IIPA

Professional 2 – Module 8

Financial Accounting

August 2012

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 & report	**25 marks**
Question 4 Multi-choice question	**20 marks**

Total	**100 marks**

Question 1

Mary, John and Elizabeth were partners in a small pottery business sharing profits 5:3:2 respectively. Due to the downturn in the economy it was felt they could no longer continue in business. It was not possible to sell the business as a going concern. Instead individual assets were sold in two stages with the first asset disposed of in March and the final assets disposed of in June. None of the partners have any resources outside of the business should there be a deficit on their Capital accounts.

Set out below is the last agreed Balance Sheet as at 31/01/12

Non Current Assets			
Buildings		€70,000.	
Machinery		€25,000.	
			€95,000.
Current Assets			
Inventory		€5,000	
Bank		€48,000.	
less			
Current Liabilities			
Payables		(€8,000.)	
			€45,000.
less			
Non Current Liabilities			
Loan			(€15,000.)
			€125,000
Represented by			
Capital Account	Mary	€60,000	
Capital Account	John	€50,000	
Capital Account	Elizabeth	€15,000	
			€125,000

Notes

By the 31st March 2012 the machinery had been sold for €22,000. It was estimated at that time that legal & accountancy fees of €5,000 would be incurred to cover the complete dissolution of the partnership.

By the 30th June 2012 the inventory was sold for €4,000 and the buildings for €100,000. The payables agreed to a discount by them of €800 in return for the early payment of the amount owing by the 30th June.

The estimate for legal & Accountancy fees was correct and paid by 30th June.

This question continues on the next page

Question 1 - continued

Requirements

(a) Explain the Garner V Murray rule (3 marks)

(b) Compute the amounts, if any, that can by paid out to all or any of the partners as at 31st March 2012 (7 marks)

(c) Set out the Realisation Account, and Capital Accounts for the period 1ST February to 30th June 2012

(15 marks)

Total (25 marks)

*Note amounts computed should be rounded up to the nearest euro

Question 2

Set out below is the Trial Balance of Meslin Ltd as at 30/06/12

		Debit	Credit
		€	**€**
Premises		750,000	
Forlift trucks		325,000	
Sales returns		3,800	
Miscellaneous		7,200	
Share Premium			45,000
Settlement discount allowed			
Provision for depreciation			
Premises	30/06/11		60,000
Forklift trucks	30/06/11		97,500
Ordinary Share Capital N.V. €0.75 each			300,000
Inventory		24,000	
Purchases		450,000	
Revenue			780,000
Trade receivables		18,000	
Trade payables			26,000
Retained Profit			132,000
Purchase Returns			5,800
Settlement discount received			2,800
Provision for doubtful debts			118
Bank			25,982
Ordinary dividends		6,000	
Preference dividend		12,000	
Rent		19,000	
Bad debts		3,500	
6% Redeemable Preference Shares			200,000
VAT		1,500	
Salaries		93,000	
Advertising		12,200	
8% Debentures			50,000
	Totals	**1,725,200**	**1,725,200**

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<u>Question 2-continues-</u>notest to Trial Balance

(i) Inventory at year end was €26,000

(ii) A customer owing €2,700 has been declared bankrupt and can only pay €0.23 in the euro

(iii) The provision for doubtful debts is to be maintained at 8%

(iv) On the 31/05/12 goods costing €11,700 were sold on a "sale or return" basis. The sales margin profit is 10%

(v) Depreciation on Non Current Assets were as follows:

			Allocated as follows		
	Rate	**Method**	**Production**	**Marketing**	**Administration**
Premises	4%	Straight line	70%	20%	10%
Forlift trucks	15%	Straight line	100%		0%

It is company policy to depreciate an asset in full in its year of acquisition and not to depreciate it in its year of disposal/sale.

(vi) Allocation of other expenditures by function is as follows:

Expense	**Production**	**Distribution**	**Admin**
Advertising	0%	100%	0%
Rent rates	70%	20%	10%
Salaries	60%	30%	10%

(vii) Included in revenue is €32,000 representing sale proceeds from two forklift trucks which cost €100,000 in total when they were purchased in 2009.

(viii) Tax of €16,000 is to be provided on profits.

(ix) On the 30/06/12 the company acquired an 80% control of Dinlin Ltd.

Buildings	€125,000
Inventory	€32,000
Receivables	€12,500
Payables	(€8,000)

All the assets and liabilities were stated at fair value at the acquisition date
The consideration is to be satisfied by issue of 70,000 ordinary shares in Meslin Ltd at a value of €2.00 per share. Nothing to date has been done to take account of the above transaction.

None of the other notes [(i) to (viii)] are related to this note (ix)

The requirements are set out on the next page

Question 2-continued-requirements
Required

(a) Prepare the Income Statement of Meslin Ltd for 30/06/12 in accordance with the relevant standards.
[16 marks]

(b) Prepare the note on Group Non Current Assets in accordance with IAS 16.
[7 marks]

(c) Compute the Goodwill arising on acquisition [2 marks]

(d) Prepare the Group Statement on Changes in Equity in accordance with the relevant standards.
[5 marks]

Total [30 marks]

Question 3

Set out below are the Income Statement, Movement in Reserves and the Statement of Financial Position [Balance Sheet] of Tryon Ltd- a share listed company- for its first two years

	30/07/12		**31/7/11**
Sales Volumes	112,000 U	_	100,000 U
	€		€
Revenues	159,600		150,000
Cost of Goods Sold	(127,680)		(112,500)
Gross Profit	31,920		37,500
Operating Expenses	(12,768)		(16,500)
Operating Profit	19,152		21,000
Finance charges	(2,500)		(3,500)
Profit before tax	16,652		17,500
Taxation	(2,082)		(2,187)
Profit for the year	14,570		15,313

Movement in reserves	**30/07/12**		**31/07/11**
	€		€
Retained profits at start of year	13,813		0
Profit for the year	14,570		15,313
Ordinary Dividends	(2,000)		(1,500)
Profits retained at end of year	**26,383**		**13,813**

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<u>Question 3-continued-Balance Sheet of Tyron Ltd as at</u>

Non Current Assets	€		€
Property plant equipment	112,000		48,000
Current Assets			
Inventory	12,243		9,247
Receivables	19,677		12,329
Bank			63,484
	-		
Total Assets	**143,920**		**133,059**
<u>Equity and Liabilities</u>			
Equity			
Ordinary Share Capital of €0.75 each	75,000		75,000
Retained Earnings	<u>26,383</u>		<u>13,813</u>
Total Equity	101,383		88,813
	-		-
Non Current Liabilities			
10% Debentures	25,000		35,000
Current Liabilities			
Payables	13,992		9,246
Bank	3,545		
Total Equity plus Liabilities	**143,920**		**133,059**

Market value of one share at B/S date €0.58 €0.82

<u>Required</u>
(a) Calculate the following ratios for each year:

(i) Gross Profit (ii) Current ratio (iii) Return on Capital employed (iv) Gearing
(v) Earnings Yield (vi) Receivable days (vii) Inventory days (viii) Net Profit Margin

In setting out the answers the following format is suggested

Name of Formula	**Formula**	**31/07/12**	**31/07/11**
Gross Profit	??	workings & answer	workings & answer

[16 marks]

(b) Write a report on the performance of the company **<u>[9 marks]</u>**

Total [25 marks]

Question 4 Multi-choice questions.
Set out below are ten items. Each correct answer is awarded two marks. An answer sheet is provided at the back. Complete and return the answer with your answer book.

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

Item 2

A company has previously depreciated its vehicles on a reducing balance basis at 40% but it now proposes to use a straight line method.
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

Item 3

Which one of the following are deferred tax assets
(a) Non deductible permanent differences
(b) Non deductible temporary differences
(c) Deductible Permanent differences
(d) Deductible temporary differences

Question 4 multi-choice continued

Item 4
Solo Ltd has Profits of €30,000 for year end 31/07/12 Its Ordinary Share Capital as at 31/07/11 consisted of 100,000 €1.0 shares. On the 31/01/12 it made a "one for four" rights issue at €1.25 when the market value of the share at the Rights Issue date was €2.00 . In the financial statements for the year ended 31/07/12 the Earning per Share to nearest two decimal places is :

	31/07/12
(a)	€0.30
(b)	€0.21
(c)	€0.18
(d)	none of the above

Item 5
Tilos Ltd acquired a machine on 01/04/11 which had a cash price of €25,000 but was in fact acquired under a finance lease under the following terms. An initial deposit of €10,000 and three subsequent year end 31st March payments of €6,000.
Using the sum of the digits method, the interest charged to the Income statement and the total amount owing on the Balance Sheet/Statement of Financial Position at 31/03/12 was:

	I/S 31/03/12	**Owing as 31/03/12**
(a)	€3,000	€12,000
(b)	€1,500	€10,500
(c)	€6,000	€19,000
(d)	€4,500	€13,500

<u>Question 4-</u>multi-choice
<u>Item 6</u>
A company purchased a machine for €200,000 01/01/11 with an estimated useful life of 5 years. It had an estimated residual value [disposal value] of €20,000. A grant of 25% of cost was received from a government industrial agency. The total net amount charged to the Income Statement for year ended 31/12/11 and the amounts appearing on the Balance Sheet at that date would be

		Balance Sheet	
		Deferred income	Asset
	Income Statement	Grants	Machine
	Debit	Credit	Debit
(a)	€26,000	€40,000	€164,000
(b)	€36,000	€50,000	€164,00
(c)	€26,000	€50,000	€174,000
(d)	€36,000	€20,000	€140,000

<u>Item 7</u>
Shamrocks Ltd bought goods on the 01/07/11 from the USA for $400,000 on credit. It made a part payment of $200,000 with €153,846 [rounded to nearest euro] on the 31/12/11. At Balance Sheet date of 31/07/12 it still owed the USA company the remaining $200,000
The following were the exchange rates of the dollar to the euro

Date			
01/07/11	$1.25	to	€1.00
31/12/11	$1.30	to	€1.00
31/12/11	$1.40	to	€1.00
Average for year	$1.35	to	€1.00

The amount shown[to the nearest euro] on the B/S in respect of creditors and the exchange gain or (loss) at the 31/12/04 was

	Creditors	Exchange Gain	Exchange (Loss)
(a)	€142,857	€23,297	
(b)	€148,148		(€23,297)
(c)	€160,000	€0	€0
(d)	none of the above		

Question 4 multi-choice

Item 8

The following stock movements were recorded by Wholesalers Ltd in its first month of trading

Date	Units in	Cost	Units Out
01/06/12	500	€4,000	
06/06/12	300	€2,700	
18/06/12			400
21/06/12	600	€4,200	
30/06/12			700

In accordance with IAS 2 the value of the closing inventory at the 30/06/12 should normally be:

(a) €2,100
(b) €2,400
(c) €2,700
(d) €4,200

Item 9

Events after the Balance Sheet date are those events both favourable and unfavourable that occur

(a) Between the Balance Sheet date and the date that the financial statements are ready for audit.

(b) Between the Balance Sheet date and date of the auditors Signature.

(c) Between the Balance Sheet date and date of the AGM of shareholders.

(d) Between the Balance Sheet date and the date the financial statements are authorised for issue.

Multi-choice
Item 10

During the course of preparation of the financial statements for year end 30/06/12 it was discovered that the opening inventory , ie. last year's closing inventory, had erroneously included distribution expenses of €18,000
The accountant needs to :

(a) Do nothing because it has cancelling effect over the two years i.e. the combined total of the profits for 30/06/11 and 30/06/12 would be unchanged.

(b) Restate the comparative profits for year end 30/06/11, the balance brought forward, and the opening inventory for current year

(c) Restate the opening inventory for the current year and the retained profits brought forward

(d) Make no adjustments but disclose, by way of note, the amount involved as it has cancelling affect on the combined total profits for 30/06/11 and 30/06/12

END OF MULTI-CHOICE QUESTION

END OF EXAMINATION PAPER
AN ANSWER SHEET FOR QUESTION 4 MULTI-CHOICE IS ATTACHED NEXT

RETURN THE COMPLETED ANSWER SHEET WITH YOUR ANSWER SCRIPT

Q4 Multiple choice – Module 8 Financial Accounting August 2012

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 on in respect of each MCQ. If more than one letter is **"X"**ed in respect of an item,or the **X** is placed "between" the letters, then no marks will be awarded for the answer to that particular item.

example

Item					comment
??	A	B	C	D	correct X
??	A	B	C	D	incorrect X

'---

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

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