Institute of Incorporated Public Accountants

Professional 2 –

Module 8:

Financial Accounting

Tuesday 27th August 2013

10am – 1pm

Time Allowed: Three hours

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

Total	**100 marks**

Question 1

Byrne's Wholesalers is a family run newly established distribution business that buys in bulk from the factories and sells to the retail shops around the country. Set out below are the financial statements for 30th June 2013 and 20124 for the first two years of its operations.

Statements of Comprehensive Income for the years' ended 30th June

	30/06/13	30/06/12
Revenue	€ 900,000	€ 1,000,000
Cost of sales	(€ 540,000)	(€ 600,000)
Gross Profit	€ 360,000	€ 400,000
Operating Expenses	(€ 270,000)	(€ 200,000)
	`	`
Profit before tax	€ 90,000	€ 200,000
Loan interest	(€ 5,000)	(€ 6,000)
Profit before tax	€ 85,000	€ 194,000
Taxation	(€ 10,625)	(€ 24,250)
Profit for the year	**€ 74,375**	**€ 169,750**

Statement of Changes in Equity for two years ended 30/06/12 and 30/06/13

	Share Capital	Retained Profits	Total
Balances at 30/06/11	**€ 800,000**	€ nil	**€ 800,000**
Profit for year ended 30/06/12		€ 169,750	€ 169,750
Dividend paid for year ended 3 0/06/12		(€ 80,000)	(€ 80,000)
Balances at 30/06/12	**€ 800,000**	**€ 89,750**	**€ 889,750**
Share Issue in year ended 30/06/13	€ 50,000		€ 50,000
Profit for year ended 30/06/13		€ 74,375	€ 74,375
Dividends paid in year ended 30/06/13		(€ 85,000)	(€ 85,000)
Balances at 30/06/13	**€ 850,000**	**€ 79,125**	**€ 929,125**

Question 1-continued

Balance Sheets of Byrne’s Wholesalers as at

	30/06/13	30/06/12
Non Current Assets		
Warehouses at cost	€ 1,500,000	€ 1,200,000
Accumulated depreciation 30th June	(€ 60,000)	(€ 24,000)
Net Book value at year end	€ 1,440,000	€ 1,176,000
Current Assets		
Inventory	€ 44,000	€ 32,000
Receivables	€ 86,000	€ 80,000
Cash	€ 800	€ 900
Total assets	**€ 1,570,800**	**€ 1,288,900**
Ordinary Share Capital	€ 850,000	€ 800,000
Retained Profit	€ 79,125	€ 89,750
Total equity	**€ 929,125**	**€ 889,750**
Non Current Liabilities		
5% Debentures	€ 100,000	€ 120,000
Current Liabilities		
Payables	€ 45,000	€ 50,000
Taxation owing	€ 2,700	€ 6,000
Bank overdrawn	€ 493,975	€ 223,150
Total equity & Liabilities	**€ 1,570,800**	**€ 1,288,900**

Required

(a) Starting with “Profit before tax” set out the cash flow statement in accordance with IAS 7 for Byrne’s Wholesales for the year ended 30/06/13. **(17 marks)**

(b) Set out the Statement of Cash and Cash Equivalents **(3 marks)**

Total (20 marks)

Question 2
John and Mary are in partnership in "J & M Stationery Suppliers"

Set out below is a draft Balance Sheet of the partnership of John & Mary as at 30/04/13 before taking account of the matters set out in the notes hereunder.

	Cost	Accumulated.	Net Book
Non Current Assets		**Depreciation**	**Value**
Shop	€ 100,000	(€ 11,400)	€ 88,600
Fixtures and Fittings	€ 40,000	(€ 3,504)	€ 36,496
Delivery van	€ 60,000	(€ 8,000)	€ 52,000
	€ 200,000	(€ 22,904)	€ 177,096
Current Assets			
Inventory		€ 3,500	
Receivables		€ 5,000	
Cash at bank		€ 16,100	
less			
Payables		(€ 2,996)	
Net Current Liabilities			€ 21,604
Total Net Assets			**€ 198,700**
Capital Accounts			
John	01/05/11	€ 80,000	
Mary	01/05/11	€ 40,000	
Current Accounts			
John	01/05/11	(€ 5,300)	
Mary	01/05/11	€ 4,000	
			(€ 1,300)
			€ 118,700
Profit for the year	30/04/12		€ 80,000
			€ 198,700

The partnership agreements provides for the following

(i) Mary is entitled to a salary €25,000
(ii) Both Mary and John are to receive interest on capital of 10%
(iii) Profit sharing is 70% for John and 30% for Mary

With effect from the 01/05/13 the partners decided to convert the business into a limited company, J&M Stationery Ltd.

Question 2- continued

All the assets and liabilities of the partnership, with the exception of the Van and the bank account, will be taken over by the new company.
The value of the assets taken over by the new company are as per their book values with the exception of the shops which are to be valued at €110,000

The van being taken over by John is at an agreed value of €54,000.

The new company will issue 90,000 shares at €1.70 per share with a nominal value of €0.80 per share. Each partner is to receive 50% of the shares in the new company.

Any deficit or debit balance arising on a partner’s combined capital and current accounts at dissolution of the partnership is to be rectified by that partner paying that amount into the partnership bank account.
Any surplus or credit balance arising on a partner’s combined capital and current account on dissolution is to be paid out of the partnership bank account to that partner.

Required.

(a) Set out the Appropriation of Profit account for year ended 30/04/13 **(6 marks)**

(b) Set out the realisation and other relevant accounts in relation to the dissolution of the partnership. **(6 marks)**

(c). Set out the combined Capital and Current accounts for the year ended 30/04/13. **(7 marks)**

(d) Show the Balance Sheet of J&M Ltd as at 01/05/13 **(6 marks)**

(25 marks)

Question 3

Set out below is Office Furnishing Ltd, a company that assemblies and installs custom designed office furniture to companies around the country.

Trial Balance of Office Furniture Ltd as at 31/03/13

		Debit	Credit
Buildings		€ 800,000	
Accumulated. Depreciation- Buildings 31/03/12			€ 160,000
5% Debentures			€ 150,000
Lorries		€ 900,000	
Accumulated. Depreciation- Lorries 31/03/12			€ 439,200
Equipment		€ 120,000	
Accumulated Deprecation Equipment			€ nil
Bank overdrawn		€ -	€ 22,550
Wages		€ 280,000	
Inventory		€ 260,000	
Trade receivables		€ 25,000	
Provision for doubtful debts 31/03/12			€ 1,000
Payables			€ 36,000
Ordinary share capital [Nominal Value. €0.50 each]			€ 750,000
Share Premium			€ 250,000
Revenue/ Sales			€ 1,600,000
Purchases		€ 700,000	
Advertising		€ 60,000	
Taxation re accounts year end 31/03/12			€ 1,500
Distribution -deliveries		€ 200,000	
Administration expense		€ 240,000	
Debenture interest paid		€ 3,750	
Retained Profits			€ 260,000
VAT			€ 1,500
Investment in Widgets Ltd		€ 80,000	
Dividends paid		€ 3,000	`
Totals		**€ 3,671,750**	**€ 3,671,750**

Note 1

The Inventory at 31/03/13 is €286,000.

Question 3-continued

There was an amount of furnishing inventory for €60,000 included in the €286,000 which had been in stores for over 7 months. The Marketing director estimates it could be sold to particular customer for €62,000 if modification costs of €3,500 were undertaken.

No adjustments have been made in respect of the ageing inventory.

Note 2

Wages of €280,000 included wages €80,000 paid to some employees to install and make ready the equipment purchased by the company. The equipment came into use on the 30/09/12

Relevant wage costs are to be allocated under the following functional headings

	Production	Distribution	Administration
Wages	50%	30%	20%

Note 3- Depreciation rates and the allocation of their costs under the following functional headings are as follows;

	Production	**Distribution**	**Admin.**
Buildings 2% Straight line	60%	20%	20%
Lorries 20% Reducing balance		100%	
Equipment 10% Straight line	100%		

It is company policy to depreciate pro-rata in the year of acquisition of an asset and in the year of its disposal

Depreciation for the current year has not yet been provided for.

Question 3-continued

Note 4

VAT in respect of 50% of the Revenue/Sales per Trial Balance was charged at the incorrect rate of 12.50% instead of 21%. However the incorrect amount was correctly posted to the relevant accounts.
There were no VAT errors determined in relation to Purchases and other inputs for same period.

However on further investigation it was found that the VAT liability on Revenue/Sales in the previous year to the 31/03/12 was under calculated by €15,000 but there were no errors in relation to the purchases and other inputs of that year.
No adjustments have been made in relation to the above matters.

Note 5

A customer J. Blarney who owed the company €5,000 at 31/03/13 went into liquidation on the 15/04/13 and will only be able to pay €0.60 in the euro.
The managing director explained that no adjustment was made because the liquidation happened after the Balance Sheet date.

A provision for doubtful debts of 6% is required to be made.

Note 6

On the 31st March 2013 the company bought a 40% share of Domestic Furnishing Ltd for a sum of €80,000. The equity of the company at that date was as follows;

Ordinary share Capital	€100,000
Retained Profits to the 31/03/12	€ 32,500
Profit for the year to the 31/03/13	€ 17,500

The assets and liabilities were fairly stated on that date.

Subsequently on the April 27th 2013 during a review of the operations of Domestic Furnishing Ltd by the board of Office Furnishing Ltd information came to light indicating that goodwill on acquisition date of the 31/03/13 had been impaired by15%

Question 3-continued

Note 7

The taxation per the Trial Balance of €1,500 represents an over estimation of the liability for tax on profits for the year ended 31/03/12. A provision of €8,000 is to be made for tax on profits for the year ended 31/03/13

Note 8

The board of Office Furnishings Ltd proposed a payment of an ordinary dividend of €0.01 per share

Required

In relation to Office Furnishing Ltd

(a) Prepare the Statement of Comprehensive Income for the year ended 31/03/13 in accordance with the relevant accounting standards.
(15 marks)

(b) Prepare the Statement of Changes in Equity for year ended 31/03/13 in accordance with the relevant accounting standards.
(4 marks)

(c) Prepare the Statement of Financial Position/ Balance Sheet as at 31/03/13 in accordance with the relevant accounting standards.
(16 marks)

Total (35 marks)

<u>Question 4-Multi-choice- instructions</u>

Set out on this page and the following pages are ten items numbered Item 1 to item 10.

Each item has four possible answers (a), (b), (c) or (d).
There is only one correct answer.

Students should detach the completed answer sheet provided at the back of this exam paper and return it with their answer scripts.
Students should mark x over the letter corresponding to their choice of answer in respect each of the items listed

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

<u>Item 1</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

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

<u>Item 2</u>

The following stock movements were recorded Widgets

Date	Units	Cost	Units Out
01/06/13	600	€2,400	
05/06/13	800	€4,000	
08/06/13			900
17/03/13	500	€3,500	
30/06/13			700

In accordance with IAS 2 the closing value of inventory should be

(a) €2,100
(b) €1,800
(c) €3,500
(d) €2,400

<u>Item 3</u>

According to IAS 10 a “Events after the reporting period “in relation to a set of financial statements occurs

(a) Between the date when the accounts are signed by auditors and AGM

(b) Between the date the accounts approved/ authorised and the date of the AGM

(c) Between the Balance sheet date and the date the accounts were authorised between the Balance Sheet date and the date of the AGM

(d) Between the Balance Sheet date and the date of the AGM

Question 4 multi-choice-continued

Item 4

A company with year ended 31/07/13 purchase a machine for €240,000 on the 01/08/12 with an estimated disposal value of €20,000 and useful life of 5 years. A grant of 40% of cost was received from a government industrial agency.
The total net amount charged to the income statement and the amounts that would appear on the Balance Sheet using the deferred income approach for grants would be as follows:

		Balance Sheet	
	Income Statement	Grants **Noncurrent Liability**	Machine **Non Current Asset**
(a)	€48,000	€96,000	€192,000
(b)	€19,200	€76,800	€240,000
(c)	€24,800	€76,800	€196,000
(d)	€48,000	€96,000	€192,000

Item 5

During the course of preparation of the financial statements for year end 31/03/13 it was discovered that the opening inventory at 01/04/12 included €50,000 marketing costs. The current year income statement to 31/03/13 has already adjusted the opening inventory in respect of the €50,000 marketing costs. The accountant needs to:

a) Restate the comparative Income statement for year ended 31/03/12 and the balance brought forward at 01/04/12 in the statement of changes in equity

b) Do nothing more since a retrospective adjustment is not required per IAS 8

c) Do nothing since the adjustment for the current year has already been made

d) There is a cancelling effect over the two years when profits for 31/03/12 and 31/03/13 are combined and thus no further adjustments required.

Question 4-multichoice -continued

Item 6
New Things Ltd incurred the following costs in relation to a new product

(1) Costs of introducing new product or service
(2) Cost of testing whether the asset is functioning properly
(3) Administration and general overheads

According to IAS 38 the following costs would NOT be included in development costs in relation to the above

(a) (1) only
(b) (2) only
(c) (1) and (3)
(d) (1) and (2)

Item 7
On the 01/07/12 Buyers Ltd bought goods on credit from the UK for £225,000. On the 31/12/12 it paid off £100,000 of the amount owing at a cost of €125,000. At the Balance Sheet date, 30/06/13, the company still owed the remaining £100,000

The following were the exchange rates

01/07/12	£0.75 to €1.00
31/12/12	£0.80 to €1.00
30/06/13	£0.78 to €1.00

By the end of the year the company will have

(a) made a realised gain of €14,744

(b) made a realised gain of €8,333 and translation gain of € 6,411

(c) made a translation gain of €14,744

(d) made a realised gain of €6,411 and a translation gain of €8,333

Question 4-multichoice -continued

Item 8
A company bought goods for €240,000 inclusive of 20% VAT and had sales of €186,000 inclusive of VAT. The mark up profit on the cost was 25%.
The Profit and the closing inventory after the above transactions were;

	Profit	**Closing Stock**
(a)	€34,000	€45,000
(b)	€31,000	€76,000
(c)	€34,000	€40,000
(d)	€31,000	no closing stock

Item 9
A company has previously depreciated its vehicles on a reducing balance basis at 35% but it now proposes to use a straight line method at 15% as fairer representation of the asset’s use.
This represents

(a) A change in recognition and a change in accounting policy
(b) A change in recognition but no change in accounting policy
(c) A change in estimation but no change in accounting policy
(d) A change in estimate and a change in accounting policy

Item 10
Both Revenue and Liability normally are listed as credit balances in the Trial Balance. However the difference between the two of them might best be stated as

(a) Revenue increases net assets whereas Liability will always decrease net assets

(b) Revenue will increase assets but leave net assets unchanged whereas a liability will always increase expenses but leave net assets unchanged

(c) Revenue will increase net assets whereas a liability can sometimes reduce net assets or leave them unchanged

(d) Revenue will increase sales but leave net assets unchanged whereas Liability will increase expenses and leave net assets unchanged

END OF MULTI-CHOICE QUESTION

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 2013

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