

Institute of Incorporated Public Accountants

Professional 2 – Module 8

Financial Accounting

26 May 2015

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 are 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- Limited Company accounts.	35 marks
Question 2 - Acquisition by one company of a share in another.	25 marks
Question 3 - Cash flow	20 marks
Question 4 - Multi-choice question	20 marks

Total 100 marks

**An answer sheet is provided at the back of this exam paper
Including this instruction sheet there are pages numbered 1 to 14**

Question 1

Set out below is the Trial Balance as at 30/04/15 of Waltrax Ltd a family owned business that produces leather belts and bags for the fashion shops.

		Debit	Credit
		€	€
Buildings		950,000	
Machinery		280,000	
Retained Profits	30/04/14		140,000
Ordinary Share capital	€0.80		400,000
8% Redeemable Preference Shares			150,000
Share Premium			75,000
5% Debentures			80,000
Provision for depreciation			
Buildings	30/04/14		76,000
Machinery	30/04/14		112,000
Inventory		38,000	
Purchases		465,000	
Sales			920,000
Trade receivables		63,900	
Trade payables			30,000
Provision for doubtful debts			1,738
Bank		10,338	
Ordinary dividends		5,000	
Preference dividend		12,000	
Rent rates		25,000	
Taxation on profits		3,500	
Bad debts		6,000	
VAT			3,000
Operating expenses		125,000	
Interest on debentures		4,000	
Totals		1,987,738	1,987,738

Notes to the Trial Balance

- (i) The closing inventory at the 30/04/15 was €34,200
It was discovered that the opening inventory at 01/05/14 was overstated by €12,000 due to a miscount of the same item twice. No adjustment has been made to take account of the error in the opening inventory

This question continues on the next page

Question 1-continued

- (ii) A VAT inspection revealed that a rate of 13.5% instead of 23% had been applied in error to 30% of the current year's sales. The VAT was correctly computed in relation to the rest of the sales. No adjustment has been made in respect of the error discovered.
- (iii) Included in receivables is an amount for €12,780 in respect of J. Ryan, who has gone into liquidation. Waltrax Ltd. is only likely to receive €0.15 in the euro
- (iv) A provision of 5% is to be made in respect of doubtful debts.
- (v) The depreciation bases, and rates of non-current assets and the allocation of that cost is as follows:

	Basis	Rate	Production	Marketing	Administration
Buildings	Straight line	4%	70%	20%	10%
Machinery	Straight line	20%	100%		0%

It is company policy to depreciate a depreciable non-current asset in full in its year of acquisition and not to depreciate it in its year of sale or disposal.

- (vi) Included in machinery is a lathing machine which was purchased for €80,000 during the year and in respect of which a grant of 30% was awarded by the industrial development authority. The grant money was received on the 1st of May 2015. No adjustments, if necessary, have been made in respect of the grant.
- (vii) The allocation of Rent & Rates and Operating expenses is as follows:

Allocation as follows :			
Expense	Production	Marketing	Administration
Rent rates	60%	20%	20%
Operating expenses	60%	30%	10%

Rent & Rates includes an amount for €10,000 which is in respect of the twelve month period ending 31/07/15.

- (viii) A provision of €23,000 is to be in respect of taxation on profits. The amount included in the Trial Balance represents under-estimation of the taxation on profits for the year ended 30/04/14
- (ix) An ordinary dividend of €0.015 per share has been proposed.

The requirements to this question 1 are set out on the next page

Question 1 continued-requirements

Required

- (a) Set out the Income Statement of Waltrax Ltd for the year ended 30/04/15 in accordance with IAS 1 and other relevant standards. 14 marks
- (b) Set out the statement of changes in equity for year ended 30/04/15 in accordance with IAS 1 and other relevant standards. 4 marks
- (c) Set out the Statement of Financial position [Balance Sheet] of Waltrax Ltd as at 30/04/15. 17 marks

Total Marks 35 marks

Note where working notes are provided to explain the composition of a particular amount shown in your answer then such notes should be referenced W/N 1 [ie. working note 1] W/N2 etc. with a suitable heading indicating the purpose of that working note.

Rounding

Where relevant, final amounts computed should be rounded to the nearest whole euro.

Question 2

Set out below is the Trial Balance of Crates Ltd as at 28/02/15

		Debit	Credit
		€	€
Premises		1,000,000	
Vans		500,000	
Dividend income from Carton Ltd			800
Share Premium			120,000
Investment in Associate	see note (ii)		
Accumulated depreciation			
Premises	28/02/15		80,000
Vans	28/02/15		150,000
Interest on debenture		4,000	
Ordinary Share capital	€0.75		600,000
Cost of goods sold		435,000	
Revenue			725,000
Trade receivables		18,000	
Trade payables			26,000
Retained Profits	28/02/14		125,000
Inventory	28/02/15	24,000	
Bank		59,700	
Ordinary dividends		12,000	
Preference dividend		15,000	
Administration expenses		72,500	
5% Redeemable Preference Shares			300,000
Value added tax		8,600	
Selling and Distribution expenses		58,000	
10% Debentures			80,000
	Totals	2,206,800	2,206,800

Note to Trial balance

- (i) A provision for taxation on profits of €8,500
- (ii) On the 01/03/14 Crates Ltd acquired 40% of the Ordinary Share Capital in Carton Ltd.
All assets and Liabilities were stated at fair value at date of acquisition

This question continues on the next page

Question 2 continued

- (iii) Crates Ltd issued 61,000 ordinary shares valued at €0.90 per share as consideration for its acquisition of 40% shareholding in Cartons Ltd. No adjustment has been made in the financial statements of Crates Ltd to reflect the issue of Ordinary shares by it to Carton Ltd.
- (iv) Trial Balance of Carton Ltd as at 28/02/15

Carton Ltd Trial Balance as at 28/02/15	Debit	Credit
	€	€
Sales		250,000
Cost of sales	150,000	
Selling and Distribution costs	25,000	
Administration expenses	20,000	
Premises	164,000	
Accumulated Depreciation 28/02/15		8,000
Inventory 28/02/15	15,000	
Receivables	13,000	
Payables		7,800
Taxation	5,500	
Dividend in respect of y/e 28/02/15	2,000	
Ordinary Share capital N.V. €1.00		125,000
Retained Profits 28/02/14		5,000
Taxation owing on profits		2,100
Bank	3,400	
Total	397,900	397,900

- (v) The inventory in Carton includes an amount for €9,000 representing a sale to it by Crates Ltd at a mark-up of 20%.
- (vi) An impairment review of the goodwill on acquisition of Carton Ltd indicated the need to write down that goodwill by 10% .

Required

- (a) Prepare the Income Statement of Crates Ltd for year ended 28/02/15 [12 marks]
- (b) Prepare the Statement of Changes in Equity of Crates Ltd for the year ended 28/02/15 [5 marks]
- (c) Prepare the Statement of Financial Position-Balance Sheet-of Crates Ltd as at 28/02/15 [8 marks]

Total [25 marks]

Question 3

Set out below and on the next page are the Income statements, Statement of Changes in Equity and Balance Sheets of Ryan Furniture Ltd for its first two years of operation.

Income statement for year ended	31/03/15	31/03/14
	€	€
Revenue	858,500	850,000
Cost of sales	(583,780)	(510,000)
Gross Profit	274,720	340,000
Operating Expenses	(231,795)	(170,000)
Profit before interest and tax	42,925	170,000
Loan interest	(37,500)	(30,000)
Profit before tax	5,425	140,000
Taxation	(678)	(14,000)
Profit for the year	4,747	126,000

Statement of Changes in Equity for years 2014 and 2015

	Share Capital	Retained Profits	Total
	€	€	€
Balance at 01/04/13	750,000	nil	750,000
Profit for year ended 31/03/14		126,000	126,000
Dividend paid for year ended 31/03/14		(50,000)	(50,000)
Balance at 31/03/14	750,000	76,000	826,000
Share Issue in year ended 31/03/15	150,000		150,000
Profit for year ended 31/03/15		4,747	4,747
Dividends paid in year ended 31/03/15		(60,000)	(60,000)
Balances at 31/03/15	900,000	20,747	920,747

This question continues on the next page
Question 3 -continued

Balance sheets Ryan Furniture as at 31st March

	31/03/15	31/03/14
	€	€
Premises [note 1]	1,900,000	1,400,000
Accumulated depreciation	(76,000)	(28,000)
Net Book value	1,824,000	1,372,000
		-
Current Assets		
Inventory	60,000	50,000
Receivables	90,000	95,000
Cash in bank	0	133,700
Cash	980	1,300
Total assets	1,974,980	1,652,000
		-
Ordinary Share Capital	900,000	750,000
Share premium	190,000	150,000
Retained Profit	20,747	76,000
Total equity	1,110,747	976,000
Non Current Liabilities		
5% Debentures	750,000	600,000
		-
Current Liabilities		
Payables	55,000	70,000
Taxation owing	2,700	6,000
Bank overdrawn	56,533	0
Total equity & Liabilities	1,974,980	1,652,000

Note 1 There were no disposals of property plant equipment during y/e 31/03/15

Required

(a) Prepare the cash flow statement in accordance with IAS 7 for year ended 31/03/15. **[17 marks]**

(b) Prepare a statement reconciling opening and closing balances on cash and cash equivalents for the same period **[3 marks]**

Question 4-multi-choice

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 answers onto.

For each item students should mark **X** over the letter corresponding to their choice of answer on the answer sheet provided. Only one **X** will be accepted for each item.

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

Item 1

Income might best be described as:

- (a) An inflow of economic benefit in future accounting periods that will leave net assets unchanged.
- (b) An inflow of economic benefits during the accounting period that will result in an increase in net assets.
- (c) An inflow of cash in future accounting periods that will leave net assets unchanged.
- (d) An inflow of cash during the accounting period that result in an increase in net Assets..

Item 2

A business has previously depreciated its equipment on a reducing balance basis at 35% but it now proposes to use a straight line method at 20%

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.

Question 4 Multi-choice continued

Item 3

Which of the following would be considered adjusting events in accordance with IAS 10

- (i) The destruction of a major plant two days after the reporting end period.
- (ii) The bankruptcy of a customer after a reporting period who owed monies to the business at the reporting end date.
- (iii) Announcing a plan to discontinue an operation.
- (iv) The sale of inventories after the reporting period for less than their cost.

- (a) (i) only
- (b) (ii) only
- (c) (ii) and (iv) only
- (d) (i) and (iii) only

Item 4

Gorgon Limited whose accounting year end is the 30th April acquired a building on May 1st 2010 for €500,000 which it decided to write off on a straight line basis over 40 years. On the May 1st 2012 it had the building professionally valued at €684,000 and decided to incorporate the value into its accounts.

To the nearest euro the amounts that would appear in the Income statement for year ended 30th April 2014 and the Balance Sheet as at that date would be:

	<u>Income statement charge</u>	Balance Sheet	
		<u>Building</u>	<u>Revaluation</u>
(a)	€12,500	€437,500	€180,000
(b)	€18,000	€428,000	€180,000
(c)	€18,000	€439,000	€209,000
(d)	€12,500	€437,500	€209,000

Question 4 Multi-choice continued

Item 5

Balance Sheet as at 30/04/15

Ordinary share Capital Nominal Value €0.25 per share	€500,000
Share premium	€200,000
Retained Profit	€185,000
5% Preference share capital	€400,000
10% Debentures	€150,000

Income statement y/e 30/04/15

Sales/Revenue	1,000,000
Cost of sales	<u>(750,000)</u>
Gross Profit	250,000
Operating Expenses	<u>(100,000)</u>
Profit before interest and tax	150,000
Interest	<u>(15,000)</u>
Profit before tax	135,000
Corporation	<u>(18,750)</u>
Profit for the year	116,250

The earnings per share, in accordance with IAS 33, and to the nearest two decimal places is :

- (a) €0.08
- (b) €0.07
- (c) €0.06
- (d) €0.05

Question 4 multi-choice continued

Item 6

According to the framework the following are enhancing qualitative characteristics of useful financial information:

- (i) Relevance, Faithful representation, Comparability.
 - (ii) Comparability, Faithful representation, Verifiability.
 - (iii) Verifiability, Comparability, Timeliness.
 - (iv) Relevance, Comparability, Verifiability.
- (a) (i)
 - (b) (ii)
 - (c) (iii)
 - (d) (iv)

Item 7

According to the framework, information is relevant if it has

- (a) Predictive value and budgetary value.
- (b) Confirmatory value and historical value.
- (c) Historical value and budgetary value.
- (d) Predictive value and confirmatory value.

Item 8

According to the framework an asset should be recognised in the financial statements when its value can be measured reliably and

- (a) It is possible that future economic benefits will flow to the entity.
- (b) It is possible that present economic benefits will flow to the entity.
- (c) It probable that future economic benefits will flow to the entity.
- (d) It is probable the present economic benefits will flow to the entity

Question 4 Multi-choice continued

Item 9

AXT Ltd, acquired a machine valued at €7,925 under a four year finance lease on the 01/05/13 with repayments of €2,500 at the end of each year. The cost of finance is 10%. AXT financial accounting year end is 30/04/15.

The amounts, to the nearest whole euro- to be included in the income statement-I/S- for year end 30/04/15 and the amounts to be included in the Balance Sheet as at that date are as follows:

	I/S	I/S	Balance Sheet	Balance Sheet
	30/04/15	30/04/15	30/04/15	30/04/15
	Depreciation	Interest	Current	Non-Current
			Liability	Liability
(a)	€1,981	€622	€2,066	€2,273
(b)	€1,981	€622	€none	€4,339
(c)	€1,981	€793	€1,878	€2,273
(d)	€1,981	€793	€2,066	€2,273

Item 10

In accordance with IAS 38 the following costs can be included in development costs and capitalised

- (i) The costs of searching for alternatives for materials products processes.
- (ii) The design, construction and testing of preproduction or pre-use models.
- (iii) The search for and final selection of applications of research findings or other knowledge.
- (iv) The design of tools, jigs, moulds and dies involving new technology.

- (a) (i) and (ii)
- (b) (iii) and (iv)
- (c) ((ii) and (iii)
- (d) (ii) and (iv)

END OF MULTI-CHOICE QUESTION

END OF EXAMINATION PAPER

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 Answer sheet August 2014

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
