Financial Accounting
Module 8
Tuesday 22nd June 2010
10am – 1pm

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, detach and return with your answer script

Marking Scheme

Question 1-Partnership	25 marks
Question 2-Company Accounts	30 marks
Question 3-Journal Entries	25 marks
Question 4 Multi-choice question	20 marks

Total	100 marks

Question 1

Set out below is the Trial Balance of Mary and Johanna as at the end of their current accounting year end 30/04/10

	Debits €	Credits €
Capital Accounts		
Mary		30,000
Johanna		20,000
Current Accounts		
Mary	2,500	
Johanna		3,000
Receivables	2,000	
Cash at bank	16,000	
Payables		6,500
Land and Buildings	43,600	
Fixture fittings	8,400	
Motor Vehicles	21,000	
Accumulated depreciation 30/04/10		
Fixture fittings		1,000
Motor Vehicles		2,500
Profit for year end 30/04/10		33,000
Stock at cost at 30/04/10	2,500	
	96,000	**96,000**

<u>Notes to the Trial Balance</u> ;

The partnership agreement is a follows

(a) Johanna is entitled to a salary of €12,000 per annum
(b) Each partner is entitled to 10% interest on capital
(c) Profit sharing ratios are in the proportion of 3 [Mary] is to 2 [Johanna]

The partners have decided to convert the partnership into a limited liability company with effect from the 01/05/10 to be called Services limited.
Services Limited is to take over all the assets and liabilities with the exception of the cash and motor vehicles. Motor vehicles is to be taken over by Mary at an agreed value of €16,800.

The purchase consideration is the issue of 65,000 Ordinary shares of €0.80 nominal value issued at par. The shares are to be allotted in proportion to their profit sharing ratios.

Requirements

(a) Show the appropriation account for the year ended 30/04/10

[6 Marks]

(b) Show the realisation account and cash account for the partnership

[8 Marks]

(c) Show the combined Current and Capital accounts of each partner

[6 Marks]

(d) Show the Balance Sheet of Services Limited as at 01/05/10

[5 Marks]

Total Marks 25

Question 2

Set out below is the Trial Balance of Merchants Limited as at 31/0510

		Debit	Credit
		€	**€**
Buildings		700,000	
Machines	Note 6	250,000	
Retained Profit			130,000
€0.80 Ordinary Share Capital			260,000
8% Redeemable Preference Shares 2016			40,000
Share Premium			52,000
10% Debentures			80,000
Accumulated depreciation as at	30/05/09		
Buildings	Note 7		84,000
Machines	Note 7		122,000
Inventory	Note 1	59,000	
Purchases		358,800	
Sales	Note 2		780,000
Trade receivables	Note 3	47,000	
Trade payables			29,490
Sales returns		7,800	
Purchase Returns			3,588
Settlement discount allowed		3,200	
Settlement discount received			5,100
Provision for doubtful debts	Note 4		1,880
Bank		46,209	
Ordinary dividends	Note 10	16,250	
Preference dividend		3,200	
Rent rates	Note 8	28,000	
Bad debts		5,000	
Sundry expenses	Note 5 & 8	12,500	
VAT			4,900
Wages and salaries	Note 8	56,000	
Totals		**1,592,958**	**1,592,958**

Notes to the Trial Balance

1) Inventory at year end was €65,000. Included in inventory was an item of stock costing €5,000 which due to obsolescence could only be sold for €6,100 if modification costs of €1,500 are undertaken.

2) For the first time the company has entered into a “Sale or return” basis with a customer who owns a small shop. The cost to Merchants Ltd of the goods sold to the shopkeeper was €10,000. The gross profit margins was 15%

3) A customer owing €15,600 to Merchants Ltd has gone into liquidation. It is estimated that Merchants will only recover €0.20 in the euro

4) A provision of 4% for doubtful debts is to be maintained

5) Sundry expenses. The revenue have disallowed €1,000 VAT on sundry expenses. No adjustment has been made

6) Included in sales are the proceeds of €18,000 in respect of the disposal of a machine which cost €28,000 and was acquired on the 01/06/07

7) The depreciation rates in respect of non current assets and the proportion allocated to the functional costs are as follows;

Non current Asset	**Rate**	**Method**	**Production**	**Distribution**	**Admin**
Buildings	2%	straight line	50%	20%	30%
Machines	20%	reducing balance	70%	20%	10%

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

8) Other expenses were apportioned amongst the functional costs as follows;

Expense		Per T/B	**Production**	**Distribution**	**Admin**
Rent rates	note(a)	28,000	70%	20%	10%
Wages and salaries		56,000		60%	40%
Sundry expenses		12,500			100%

(a) Rent &Rates includes an amount of €21,000 for the 15 months to 31/08/10

9) Taxation of €40,000 is to be provided on profits

10) A final ordinary dividend of €0.05 is proposed

Requirements :

(a) Prepare the income statement of Merchants Ltd for year ended 31/05/10 in accordance with IAS 1 and other relevant standards

[19 Marks]

(b) Prepare the Statement of Changes in Equity for same period

[3 Marks]

(c) Prepare the Note on Non Current Assets in accordance with IAS 16 for inclusion in the published accounts

[8 Marks]

Total Marks 30

Question 3

Set out below is the draft Balance Sheet of Namaland Ltd prepared by a trainee book-keeper

Non Current Assets	**€**	**€**
		Equipment
Cost		€90,000
Accum Depreciation		(24,390)
Net Book value		€65,610
Current Assets		
Inventory	7,133	
Sundry Asset	**13,200**	
Receivables	11,443	
Bank Cash	27,761	
		59,537
Total Assets		**125,147**
Equity		50,000
Movement in reserves		
Profit for year to 30/04/010	15,900	
Retained Profits to 01/05/09	11,000	
Dividends	(1,000)	
		25,900
Total equity		75,900
6% Debentures		35,000
		110,900
Current Liabilities		
Trade payables		14,247
Total Equity and Liabilities		**125,147**

During a review of the Balance Sheet the following matters came to light

(1) The sundry asset for €13,200 is in fact a " balancing debit difference" in the Trial Balance i.e.€322,039 Debits compared with €335,239 Credits

(2) Bad debts totalling €2,100 were correctly posted to the Receivables T account but were credited to Bad debts expense T account

(3) Purchases on credit totalling €12,000 were correctly posted to the Purchases T account but an incorrect amount of €21,000 was posted to the Creditors T account

(4) Sales [with VAT of 10% included in bill to customers] of €54,450 were correctly analysed and posted to the relevant Sales T account and the VAT T account. However following a VAT inspection the revenue commissioners have stated that such sales should have been charged VAT at 20% and insisted that the appropriate adjustments be made.

(5) Purchases returns of €4,000 were credited to Sales, whilst Sales returns of €7,000 were debited to purchases

(6) Equipment which is depreciated at the rate of 10% reducing balance was incorrectly depreciated at 10% straight line in the current year.There were no acquisitions or disposals of equipment during the year.

(7) Taxation on profits of €1,100 were omitted completely

(8) Inventory at the start of the year was found to have been overvalued by €5,000

(9) The 6% Debentures were mis-titled and should have been titled " 6% Redeemable Preference shares"

Required

(a) In relation to each of the above issues

- (i) State whether the error would have contributed to the Trial Balance balancing debit difference of €13,200
- (ii) Set out the correcting journal entries where these are necessary

(b) Show the amended Balance Sheet after the necessary adjustments

[25 Marks]

Suggested layout for requirement (a) . However candidates may use their own layout

Issue say 10

(i) This issue had/had not the affect of creating a balancing debit? credit difference of €?

		Debit	Credit
(ii)	ABC T a/c	€yyyy	
	XYZ T a/c		€yyy

Being the correction of ………………………..

Alternatively where relevant "No journal entry was required"

Question 4 - Multi-choice

The following information is to be used in answering items one to five

Summary income statements

	31/03/10	31/03/09
Sales/Revenue	€180,000	€125,000
Cost of sales	(€108,000)	(€68,750)
Gross Profit	€72,000	€56,250
Operating Profit	€39,600	€31,250
Finance Charges	(€2,500)	(€2,000)
Profit before tax	€37,100	€29,250
Taxation	(€4,638)	(€3,656)
Profit for year	**€32,463**	**€25,594**

Movement reserves

Profit brought forward	€28,594	€5,000
Profit for the year	€32,463	€25,594
Dividends	(€3,125)	(€2,000)
	€57,931	**€28,594**

Balance Sheets as at	**31/03/10**	**31/03/09**
Non Current Assets	€150,000	€120,000
Current Assets		
Inventory	€8,877	€7,534
Receivables	€17,260	€10,959
Cash	€19,192	€20,375
Total Assets	**€195,329**	**€158,868**
€.80 Ordinary Share Capital	€100,000	€80,000
Share Premium	€5,000	€25,000
Retained Profits	€57,931	€28,594
Total Equity	€162,931	€133,594
Non Current Liabilities		
10% Debenture	€25,000	€20,000
Current Liabilities		
Payables	€7,397	€5,274
Total Equity plus Liabilities	€195,329	€158,868
Market value per share	€3.25	€2.05

1.

The earnings per share [to two decimal places] for each of the two years is as follows;

	31/03/10	**31/03/09**
(a)	€0.32	€0.32
(b)	€0.23	€0.24
(c)	€0.20	€0.26
(d)	€0.32	€0.26

2.

The dividend cover [to two decimal places where relevant] is ‘

	31/03/10	**31/03/09**
(a)	10.39	12.80
(b)	0.03	0.02
(c)	12.67	15.63
(d)	11.87	14.63

3.

The return on Capital Employed [to two decimal places where relevant] is;

	31/03/10	**31/03/09**
(a)	17.27%	16.66%
(b)	22.77%	21.89%
(c)	19.74%	19.04%
(d)	21.07%	20.35%

4.

The number of days credit [to the nearest whole day where relevant] given to customers is

	31/03/10	**31/03/09**
(a)	32 days	35 days
(b)	25 days	15 days
(c)	35 days	32 days
(d)	15 days	25 days

5.

The Price earnings ratio [to the nearest to two decimal places where relevant] is

	31/03/10	**31/03/09**
(a)	13.83	8.68
(b)	15.85	8.00
(c)	10.00	8.00
(d)	none of the above	none of the above

6.

Mertox Limited whose accounting year end is the 31st December acquired a building on January 1st 2001 for €450,000 which it decided to write off on a straight line basis over 40 years. On the 31st December 2005 it had the building professionally valued at €600,000 and decided to incorporate the value into its accounts. In its financial statements for the year ended 31/12/05 the following amounts in respect of Income Statement and Balance Sheet amounts for the buildings would be:

		Balance Sheet	
	Income statement	**Premises**	**Revaluation**
(a)	€15,000	€600,000	€206,250
(b)	€11,250	€393,750	€600,000
(c)	€15,000	€393,750	€600,000
(d)	€11,250	€600,000	€206,250

7.

A liability might be best described as

(a) A present obligation arising from a past event
(b) A future obligation arising from a past event
(c) A present obligation arising from a current event
(d) A future obligation arising from a current event

8.

When preparing its accounts for the year end 31/03/10 Gecko limited suffered a the destruction of one of its warehouses by fire on the 25/04/10.
In preparing its accounts for the year ended 31/03/10 Gecko should

(a) Do nothing in this year's accounts since it relates to next year's accounts
(b) Adjust this years accounts for the cost, net of insurance- of the warehouse
(c) Prepare accounts for 13 months to the 30/04/10 to include the incident
(d) Include a note in current year's accounts if it is material to users of accounts

9.

Harkins Ltd has the following values in relation to its machine at 28/02/10

Value in use of	256,000
Net Realisable value of	100,000
Carrying value of	200,000
Alternative use net of modification costs	180,000

The amount to be included on its Balance Sheet as at 28/02/10 is

	28/02/10
(a)	€256,000
(b)	€100,000
(c)	€180,000
(d)	€200,000

10.

Manufacturing Limited whose accounts year end is 30/04/10 bought a machine on the 01/05/09 from the USA for $150,000 . It agreed to pay in two instalments. The first was due and actually paid on the 31/12/09 and the second was due on the 30/06/09. The machine has useful live of ten years with no residual value and straight line method of depreciation. The exchange rates between the euro and the $dollar were as follows;

01/05/09	$1.25	to	€1
31/12/09	$1.30	to	€1
30/04/10	$1.15	to	€1
30/06/10	$1.27	to	€1

The amounts that will appear on the Balance Sheet as at 30/04/10 are;

	Asset	**Creditor**
(a)	€120,000	€57,692
(b)	€120,000	€62,308
(c)	€108,000	€65,217
(d)	€108,000	€57,692

. **Q4** Multiple choice – Financial Accounting November 2009

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 a 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 with your answer book