Financial Accounting
Module 8
Tuesday 21st June 2011
2pm – 5pm

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-Ratios and Report	**25 marks**
Question 4 Multi-choice question	**20 marks**

Total	**100 marks**

Question 1

Sandra and Mike have been in partnership in the hairdressing business for a number of years. Due to a downturn in the economy the business made a loss for the year.. Mike who is entitled to 40% of the partnership profit has sought a dissolution of the partnership and Sandra has agreed.
Set out below is the Trial Balance as at 30/04/11 together with notes thereto.

		Dr	Cr
		€	**€**
Capital Accounts			
Sandra			35,000
Mike			25,000
Current Accounts			
Sandra			4,560
Mike		2,130	
Non Current Assets			
Shop Unit in main square		40,000	
Hairdressing equipment		20,000	
Furnishings		10,000	
Accumulated depreciation			
Shop Unit in main square	30/04/11		1,600
Hairdressing equipment	30/04/11		4,687
Furnishings	30/04/11		4,375
Net Loss for the year ended	30/04/11	1,500	
Payables			7,500
Receivables		8,500	
Inventory	30/04/11	3,000	
bank overdrawn			2,408
	Totals	**85,130**	**85,130**

Notes

(i) The terms of the partnership up to dissolution were as follows;

1) Mike is entitled to a salary of €12,000
2) Each of them is entitled to interest on capital of 6%
3) Profit/Loss sharing is Sandra 60% Mike 40%

(ii) Mike has agreed to take over payables who have offered a 2% discount if paid within 40 days
(iii) Mike is to take over the Receivables subject to a provision of 5%
(iv) The hairdressing equipment was sold for €12,250
(v) Furnishings were sold for €2,250
(vi) Sandra has agreed to take over the shop unit at its net book value per Trial Balance. She hopes to start a new business
(vii) Legal fees involved in the dissolution were €3,500 and were paid

Required

1) Prepare the appropriation account of the partnership for the year ended 30/04/11 **(4 Marks)**

2) Prepare the realisation account arising from the dissolution of the partnership **(8 Marks)**

3) Prepare the Capital and Current accounts of the partnership for the year ended 30/04/11 **(8 Marks)**

4) Prepare the Cash account of the partnership for year ended 30/04/11 **(5 Marks)**

Total (25 Marks)

Question 2

Set out below is the Trial Balance of Hardwood Furniture Ltd as at 31/03/11 together with notes thereto: The company sells furniture to various stores around the country.

		Debit	Credit
		€	**€**
Premises		600,000	
Equipment		250,000	
Vehicles		125,000	
Retained Profits as at 01/04/10			95,000
Ordinary Share capital [nominal value €0.75 each]			225,000
6% Preference Shares			100,000
Share Premium			45,000
Accumulated Depreciation as at 01/04/10			
Premises			240,000
Equipment			47,500
Lorries			62,500
Inventory as at 01/04/10		30,000	
Purchases		450,000	
Sales			800,000
Sundry receipt			20,000
Taxation		1,200	
Trade receivables		35,000	
Trade payables			22,000
Sales returns		8,500	
Purchase Returns			4,200
Settlement discount allowed		1,900	
Provision for doubtful debts			924
Bank			5,276
Ordinary dividends		1,500	
Preference dividend		3,000	
Rent and Rates		18,000	
Bad debts		7,000	
Sundry expenses		5,600	
VAT			2,800
Wages and salaries		125,000	
Transport expenses		8,500	
Totals		**1,670,200**	**1,670,200**

Notes to the Trial Balance

(i) Inventory at year end was €45,000

(ii) A customer owing the company €2,000 went into liquidation. It is estimated that s/he will only be able to pay €0.30 in the euro

(iii) The provision for doubtful debts is to be maintained at 6%

(iv) The company issued goods on approval-sale or return basis to a customer on the 15/03/11. The cost of the goods sold was €10,000 and margin on sales price is 20%

(v) Depreciation on non current assets is as follows;

			Allocation of Depreciation Charge		
Non Current Asset	**Rate**	**Basis**	**Production**	**Distribution**	**Administration**
Premises	2%	Straight line	70%	10%	20%
Equipment	10%	Reducing balance	100%		0%
Lorries	10%	Straight line		70%	30%

Included in Sales/Revenue is an amount for €50,000 in respect of the sale of equipment which was purchased for the sum of €80,000 on the 01/04/08
It is company policy to depreciate a Non Current Asset in full in the year of its acquisition and not to depreciate it in its year of disposal

(vi) The sundry receipt of €20,000 in the Trial Balance refers to the issue on the 01/10/10 of a 5% Debenture Loan note

(vii) "Rent & Rates" per Trial Balance includes an amount of €9,000 for year to the 30/06/11

(viii) Allocation of expenditures other than depreciation is as follows;

		ALLOCATION	
Expense	**Production**	**Distribution**	**Administration**
Transport expenses	0%	70%	30%
Rent rates	70%	20%	10%
Wages and Salaries	70%	20%	10%
Sundry expenses	0%	0%	100%

(ix) A taxation provision of €14,000 is to be made on profits for the year ended 31/03/11 . The amount in the trial balance represents an overprovision of tax on the profits for the year ended 31/03/10

(x) A final ordinary dividend of €0.01 was proposed on the 15/04/10

The requirements to this question are set out on the next page

(a) Prepare the Income statement of Hardwood Furniture Ltd for the year end 31/03/11 **(21 Marks)**

(b) Prepare the Statement of Changes in Equity for the year ended 31/03/11 **(4 Marks)**

(c) Prepare the note on Non Current Assets in accordance with IAS 16 **(5 Marks)**

Total (30 Marks)

Amounts computed can be rounded to the nearest euro where relevant

Question 3

Set out below and the following pages are the Income Statements and Statements of Financial Positions of Auto Plugs Ltd for the first two years of trading.

	30/04/2011		30/04/2010
Sales Volumes	55,000 U		50,000 U
	€		€
Revenues	80,850		75,000
Cost of Goods Sold	(60,637)		(52,500)
Gross Profit	20,213		22,500
Operating Expenses	(12,128)		(13,500)
Operating Profit	8,085		9,000
Finance charges	(2,400)		(2,400)
Profit before tax	**5,685**		**6,600**
Taxation	(711)		(825)
Profit for the year	**4,974**		**5,775**

Statement of Retained Earnings/Movement in Reserves		
	30/04/11	**30/04/10**
	€	**€**
Retained Profits at start of year	5,175	0
Profit for the year	4,974	5,775
Ordinary Dividends	(1,200)	(600)
Retained profits at end of year	**8,949**	**5,175**

Statements of Financial Position as at

	30/04/11	**30/04/10**
Non Current Assets	€	€
Cost of Machinery	95,000	95,000
Additions	90,000	0
Accumulated Depreciation	(75,000)	(38,000)
Net Book value of machinery	**110,000**	**57,000**
Current Assets		
Inventory	6,645	3,596
Debtors	8,860	6,164
Bank		23,449
Total Assets	**125,505**	**90,209**
Equity and Liabilities		
Equity		
Ordinary Share Capital of €1 each	60,000	60,000
Retained Earnings	8,949	5,175
Total Equity	**68,949**	**65,175**
	-	-
Non Current Liabilities		
12% Debentures	20,000	20,000
Current Liabilities		
Payables	4,984	5,034
Bank	31,572	**0**
Total Equity plus Liabilities	**125,505**	**90,209**

(a) Compute the following ratios
(i) Gross Profit margin
(ii) Operating Profit margin
(iii) Return on Capital Employed
(iv) Current Ratio
(v) Quick Assets ratio
(vi) Receivable days
(vii) Inventory days
(viii) Gearing ratio

(15 Marks)

(b) Write a report, using suitable headings, setting a review of the business and make recommendations where relevant [including presentation and clarity of expression] **(10 Marks)**

Total (25 Marks)

Note

Ratios should be computed to two decimal places except for (vi) and (vii)
In setting out the computation of the ratio the following headings are suggested

Name	Formula	2011	2010

Alternative layouts that give the same information are acceptable

Question 4-Multi-choice- instructions

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

Each item has four possible answers. There is only one correct answer.

Students should detach the answer sheet provided at the back of this exam paper for entering their answer onto.
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. f

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2 marks for each correct answer. Maximum marks is 10 items x 2 marks =20

Item 1

A company has previously depreciated its vehicles on a reducing balance basis at 40% but it now proposes to use a straight line method.
This represents

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

Item 2

An asset might be best be described as
(a) A resource from which past economic benefit has been obtained.
(a) A resource from which future economic benefit will be obtained.
(b) A resource from which profits have been generated in the past.
(c) A resource from which future economic benefits are expected to flow.

Item 3

In general it might be said that revenue should be recognized when

(a) It is certain that economic benefits will flow to the entity
(b) It is probable that economic benefits will flow into the entity
(c) It is certain that economic benefits will flow into the entity and they can be measured exactly
(d) It is probable that economic benefits will flow to the entity and they can be measured reliably.

Item 4
Three partners Bill , Michael and Joan have been in partnership sharing profits and losses 1/2,1/3, and 1/6 respectively . Each is also entitled to a salary of €15,000. Michael's capital account has now gone into deficit [i.e. a debit balance] and he is unable to make good the deficit. Bill and Joan should bear the Michael's deficit in

(a) In proportion to their last agreed profit sharing ratios.
(b) In proportion to their last agreed amounts of Profit and Salaries.
(c) In proportion to their last agreed Capital balances.
(d) Equally

Item 5

The two of the four characteristics of qualitative information that are concerned with recognition are

(a) Relevance and Comparability.
(b) Relevance and Reliability.
(c) Comparability and Reliability
(d) Understandability and Reliability.

Item 6

Electron Ltd is a 70% subsidiary of Hydrogen Ltd. During the year ended 31/03/11 Sales by Electron Ltd to Hydrogen Ltd amounted to €80,000 with a mark-up on cost of 20%. At the year end 30% of those Sales by Electron Ltd were still in the stock of Hydrogen Ltd. The journal entries required to take account of the above were as follows:

(a) Debit Sales and Credit Purchases with €56,000 and
Credit stock and Debit Cost of Sales with €2,800.
(b) Debit Sales and Credit Purchases with €80,000
and Credit stock and Debit Cost of sales with €4,800.
(c) Dr Sales and Credit Purchases with €56,000 and
credit Stock and Debit sales with €4,800.
(d) Dr Sales and Credit purchases with €80,000 and Credit stock
and Debit Cost of sales with €4,000.

Item 7

A C E Ltd issued 10 million 5% Redeemable Preference shares [Nominal value per share €0.70] at €0.95 per share with a redeemable price per share in five years time of €1.05 . The legal and accountancy costs of the issue were €25,000
The total costs of issue of the redeemable preference shares over their lifetime are

(a) €1,750,000
(b) €1,775,000
(c) €2,775,000
(d) None of the above

Item 8

Retailers Ltd bought a machine from USA for $80,000 on the 01/04/10. The company paid 50% of the amount due on the 31/08/10. The balance outstanding is to be paid on the 30/04/11. The year end of the company is 31/03/11

The exchange rates were as follows

01/04/10	$1.40 to €1.00
31/08/10	$1.42 to €1.00
31/03/11	$1.46 to €1.00
Average for year	$1.45 to €1.00
30/04/11	$1.48 to €1.00

The **<u>cost</u>** amount of the asset at Balance Sheet 31/03/11 and the charge to the Income Statement in respect of exchange gains or losses for that year ended are as follows:[to nearest euro]

Balance Sheet Machine Cost [rounded]	**Balance Sheet Liabilities Payables [rounded]**		**Income Statement [rounded]**
(a)€54,795	€34,247	Exchange Gain	€1,174
(b)€57,143	€35,211	Exchange gain	€ 403
(c)€57,143	€34,247	Exchange gain	€1,577
(d)€54,795	€34,483	Exchange Gain	€ 985

ITEM 9

ABC Ltd whose year end is the 31/01/11 acquired 80% of XYZ Ltd on the 01/08/10 for €60,000
On the 30/01/11 XYZ Ltd paid out its only dividend for that year for €8,000.
ABC Ltd recorded its share of the dividend in its own financial accounts by Debiting Bank and Crediting Investment income which was included in its Income statement.
In preparing consolidated GROUP accounts ABC Ltd should

(a) Do nothing as there is an automatic set off between ABC Ltd and XYZ Ltd
(b) Reduce its investment income by €4,800 and reduce its investment in XYZ by the same amount
(c) Reduce its investment income by €2,400 and reduce its investment in XYZ by the same amount
(d) Transfer to a Group Investment Income account

Item 10

During the course of preparation of the financial statements for year end 28/02/11 it was discovered that the opening stock , at 01/03/10 had erroneously included distribution cost of €22,000. The current year income statement has already been adjusted for the change in opening stock
The accountant needs to

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

b) Restate the comparative Income statement for year ended 28/02/10 and the balance brought forward at 01/03/10 in the statement of changes in equity

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

d) There is a cancelling effect over the two years when profits for 28/02/10 and 28/02/11 are combined and thus no further adjustments required.

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 Financial Accounting May 2011

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 THIS ANSWER FORM WITH YOUR ANSWER BOOK