its financial statements for the year ended 31/03/11 Mighty Traders had a plot of land valued at year end at €1,500,000. On the 15/04/11 there was an overspill from a nearby factory contaminating the land and causing its value to fall to €600,000. The accountant should

- (a) Adjust the accounts year ended 31/03/11 for the fall in value
- (b) Prepare accounts for 13 months to the 30/04/11 to include the incident
- (c) Include a note in the accounts to 31/03/11 if it is material to users of accounts
- (d) Make a provision for any costs in cleaning up the contaminated land

Item 6

Bodkins Ltd has the following values in relation to its machine at 30/06/11

| | |
|---------------------------------------|----------|
| Currently in the financial statements | €320,000 |
| Net Realisable value | €240,000 |
| Value in use | €352,000 |
| Alternative use value | €310,000 |

When reviewing the accounts for 30/06/11 the accountant should

- (a) Write down the machine by €80,000
- (b) Write down the machine by €10,000
- (c) Increase the value of the machine by €90,000
- (d) Do nothing

Item 7

In distinguishing between an asset and an expense it might **be** stated that

- (a) Assets have future economic benefit, Expenses do not have future benefit
- (b) Expense will increase liabilities whilst Assets will not
- (c) Expenses are paid for immediately , Asset may or may not be paid for
- (d) The purchase of an Asset will increase Net assets, whilst Expense will leave Net assets unchanged

Item 8

During the year end 31/03/11 Retail Ltd bought goods for €153,000 including 12.50% VAT. Later during the year it sold off some of those goods for €85,500 inclusive of VAT at 12.50% and with a mark up on cost of 20%

To the nearest euro the profit on goods sold for year ended 31/03/11 and the closing inventory as at 31/03/11 was:

| | Profit | Inventory |
|-----|-------------------|-------------------|
| | Y/E 31/03/11 | as at 31/03/11 |
| (a) | €12,667 | €72,667 |
| (b) | €14,963 | €59,063 |
| (c) | €17,100 | €84,600 |
| (d) | None of the above | None of the above |

Item 9

Two components of relevance are

- (a) Prudence and comparability
- (b) Materiality and Timeliness
- (c) Comparability and timeliness
- (d) Prudence and materiality

Item 10

A company has a goodwill policy of refunding dissatisfied customers the cost of any goods returned. On 30/06/11 M.O Leary, a dissatisfied customer returned goods costing €12,500 However the company's accountant is refusing to make a refund as there is no legal obligation to do so. In its accounts to 31/07/11 the company should

- (a) Make a Contingent Liability for that amount
- (b) Make a Provision for that amount
- (c) Provide for a liability for that amount
- (d) Do none of the above

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 Financial Accounting August 2011

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 an 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
