



Financial Accounting Module 8 June 2010

Suggested Solutions

Question 1

**(a) Profit & Loss appropriation account
30/04/10**

	€	€
		33,000
Salary Johanna	12,000	
Interest on capital		
10% Mary	3,000	
10% Johanna	2,000	
Share of Profit		
60% Mary	9,600	
40% Johanna	6,400	
	33,000	33,000

(b)

**Mary and Johanna
Realisation account**

	€	€
Creditors		6,500
Debtors	2,000	
Land and Buildings	43,600	
Fixture fittings	7,400	
Motor Vehicles	18,500	
Stock at cost at	2,500	
Consideration		
Mary		31,200
Johanna		20,800
Motor vehicle		16,800
Profit to appropriation account	1,300	
	75,300	75,300

	Profit to appropriation account		1,300
60%	Mary	780	
40%	Johanna	520	
		1,300	1,300

Cash account

Balance b/d	16,000	
Mary	7,120	
Johanna		23,120
	23,120	23,120

(c)

		Mary	Johanna
		€	€
Credit	Capital	30,000	20,000
Cr/Dr	Current a/c	(2,500)	3,000
Credit	Realised profit	780	520
Credit	Salary		12,000
Credit	Interest	3,000	2,000
Credit	Profit	9,600	6,400
	Less		
Debit	Motor vehicle taken	(16,800)	
Debit	Shares taken as consideration	(31,200)	(20,800)
	Cash to be received by /(paid by)	(7,120)	23,120

Alternatively above answer could have been presented in T account format

	Mary	Johanna	Mary	Johanna
	€	€	€	€
			Capital b/d	30,000
				20,000
Current a/c b/d	2,500		Current a/c	3,000
			Realisation a/c	780
				520
			Salary	12,000
			Interest	3,000
				2,000
Motor vehicle	16,800		Profit	9,600
				6,400
Shares	31,200	20,800		
Balance c/d		<u>23,120</u>	bal c/d	<u>7,120</u>
Total	<u>50,500</u>	<u>43,920</u>		<u>50,500</u>
				<u>43,920</u>
b/d	720			
Bank [pays out]		23,120	bank[receives]	720
				23,120

(d)

New Company Limited

Non Current Assets

Land and Buildings			43,600
Fixture fittings			7,400
Motor Vehicles	none taken by	Johanna	<u>0</u>
			51,000
Goodwill			3,000

Current Assets

Stock at cost at	2,500	
Debtors	2,000	
Bank/Cash		

Current Liabilities

Creditors	(6,500)	
		(2,000)
		<u>52,000</u>
Share Capital		<u>52,000</u>

Goodwill is the difference between the fair value of the assets acquired and the consideration/shares exchanged

Question 2

(a)

Merchants Ltd

Income statement of for year /ended	References	30/05/10	Published
Revenue	W/N 5		€742,435
Cost of sales	W/N 1		(378,683)
Gross Profit			<u>363,752</u>
Other operating income-discounts	per T/B		5,100
Selling and distribution	W/N 1	(45,563)	
Administration expense	W/N 1	(64,392)	
			<u>(109,955)</u>
Operating profit			258,897
Profit on disposal of asset	W/N 4		80
<u>Finance Charges</u>			
Debenture interest		(8,000)	
Redeemable Pref dividend		<u>(3,200)</u>	
			<u>(11,200)</u>
Profit before tax			247,777
Income tax expense	note 9		<u>(40,000)</u>
Profit for the year			<u>207,777</u>

(b)

	Ordinary Share Capital €	Share Premium €	Retained Earnings €	Total €
as at 01/06/09	260,000	52,000	130,000	442,000
Profit			207,777	207,777
<u>Dividends</u>				
Ordinary paid [per T/B]			(16,250)	(16,250)

260,000	52,000	321,527	633,527
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Merchants Limited have proposed [note 10] to pay an ordinary dividend per share of €0.05 amount to €16,250

IAS 10- Post Balance Sheet events-A dividend not declared by the accounting year end is not recognized in the financial statement. Instead it is included by way of note

References to "W/N" refers to working notes attached to this solution.

References to "Notes" refer to notes in the original question.

References to T/B refer to the Trial Balance.

(c) Current Assets note.

Two approaches

Approach 1 more traditional layout

	Buildings €	Machines €	Total €	
Note 6 & W/N 4	Cost/ value as at 01/06/09	700,000	250,000	950,000
	Disposal at cost		(28,000)	(28,000)
	Cost/value as at 31/05/10	700,000	222,000	922,000
	Depreciation			
	Accumulated to 01/06/09	84,000	122,000	206,000
Note 6 & W/N 4	Accum. Depreciation on Disposal		(10,080)	(10,080)
W/N 6	Charged to I/S year ended 31/05/10	14,000	22,016	36,016
	Accumulated to 31/05/10	98,000	133,936	231,936

Net Book value as at 31/05/10	602,000	88,064	690,064
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Net Book value as at 31/05/09	616,000	128,000	744,000
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Alternatively-option 2

	Buildings €	Machines €	Total €	
Note 6 & W/N 4	Net Book Value 01/06/09	616,000	128,000	744,000
	Disposal at N.B.V.		(10,080)	(10,080)
W/N 6	Charged to I/S year ended 31/05/10	(14,000)	(22,016)	(36,016)
	Net Book value as at 31/05/10	602,000	95,904	697,904

Cost or value at 31/05/10	700,000	222,000	922,000
Accum depreciation to 31/05/10	(98,000)	(133,936)	(231,936)
Net Book value at 31/05/10	602,000	88,064	690,064

Cost /Value at 31/05/09	€700,000	€250,000	€950,000
Accum. Depreciation to 31/05/09	(€84,000)	(€122,000)	(€206,000)

Net book value at 31/05/09	€616,000	€128,000	€744,000
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Only one approach should be selected for the answer.

Question 2

workings and notes

References to "W/N" refers to working notes attached to this solution.

References to "Notes" refer to notes in the original question.

References to T/B refer to the Trial Balance

Analyses of the expenses- W 1

References		Production €	Distribution €	Administration €	Total €	prepaid\ /
Note 7 & W/N 6	Building depreciation	7,000	2,800	4,200	14,000	
Note 7 & W/N 7	Machine depreciation	15,411	4,403	2,202	22,016	
T/B	Inventory	59,000			59,000	
T/B	Purchases	358,800			358,800	
T/B	Purchase Returns	(3,588)			(3,588)	
T/B	Settlement discount allowed			3,200	3,200	
Note 3 plus T/B	Bad debts [5,000+12,480]			17,480	17,480	
W/N 2	Estimate of doubtful debts			(970)	(970)	
Note 8	Rent Rates	16,660	4,760	2,380	23,800	€4,200
Note 5	Sundry expenses	0	0	13,500	13,500	
Note 8	Wages and salaries	0	33,600	22,400	56,000	
Note 1	Inventory Closing bal	(65,000)			(65,000)	
Note 2	Goods on approval stock	(10,000)			(10,000)	
Note 1	Write of some of closing stock [€6,100-€1,500]-€5,000 =>	400			400	
		378,683	45,563	64,392	488,638	

There are other ways of computing and presenting the amounts in the above functional costs ie. "Cost of Sales", "Distribution" and "Administration" for inclusion in the Income Statement. For example each Functional cost total could be computed separately .

W 2 Receivables

	Receivables per T/B	47,000
note 3	Less bad debt per note	(12,480)
Note 2	Less goods sold on approval	(11,765)
		22,755
note 4	Closing provision 4% x 22,755	910
T/B	Opening provision	(1,880)
	Decrease to I/S to W/N 1	(970)

	<u>W 3 Rent Rates prepaid</u>	21,000
Note 8	Prepaid 3 months i.e. 3/15 months	x .20
	Thus amount prepaid is	4,200
Note 6	<u>W 4- Profit on machine sold</u>	28,000
	Accumulated depreciation twoyears	<u>(10,080)</u>
	Net book value at sale	17,920
	Sale price	<u>18,000</u>
	Thus profit on sale of asset	80

W 5

Adjustments to Revenue

Revenue	780,000	T/B
Sale return	(7,800)	T/B
Goods on approval	(11,765)	Note 2
Sale of machine	(18,000)	note 6
	<u>742,435</u>	

W 6

Depreciation calculations

Building at cost	700,000	
Rate	2.00%	
Depreciation charge	<u>14,000</u>	W/N 1
Machines at NBV	128,000	
Less sale at NBV	(17,920)	
Remaining at NBV	<u>110,080</u>	
Depreciation R.B.	20.00%	
Depreciation charge	22,016	W/N 1

There are a number of different ways of presenting working notes. The above is only one way of presenting working notes. Other methods that convey the same information are equally acceptable

Set out below is the Balance Sheet or Statement of Financial Position. This was not asked for but is included for completion

Statement of Financial Position [B/S] not asked for in question

Merchants Ltd	Balance Sheet as at	30/05/2010
Non current Assets		
Property, Plant and Transport		€690,064
Current Assets		
Inventory	€74,600	
Receivables	€21,845	
Prepaid	€4,200	
Bank	€46,209	
		€146,854
Total Assets		€836,918
Equity		
Ordinary Share capital	€260,000	
Share Premium	€52,000	
Retained Profits	€321,527	
		€633,527
Non Current Liabilities		
Redeemable Preference share capital	€40,000	
10% Debentures	€80,000	
		€120,000
Current Liabilities		
Payables		
Creditors	€29,490	
Dividends	€0	
Taxation	€40,000	
Interest	€8,000	
VAT	€5,900	
		€83,390
Total Equity and Liabilities		€836,917

€1 rounding difference

Question 3

Journal entries solution

	Dr €	Cr
Item 2 -affects Trial Balance Totals error		
Bad debts	2,100	
Balancing difference		2,100
Being reversal of incorrect original posting		
Bad debts	2,100	
Balancing difference		2,100
Being correct posting of bad debts		
Item 3 -affects Trial Balance Totals error		
Creditors	9,000	
Balancing difference		9,000
Item 4 no affect on Trial Balance Totals error		
Sales Revenue	4,950	
VAT		4,950
Being additional VAT due on sales which incorrectly rated at 10% VAT instead of 20% VAT		
Item 5 no affect on Trial Balance Totals error		
Purchases returns		4,000
Sales	4,000	
Being correction of the incorrect crediting of sales with purchase returns		
Sales returns	7,000	
Purchases		7,000
Being correction of the incorrect debiting of purchases with Sales returns		
Note the Net Profit is unaffected by Item 5		
Item 6 no affect on Trial Balance Totals error		
Accumulated depreciation	9,000	
Depreciation expense [i.e. income statement]		9,000
Being the reversal of the incorrect calculation of depreciation at 10% straight line		
Accumulated Depreciation		
[90,000-15,390] x 10%		7,461
Depreciation expense [ie. income statement]	7,7461	
Being posting of correct amount in respect of depreciation on assets		

Question 3 solution

	Dr €	Cr €
Item 7 -no affect on Trial Balance Totals error		
Taxation expense [i.e. income statement]	1,100	
Taxation accrual		1,100
Item 8 -no affect on Trial Balance Totals error		
Retained Profits at start of accounting period	5,000	
Cost of Sales [i.e. Income statement]		5,000

Being correction arising from the erroneous overvaluation of opening inventory by the above amount

Item 9-no affect on Trial Balance Totals error

No journal entries required but restatement of heading from 6% debentures to 6% Redeemable Preference shares

Summarising the impact, if any of, issues on Suspense Accounts

Suspense/Balancing Difference account															
<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;">Balance b/d</td> <td style="text-align: right; width: 10%;">13,200</td> </tr> <tr> <td colspan="2" style="text-align: right; padding-right: 20px;">-----</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>13,200</u></td> </tr> </table>	Balance b/d	13,200	-----			<u>13,200</u>	<table border="0" style="width: 100%;"> <tr> <td style="width: 20%;">Bad Debts</td> <td style="text-align: right; width: 10%;">2 x 2,100 = 4,200</td> </tr> <tr> <td>Creditors</td> <td style="text-align: right;">9,000</td> </tr> <tr> <td colspan="2" style="text-align: right; padding-right: 20px;">-----</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>13,200</u></td> </tr> </table>	Bad Debts	2 x 2,100 = 4,200	Creditors	9,000	-----			<u>13,200</u>
Balance b/d	13,200														

	<u>13,200</u>														
Bad Debts	2 x 2,100 = 4,200														
Creditors	9,000														

	<u>13,200</u>														

Question 3 solution redrafted Balance Sheet

Draft Balance Sheet	NAMALAND Ltd	30/04/10	Redrafted Balance Sheet Solution
<u>Non Current Assets</u>			
Equipment			
	Cost	€90,000	€90,000
	Accum Dep	(24,390)	<u>(22,851)</u>
	Net Book value	€65,610	€67,149
<u>Current Assets</u>			
Inventory	7,133		7,133
Sundry Asset	13,200		0
Receivables	11,443		11,443
Bank Cash	27,761		<u>27,761</u>
		59,537	46,337
Total Assets		125,147	<u>113,486</u>
Equity			
		50,000	50,000
Movement in reserves			
Profit for year to 30/04/010	15,900		12,189
Retained Profits to 01/05/09	11,000		6,000
Dividends	(1,000)		<u>(1,000)</u>
		25,900	17,189
Total equity		75,900	<u>67,189</u>
6% Debentures		35,000	6% Red Pref 35,000
		110,900	
Current Liabilities			
Trade payables		14,247	5,247
VAT			4,950
CT			1,100
Total Equity and Liabilities		125,147	<u>113,486</u>

The redrafted Balance Sheet was required by the question. The inclusion of the original Balance Sheet was unnecessary and is set out for information purposes only

Question 4 Multi-choice

Item 1 (d)

Item 2 (a)

Item 3 (d)

Item 4 (c)

Item 5 (c)

Item 6 (d)

Item 7 (a)

Item 8 (d)

Item 9 (d)

Item 10 (c)