Professional 2 – Module 8

Financial Accounting SOLUTIONS

August 2013

Question 1(a) - solution Cash flow statement of Byrnes W/Sales y/e 30/06/13

Profit before taxation			€ 85,000
Add back			
Depreciation			€ 36,000
Interest expenses			€ 5,000
			€ 126,000
Increase/decrease in			
Inventory	€ 44,000	€ 32,000	
Receivables	€ 86,000	€ 80,000	
Payables	(€ 45,000)	(€ 50,000)	
Working capital	€ 85,000	€ 62,000	(€ 23,000)
Cash generated from operations			**€ 103,000**
Interest paid		(€ 5,000)	
Taxes paid		(€ 13,925)	
			(€ 18,925)
Net Cash from operating activities			**€ 84,075**
Cash flows from investing activities			
Warehouses purchased			(300,000)
Cash flows from financing activities			
Share Capital		€ 50,000	
Loan repayments		(€ 20,000)	
Dividends		(€ 85,000)	
			(€ 55,000)
Net decrease in cash & cash equivalents			**(€ 270,925)**

Answer (b)   Statement of cash and cash equivalents

	30/06/13	Net Change	30/06/12
Cash on hand	€ 800	(€ 100)	€ 900
Bank overdrawn	(€ 493,975)	(€ 270,825)	(€ 223,150)
Cash and cash equivalents	**(€ 493,175)**	**(€ 270,925)**	**(€ 222,250)**

Question 2
Answer (a)

		Debit	Credit
	Profit for year ended 30/04/13		80,000
	Mary salary	25,000	
	Interest on capital 10%		
	John	8,000	
	Mary	4,000	
	Share of Profit		
70%	John	30,100	
30%	Mary	12,900	‘
		80,000	**80,000**

Answer (b)

	Realisation Account	**Debit**	**Credit**
	Cash at bank		
	Payables		2,996
	Receivables	5,000	
	Shops	88,600	
	Equipment	36,496	
	Delivery vans	52,000	
	Inventory	3,500	
	Consideration		
	John		76,500
	Mary		76,500
	Motor vehicle		54,000
	Net profit on realization c/d	24,400	‘
		209,996	**209,996**
	Profit on realization b/d		24,400
70%	John	17,080	
30%	Mary	7,320	‘
		24,400	**24,400**

Question 2- solution continued
Answer (c)

		John	**Mary**	**Total**
Credit	Capital	80,000	40,000	120,000
Cr/Dr	Current a/c	(5,300)	4,000	(1,300)
Credit	Realised profit see above	17,080	7,320	24,400
Credit	Salary-appropriation		25,000	25,000
Credit	Interest-appropriation a/c	8,000	4,000	12,000
Credit	Appropriation profit	30,100	12,900	43,000
	Less			
Debit	Motor vehicle taken	(54,000)		
Debit	Shares taken	(76,500)	(76,500)	(153,000)
		(620)	**16,720**	**70,100**

Note T account formal equally acceptable.
Since John is in deficit/(debit) balance of (€620) then he must pay this amount into the cash account. Equally Mary who has a credit balance of 16,720 will be paid that amount so that the final balance on the partnership bank balance will be zero
The partnership is then effectively dissolved.

	Cash at Bank	
	Debit	**Credit**
Balance per Draft B/S	16,100	
John	620	
Mary	‘	16,720
Total	**16,720**	**16,720**

Question 2 answer (d)

Balance Sheet of J &M Ltd as at 01/05/13

Non Current Assets			
Shops			110,000
Equipment			36,496
Delivery vans	taken over by	John	‘ ________
			146,496
Goodwill [note 1]			1,000
Current Assets			
inventory	3,500		
Receivables	5,000		
Bank -[not taken over]			8,500
Total Assets			**155,996**
Equity			
Share Capital	72,000		
Share Premium	81,000		
			153,000
Total Equity			
Current Liabilities			
Payables			2,996
			‘ ________
Total Equity and Liabilities			**155,996**

Note 1

The value of the Net assets taken over includes the adjustment for the revaluation of the shops to €100,000

Thus total assets are NCA €146,496 +C.A.€8,500. less C.L of €2,996 equals €152,000

Consideration in shares valued at €153,000

Thus goodwill on acquisition is € 1,000

5

Question 3-solutions

(a) Office Furnishing Ltd Statement of Comprehensive Income for y/e 31/03/13

Revenue **W/N 1**	€ 1,600,000	(€ 68,000)	**€ 1,532,000**
Cost of sales **W/N 2**			(€ 795,100)
			‘
Gross Profit			**€ 736,900**
Distribution -deliveries **W/N 2**		€ 417,740	
Administration expense **W/N 2**		€ 283,200	
			(€ 700,940)
Operating profit			**€ 35,960**
Associate Company **W/N 7**			(€ 3,000)
Finance charges			
Debenture interest			(€ 7,500)
Profit before tax			€ 25,460
	over provision		
Taxation	(€ 1,500)	€ 8,000	(€ 6,500)
			‘
Profit for the year			€ 18,960
Other comprehensive income			€ nil
			‘
Total Comprehensive income for the year			**€ 18,960**

(b)Statement of Changes in Equity of Office Furnishing Ltd for year ended 31/03/13

	Share Capital	Share Premium	Retained Profits	Total
At 31/03/12	€ 750,000	€ 250,000	€ 260,000	€ 1,260,000
Prior year adjustment **VAT**			(€ 15,000)	(€ 15,000)
Restated 31/03/12	€ 750,000	€ 250,000	€ 245,000	€ 1,245,000
Profit for the year			€ 18,960	€ 18,960
Dividends paid			(€ 3,000)	(€ 3,000)
at 31/03/12	**€ 750,000**	**€ 250,000**	**€ 260,960**	**€ 1,260,960**

It has been proposed by the board to pay a dividend of €0.01 per Ordinary share amounting in total to €15,000 subject to authorisation at the shareholders AGM.

6

Question 3(c)
Statement of Financial Position/Balance Sheet of Office Furnishing Ltd as at 31/03/13

Non Current assets	**W/N 5**		€ 1,182,640
Investment in Widgets Ltd	**W/N 7**	€ 80,000	
	W/N 7	(€ 3,000)	
			€ 77,000
Current Assets			
Inventory	**W/N 3**	€ 284,500	
Trade receivables	**W/N 4**	€ 21,620	
			€ 306,120
Total Assets			**€ 1,565,760**
Equity			
Share Capital		€ 750,000	
Share Premium		€ 250,000	
Retained Profits **[SOCE**]		€ 260,960	‘
Total Equity			€ 1,260,960
Non Current Liabilities			
5% Debentures			€ 150,000
Current Liabilities			
Payables		€ 36,000	
VAT	**W/N 1**	€ 84,500	
Taxation		€ 8,000	
Debenture interest owing		€ 3,750	
Bank overdrawn		€ 22,550	
			€ 154,800
			‘
Equity plus Liabilities			**€ 1,565,760**

W/N 1 Under computation of VAT for year ended 31/03/13 and final liability

€1,600,000 x 50%x [21%-12.50%] equals **€68,000**
Debit Revenue/Sales Credit VAT

Prior Year adjustment for €15,000 is **Dr** “Opening Retained Profits” 31/03/12 Cr V.A.T
Thus closing VAT balance is per T/B €1,500+€68,000+€15,000 equals **B/S €84,500**

Question 3-continued-working notes
W/N 2 Analysis of costs classified by function

		Production	Distribution	Administration
Per Trial balance			€ 200,000	€ 240,000
Inventory per Trial Balance		€ 260,000		
Purchases		€ 700,000		
Inventory at year end		(€ 286,000)		
Write down of inventory	**W/N 3**	€ 1,500		
Advertising			€ 60,000	
Provision for doubtful debts	**W/N 4**		€ 380	
Bad debts	**W/N 4**		€ 2,000	
Depreciation				
Buildings	**W/N 5**	€ 9,600	€ 3,200	€ 3,200
Lorries	**W/N 5**	€ -	€ 92,160	€ -
Equipment	**W/N 5**	€ 10,000	€ -	€ -
5% Debentures				
Wages	**W/N 6**	€ 100,000	€ 60,000	€ 40,000
Total to Income statement		**€ 795,100**	**€ 417,740**	**€ 283,200**

W/N 3- Cost v NRV - valuation of closing inventory

IAS 2 Lower of cost €60,000and net realisable value €58,500 equals €1,500 w/off
NRV sales price is €62,000 less conversion expenses €3,500 =NRV €58,500
Inventory per Note to T/B €286,000 less €1,500 w/down equals €284,500

W/N 4 Bad debt €5,000 x [€1.00-€0.60] equals €2,000 and **PDD**

Receivables per T/B	€25,000	
Less Bad debts	(€ 2,000)	
Revised balance	€23,000	
Less 6% provision	(€ 1,380)	compare for T/B €1,000 =**€380 I/S**
Per Balance Sheet	**€21,620**	

Question 3 -continued W/N 5 Non current assets

Rates		2%	20%	10%	
Depreciation methods		St L	RB		
Non Current Assets		**Buildings**	**Lorries**	**Equipment**	**Total**
Cost or value 31/03/12		€ 800,000	€ 900,000		€ 1,700,000
Additions				€ 120,000	€ 120,000
Reclassification		‘	‘	€ 80,000	€ 80,000
Cost or value at 31/03/13		**€ 800,000**	**€ 900,000**	**€ 200,000**	**€ 1,900,000**
Accumulated depreciation		€ 160,000	€ 439,200	0	€ 599,200
Disposals					€ -
Income statement 31/03/13		€ 16,000	€ 92,160	€ 10,000	€ 118,160
Accum. Dep 31/03/13		**€ 176,000**	**€ 531,360**	**€ 10,000**	**€ 717,360**
Net Book value at 31/03/12		€ 640,000	€ 460,800	€ -	€ 1,100,800
Net Book value at31/03/12		€ 624,000	€ 368,640	€ 190,000	€ 1,182,640

Above is the “disclosure note” required in “note to financial statements” in published accounts

Not required by question included for revision purposes only

Buildings is €16,000 i.e. €800,000 x 2% straight line
Lorries is €92,160 i.e [€900,000 minus €439,200] x 20% reducing balance
Equipment is €10,000 i.e. [€120,000 + capitalised wages €80,000] x 10% x ½ year use

Allocations		Production	Distribution	Administration
Buildings	€16,000	x 60% =€9,600	x 20% =€3,200	x20% =€3,200
Lorries	€92,160		x100% =€92,160	
Equipment	€10,000	x100%=€10,000		

Wages W/N 6

Wage per T/B is €280,000 of which capitalised is €80,000 leaving €200,000 expenses allocated as follows;
Production €100,000 [50%] ; Distribution €60,000 [30%] ; Administration €40,000 [20%]

W/N 7 Associate Company

Since the 40% was acquired on the last day of Office Furnishing Ltd accounting year end there are no post acquisition profits to include in the income statement

Net assets at date of acquisition
€60,000 i.e. [€100,000 OSC plus Ret Profit €32,500+ c/year €17,500] =€150,000 x 40%

Goodwill is Consideration €80,000 less Fair value of assets €60,000 equals €20,000
Impairment of goodwill at date of acquisition is €20,000 x 15% equals €3,000
Note: Details of “in light of information” are not given and thus taken at face value.

Question 4 Multi-choice

Item 1 (a) a present obligation ………………

Item 2 (a) €2,100 ie. 300 units x last purchase price of €7 per unit

Item 3 (c) para 3 IAS 10 between B/S date and date authorised

Item 4 (c) Depreciation is €44,000 less €19,200 [grant of €96,000 x20%] =I/S€24,800
Machine is €240,000 less €44,000 €196,000 whilst Grant is €96,000-€19,200

Item 5 (a) restate comparative SCI and opening balance in SOCE.

Item 6 (b) (2) only para 28(c) IAS 38 whilst para 28(a) and (c) exclude other two

item 7 (b) made realised gain of €8,333 and translation gain of €6,411

Payable control account

	£UK		€		£UK		€
	`			b/d	£225,000	£0.75	€300,000
Bank	£100,000	£0.80	€125,000				
Rea.lGain			€ 8,333				
c/d	£125,000		€160,256				
Trans Gain'			€ 6,411				
	£225,000		€300,000		£225,000		€300,000
				b/d	£125,000		€160,250

Realised gain is €125,000 minus €133,333 i.e [£100,000 divided by £0.75]
Translation gain is €160,256 minus €166,667 i.e[£ 125,000 divided by £0.75]

Item 8 item (b) Profit of €31,000 and closing inventory of €76,000

€240,000 including VAT 20% thus ex VAT is €200,000 VAT is €40,000

Selling €186,000 inclusive of VAT thus ex VAT is €155,000 VAT is €31,000		
Mark up is 25/125 x €151,000`	€ 31,000	Profit
Cost of sales is	€ 124,000	
Thus closing inventory is	€76,000	

10

Question 4 multi-choice continued
Item 9 (c) A change in estimation but no change in accounting policy

Item 10 (c) Revenue will increase net assets whereas a liability can reduce net asset ie. an expense such as Light & Heat consumed on credit or unchanged such as an asset acquired on credit.

‘===