Financial Accounting
Module 8
June 2009

Instructions

Candidates must answer all four Questions.

Candidates should clearly indicate the number of the question and the part of that question that they 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 and return with your answer script

<u>Marking Scheme</u>

Question 1	25 marks
Question 2	30 marks
Question 3	20 marks
Question 4 Multi-choice question	25 marks

Total	<u>100 marks</u>

Question 1

Set out below is the Trial Balance as at 31/12/08 of Bert and Mary partnership who were joined by a new partner Enda at the end of that year.

Trial Balance as at 31/12/08

	Debit	**Credit**
	€	€
Capital Accounts 01/01/08		
Bert		350,000
Mary		200,000
Current Accounts 01/01/08		
Bert		3,500
Mary	1,000	
Drawings Bert	7,000	
Drawings Mary	8,000	
Profit for the year end was		100,000
Capital introduced at year end Enda		200,000
Freehold land at cost	350,000	
Building at net book value	300,000	
Machines at Net Book value	200,000	
Inventory 31/12/2008	35,000	
Receivables	25,000	
Payables		40,000
Bank Overdraft		32,500
	926,000	926,000

Notes

(i)Prior to entry of new partner	**Bert**	**Mary**
Profit sharing ratios	55%	45%
Salaries for the year	€18,000	€25,000
Interest on Capital	5%	5%
Interest on drawings were	€500	€700

At the close of business on the 31/12/08 they were joined by a new partner Enda

(ii)

Arrangements after entry of new partner	**Bert**	**Mary**	**Enda**
Profit sharing of partners from 01/01/09	50%	25%	25%
Revised annual salaries	€15,000	€18,000	€12,000
Interest on capital	5%	5%	5%

(iii)
Goodwill at the date of entry of the new partner is to be valued at €30,000 but it is not to be retained in the books.
Land and buildings were revalued as at 31/12/08 as follows:

Land	€410,000
Buildings	€290,000

There was no change in the value of the machinery.

Required

(a) Prepare the appropriation account showing each of the partners entitlements **[6 Marks]**

(b) Prepare the Capital accounts for each partner 01/01/09 **[5 Marks]**

(c) Prepare the Current Accounts for each partner 01/01/09 **[8 Marks]**

(d) Prepare the Balance Sheet as at 01/01/09 **[6 Marks]**

Total Marks 25

Question 2

Set out below is the Trial Balance of Machno Ltd as at 31/12/08

	Debit	Credit
	€	€
Buildings	700,000	
Plant equipment	400,000	
Vehicles	90,000	
Retained Profit		135,000
Ordinary Share capital €0.75		300,000
8% Redeemable Preference Shares		100,000
Share Premium		65,000
5% Debentures		40,000
Provision for depreciation		
Buildings Acc Dep		56,000
Machinery-Acc. Dep		200,000
Vehicles-Acc.Dep		32,400
Inventory	42,000	
Purchases	460,000	
Sales		900,000
Trade receivables	36,000	
Trade payables		32,000
Sales returns	2,800	
Purchase Returns		3,500
Settlement discount allowed	1,200	
Settlement discount received		4,000
Provision for doubtful debts		922
Bank	0	478
Ordinary dividends	4,000	
Preference dividend	8,000	
Rent rates	18,000	
Bad debts	5,000	
Sundry expenses	8,000	
VAT		3,200
Wages and salaries	85,000	
Motor expenses	12,500	
	1,872,500	1,872,500

Notes to the Trial Balance

(i) Inventory at the year end was €46,200

(ii) Included in wages is €10,000 paid to staff in constructing an extension to the building. Materials of €18,000 for the construction were included in the purchases amount in the trial balance.

(iii) Depreciation is to be provided on the non current assets and the computed expense is to be allocated as follows:

	Production	Distribution	Administration
Buildings 4% straight line	100%	0%	0%
Machinery 25% straight line	100%	0%	0%
Motor vehicles 20% Reducing balance 0%	100%	0%	

(iv) A customer owing €7,200 has been declared bankrupt and can only pay the company €0.20 in the euro.

(v) The provision for doubtful debts is to be maintained at 7%

(vi) It has been discovered that company debited VAT with €1,200 in respect of motor expense which are not reclaimable.

(vii) Included in rent and rates is an amount of €7,200 rent in respect of twelve months ended 31/03/09

(viii) Allocation of the expenditure headings listed below is as follows:

	Production	Distribution	Administration
Motor expenses	0%	100%	0%
Rent and Rates	60%	30%	10%
Wages & Salaries	70%	0%	30%
Sundry expenses	0%	0%	100%

(ix) A final Ordinary dividend of €0.125 per dividend was proposed on the 15/01/09

(x) A taxation provision of €25,000 is to be provided for.

Required

(a) Prepare the Income Statement of Machno Ltd for the year ended 31/12/08

[16 Marks]

(b) Prepare the disclosure note on Non Current Asset in accordance with IAS 16

[9 Marks]

(c) Prepare the Statement of Changes in Equity

[3 Marks]

(d) Explain briefly the purpose of the Statement of Changes in Equity

[2 Marks]

Total Marks 30

Question 3

Set out below are 8 items listing identified incorrect double entries.

Item 1
Sales on credit of €40,000 were posted correctly to sales but debited to receivables as €4,000

Item 2
Goods returned to supplier of €21,000 were debited to Sales Return but correctly posted to Creditors/Payables a/c

Item 3
Bad debts amounting to €17,000 were credited to bad debts expense but correctly posted to receivables.

Item 4
Repairs of €9,000 in respect of a machine were posted to the machine asset account and the bank credited. The depreciation of 10% straight line in respect of machinery had already been posted before the above amount was identified.

Item 5
Purchases totaling €61,000 were correctly posted to the purchases account for that amount but were posted to the creditors/payables account as €16,000

Item 6
A company received €120,000 in respect of the issue of 100,000 €0.80 Ordinary shares. The only entry made was debit bank and credit sales.

Item 7
Advertising amounting to €13,000 was omitted from accounts.

Item 8
Sales on credit amounting to €242,000 were posted VAT inclusive of 21% to Sales a/c and Receivables account.

Required

In respect of each item :

(i) State whether the error would have resulted in a T/B suspense difference.
(ii) Set out the correcting journal.

[20 Marks]

See example of layout on the next page

Example

A company purchased and paid by cheque for a second hand van for €12,000. The accountant debited "Van repairs" and credited the bank a/c

(i) No T/B difference arises

		Dr	Cr
(ii)	Van repairs		€12,000
	Van asset	€12,000	

Same example as above except that the Van repairs were debited with €21,000 and bank credited with €12,000

(i) There is a " Suspense "Cr" difference of €9,000

(ii)	Suspense	€9,000	
	Van repairs		€ 9,000
	Van repairs		€12,000
	Van	€12,000	

Candidates may however use their own particular format provided it addresses all the requirements of the question.

Question 4

Multi-choice
Set out below are ten mult-choice questions [number MCQ(i) to MCQ(x)] with four possible answers viz (a),(b),(c), (d). On the answer script provided at the back of the exam paper candidates should "circle" the answer of their choice in respect to each question. Note if more than one answer is "circled" for a particular question then no marks will be awarded. Each correct answer will be awarded 2.5 marks.
NB Please ensure that your candidate number is entered on the multi-choice answer at the back of this exam.

(i) When preparing its accounts for year end 31/10/08 Serico Limited suffered a major fire on the 09/12/07 which resulted in destruction of its warehouse to the value of €25,000
In its accounts to the year end 31/10/08 the best approach for the company would be to

(a) Recognise the amount in its current year income statement.
(b) Do nothing at all since it happened after the year end.
(c) Leave the matter till next years accounts are being prepared.
(d) Include a note in the current years accounts if it is considered material to the user of the accounts.

(ii) A liability might best be described as:

(a) Past obligation arising from current events
(b) Present obligation arising from future events
(c) Past obligation arising from future events
(d) Present obligation arising from past events

(iii)
Philip , a customer of Hi Tech Ltd whose year end was 31/03/09, went into liquidation on 30/04/09 with no hope of recovery. S/he owed €90,000 of which €45,000was due on 31/03/09. At the meeting of 01/05/09 to review the Financial Statements prior to their approval the board decided to

(a) Make a note stating that €90,000 will be written off to the income statement to 31/03/10 for a bad debt incurred on the 30/04/09.
(b) Make a note in the accounts that a debtor had gone into liquidation.
(c) Write off €90,000 in the Income Statement for year 31/03/09.
(d) Write of €45,000 in the Income statement for year 31/03/09.

(iv)
During the course of preparation of the financial statements for year end 30/04/09 it was discovered that the opening stock , ie. last year's closing stock for 30/04/08 had erroneously included non production 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 30/04/08 and 30/04/09 would be unchanged on the Statement of Financial Position[B/S].
(b) Restate the comparative profits for year end 30/04/08 and the balance brought forward at 01/05/07.
(c) Restate the comparative profits for year end 30/04/08 and the balance brought forward at 01/05/08.
(d) Adjust only the current year's Income statement to 30/04/09.

(v)
O Reillys Ltd [accounts year end 31/12/08] acquired a premises for €220,000 on 01/01/2004. Its policy is to depreciate at the rate of 2.0%. On January 1st 2008 it had the buildings professionally valued at €300,000 and has decided to reflect the change in its accounts for 31/12/08.

The charge for depreciation in the P&L for year ended 31/12/08 and the amounts to be shown for Premises and Revaluation on the Balance Sheet as at that date [to the nearest euro if relevant] were :

	P&L	Premises	Revaluation Reserve
(a)	€4,400	€220,000	€80,000
(b)	€6,522	€300,000	€174,000
(c)	€4,400	€295,600	€84,400
(d)	€6,522	€293,478	€97,600

(vi)
Hisco is preparing its accounts for the year ended 31/12/08. The following information relates to its tangible non current [ie. Fixed] assets:

	Buildings	Machine
Carrying Value	€162,000	€70,000
Value in Use	€170,000	€62,000
Net Realisable value	€43,000	€42,000

The amounts at which the above as assets should be stated are :

	Premises	**Machinery**
(a)	€162,000	€62,000
(b)	€170,000	€70,000
(c)	€43,000	€42,000
(d)	€162,000	€70,000

(vii)

Techno Ltd incurred the following costs during its accounting year end 31/12/08

(1) Staff training costs
(2) Legal and administrative costs in connection with a patent
(3) Cost in construction and operation of pilot plants

According IAS 13 the following costs from amongst the above would NOT normally be classified as Research & Development

(a) (1) & (2)
(b) (1) & (2) & (3)
(c) (2) & (3)
(d) (1) & (3)

(viii)
Eco Friendship Ltd had the following Ordinary share capital and Profits available for distribution

	31/12/08	**31/12/07**
Ordinary Share Capital of €1 each	€250,000	€200,000
Profit available to Ordinary shareholders	€300,000	€220,000

On the 30th June 2008 the company made a bonus issue of 1 share for every 4 shares held to the existing shareholders. In its accounts for the year ended 31/12/08 the Earnings per Share [EPS] for 31/12/08 and the comparative amount for 31/12/07[to nearest 2 decimal places] to be shown are

	EPS 31/12/08	EPS 31/12/07
(a)	€1.20	€1.10
(b)	€1.20	€0.88
(c)	€1.33	€1.10
(d)	€1.33	€0.88

(ix)

The Profit after interest but before tax of MCX Ltd for year ended 31/12/08 is €250,000 after charging:

Interest on Loans	€10,000
Depreciation	€48,000
Auditors Fees	€19,000
Directors Emoluments	€17,000

Details of the working capital balances on its Statements of Financial Position for 31/12/08 and 31/12/07 were as follows

	31/12/08	31/12/07
Stocks/Inventory	€45,000	€41,000
Debtors/ Receivables	€22,000	€18,000
Creditors	€37,000	€34,000

In accordance with IAS 1 the operating cash flow is

(a) €303,000
(b) €260,000
(c) €308,000
(d) €306,000

(x)
The directors are discussing the possibility of redundancies. One estimate is for a possible redundancy cost of €90,000 and another €180,000. Because of the uncertainty they have not yet notified the employees.

The directors should

(i) Provide for €180,000 as this is the most prudent approach that takes account of the worst case scenario.
(ii) Provide for €135,000 as this is the average of the two possible outcomes and thus the most likely.
(iii) Provide nothing at all as they are not irrevocably committed to making the redundancies.
(iv) Provide for €90,000 as this takes account of prudence whilst not overstating the amount.

Question 4 Multiple choice

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 __________