Professional 2 – Module 8

Financial Accounting

SOLUTIONS

May 2015

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 Limited Company accounts	**35 marks**
Question 2-Cash flow	**25 marks**
Question 3-Group Account journals	**20 marks**
Question 4 Multi-choice question	**20 marks**

Total	**100 marks**

Income statement of Waltrax for year ended 30/04/15

	Notes		
Revenue	W/N 1		896,055
Cost of sales	W/N 2		(623,100)
Gross Profit			272,955
Selling and distribution	W/N 2	(49,600)	
Administration expense	W/N 2	(38,577)	
			(88,177)
Operating profit			184,778
Finance Cost			
Debenture interest		(4,000)	
Redeemable Preference dividend	W/N 3	(12,000)	
			(16,000)
Profit before tax			168,778
Income tax expense			(26,500)
Profit for the year			142,278

Statement of Changes in Equity of Waltrax Ltd as at 30/04/15

	Share	Share	Retained	Total	
	Capital	Premium	Earnings		
Balances as at 30/04/14	400,000	75,000	140,000	615,000	
Prior year adjustment	________	________	(12,000)	(12,000)	
Restated balances as at 30/04/14	400,000	75,000	128,000	603,000	
Profit			142,278	142,278	

Ordinary paid	__________	_________	(5,000)	(5,000)	
Balances as at 30/04/15	**400,000**	**75,000**	**265,278**	**740,278**	

An ordinary dividend of €0.015 , amounting to €7,500 in total has been proposed by the board.
0.75

Statement of Financial Position of Waltrax as at 30/04/15

Non current Assets				
Property, Plant and Equipment		W/N 5		948,000
Current Assets				
Inventory			34,200	
Receivables	63,900			
bad debts	(10,863)	W/N 4		
	53,037			
Provision for doubtful debts	(2,652)	W/N 4		
			50,385	
Grant receivable			24,000	
Prepaid			2,500	
Bank			10,338	
				121,423
Total assets				1,069,423
Equity and Liabilities				
Equity				
Ordinary Share capital			400,000	
Share Premium			75,000	
Retained Profits			265,278	
Total equity				740,278
Non Current Liabilities				
Redeemable Preference Share Capital			150,000	
5% Debentures			80,000	

Deferred revenue	14,400	
		244,400
Current Liabilities		
Payables		
Creditors	30,000	
Deferred revenue	4,800	
Taxation	23,000	
VAT	26,945	
		84,745
Total Equity and Liabilities		1,069,423

Working note 1-computation of revenue in light of VAT error

Revenue VAT under-charged €920,000 x 30% x 9.50%/109.50% =€23,945 rounded

Sales €920,000 minus €23,945 =€896,055

W/N 2 Analysis of costs by function

		Production	Distribution	Admin	Total	B/S
1.50	Building depreciation W/N 5	26,600	7,600	3,800	38,000	
1.00	Machine depreciation W/N 5	56,000	0	0	56,000	
1.00	Amortisation of grant W/N 5(b)	(4,800)			(4,800)	
0.50	Inventory-opening balance	38,000			38,000	
0.50	Prior year adjustment	(12,000)			(12,000)	
0.50	Purchases	465,000			465,000	
0.50	Bad debts per T/B			6,000	6,000	
0.50	Additional bad debts W/N 4			10,863	10,863	
1.00	Estimate of doubtful debts W/N 4			914	914	
1.50	Rent Rates	13,500	4,500	4,500	22,500	2,500
1.50	Operating expenses	75,000	37,500	12,500	125,000	
0.50	Inventory Closing bal	(34,200)			(34,200)	
		623,100	49,600	38,577	711,277	
10.50		5.00	1.50	4.00		

W / N 3

Redeemable Preference shares –as the capital is repayable and no evidence exists [as might be given in the question] of a residual interest in the assets after all liabilities have been deducted, then it is not an equity instrument. Thus Redeemable Preference shares should classified as a liability and the dividend treated as interest payments.

W / N 4

Receivables per T/B €63,900 less Bad debt €10,863 [€12,780 x 0.85] =€53,037
€53,037 x 5% equals closing provision of €2,652
Closing provision €2,652 less amount per T/B €1,738 equals €914 to SOCI

W/N 5 Non Current assets

Non Current Assets

	Buildings	**Machinery**	**Total**
Cost at 30/04/14	950,000	200,000	1,230,000
Additions during year		80,000	
Cost value at 30/04/15	950,000	280,000	1,230,000
Depreciation			
Balance as at 30/04/14	76,000	112,000	188,000
Charged to I/S y/e30/04/15	38,000	56,000	94,000
Balance as at 30/04/15	114,000	168,000	282,000
Net Book V. as at 30/04/14	874,000	188,000	1,042,000

Net Book V. as at 30/04/15	836,000	116,800	948,000

Note opening net book value not required nor was a formal layout in accordance with IAS 16 required. A working note- W/N- showing how the final amount was arrived at on the Balance Sheet was all that was required. Set out above for info purposes only

W / N 5 (b) Grant

Note Grant was 30% x €80,000 =€24,000 to be written off over useful life of asset.

Thus current year is year of purchase and full year depreciation and parallel with a credit of €4,800 [€24,000 x 20%] against depreciation in the SOCI. The remaining balance of €19,200 [€24,000-€4,800] is split between deferred income under current Liability of €4,800 and deferred income under non-current liability of €14,400

The charge for depreciation of machinery in the SOCI is thus €56,000 minus€4,800

Note company policy [as stated in the question] is to depreciate in full a depreciable non-current asset in its year of acquisition and not to depreciate an asset in its year of disposal.

Consequently from a working note-w/n [as compared a published note N? per IAS 16] there was no need to show separately any acquisitions of machinery during the year.

However if a candidate chose to do so then it was necessary to show the opening balance on machinery at cost of €200,000 and not €280,00 and then show separately the €80,000 to arrive at closing cost balance per T/B of €280,000.

Question 2

Income statement of Crates Ltd for year ended 28/02/15

	Crates Ltd	Adjust	Crates Ltd	
Sales/Revenue	725,000	(3,600)	721,400	
Cost of sales	(435,000)	3,000	(432,000)	
Gross Profit	290,000	(600)	289,400	
Selling and distribution	(58,000)		(58,000)	
Administration expense	(72,500)		(72,500)	
Operating profit	**159,500**	**(600)**	**158,900**	
Investment revenues				
Dividend income	800	(800)	0	
Finance Cost				
Debenture interest	(8,000)		(8,000)	
Redeemable Preference dividend	(15,000)	_	(15,000)	
	_			
Share profit of associate	_	19,510	19,510	
Profit before tax	137,300	18,110	155,410	
Income tax expense	(8,500)		(8,500)	
Profit for the year	**128,800**	**18,110**	**146,910**	

Statement of Changes in Equity of Crates Ltd for year ended 28/02/15

	Share Capital	Share Premium	Retained Earnings	
Balances at 28/02/14	600,000	120,000	125,000	
Issued share capital	45,750	9,150		
Profit for year ended 28/02/15			146,910	
Ordinary dividend paid			(12,000)	
Balances as at 28/02/105	645,750	129,150	259,910	

Balance Sheet of Crates Ltd as at 28/02/15

Non current Assets	**Crates Ltd**	**Adjust**	**Crates Ltd**	**Crates Ltd**
Property, Plant and Equipment	1,270,000			1,270,000
Fixed Financial Assets				
Associate	54,900	19,800		73,010
dividend received		(800)		
goodwill write /off		(290)		
inventory write off		(600)		
Current Assets				
Inventory	24,000	0	24,000	
Receivables	18,000		18,000	
VAT	8,600		8,600	
Bank	59,700		59,700	
				110,300
Total Assets		_	_	**1,453,310**
Equity and Liabilities				
Equity				
Ordinary Share capital	600,000	45,750	645,750	
Share Premium	120,000	9,150	129,150	
Retained Profits	125,000	134,910	259,910	
Total equity				1,034,810
Non Current Liabilities				
10% Debentures		80,000		
5% Redeemable Preference Shares		300,000		
				380,000
Current Liabilities				
Payables		26,000		
Taxation		8,500		
Interest payable on debentures		4,000		
bank hide line				38,500
Total Equity plus Liabilities		_	_	**1,453,310**

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Working Notes
Consideration offered is

0.75	Ordinary share capital	€45,750
0.15	Share premium	€9,150
	Total consideration	**€54,900**

Net Assets of Carton acquired at 01/03/14 i.e. Equity plus retained profits

	Per T/B	Associate
	100%	**40%**
Share Capital as at 01/03/14	€125,000	€50,000
Retained Profit as at 01/03/14	€5,000	€2,000
Thus Goodwill on acquisition		€2,900
Consideration as per above		**€54,900**

Income statement of Carton Ltd
working note

	100% per T/B	40% Associate
Sales	€250,000	€100,000
Cost of sales	(€150,000)	(€60,000)
Gross Profit	€100,000	€40,000
Selling & Distribution	(€25,000)	(€10,000)
Administration	(€20,000)	(€8,000)
Profit before tax	€55,000	€22,000
Taxation	(€5,500)	(€2,200)
Profit for the year	**€49,500**	€19,800
Dividend paid	(€2,000)	(€800)
	€47,500	€19,000

Or simply add/subtract relevant amounts and multiply by 40%

SOCI Share of Associate Profit for year ended 28/02/15

€19,800 [before dividend] less goodwill write off €290=€19,510

<u>Statement of Financial Position Investment in associate as at 28/02/15</u>

Investment in associate including goodwill as per above	€54,900
Plus share of profit for the year	€19,800
Less u/realised profit in inventory €1,500 x 40%	(€ 600)
Goodwill write off [€2,900 x 10%]	(€ 290)
Dividend received	<u>(€ 800)</u>
Total per Balance Sheet as at 28/02/15	€73,010

Cash flow statement of Ryan Furniture Ltd for year ended 31st March 2015

Profit before taxation			€5,425	
Add back				
Depreciation			€48,000	
Interest expenses			€37,500	
			€90,925	
Increase/decrease in				
Inventory	€60,000	€50,000		
Receivables	€90,000	€95,000	_	
Payables	(€55,000)	(€70,000)		
Working capital	€95,000	€75,000	(€20,000)	
Cash generated from operations			€70,925	
			_	
Interest paid		(€37,500)		
Taxes paid		(€3,978)		
			(€41,478)	
Net Cash from operating activities			€29,447	
Cash flows from investing activities				
Premises			(€500,000)	
Cash flows from financing activities				
Share Capital		€190,000		
Loan repayments		€150,000	_	
Dividends		(€60,000)		
			€280,000	
Net decrease in cash & cash equivalents			(€190,553)	

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	31/03/15	Net Change	31/03/14	
Cash on hand	€980	(€320)	€1,300	
Cash in bank	€0	(€133,700)	€133,700	
Bank overdrawn	(€56,533)	(€56,533)	€0	
Cash and cash equivalents	(€55,553)	(€190,553)	€135,000	

Question 4 Multi-choice
Item 1 (b) Inflow of economic benefits during accounting period….increase in N.A.

Item 2 (b) Change in depreciation a change in estimation but no change in policy

Item 3 (c) Adjusting events Subsequent bad debt and subsequent sale of inventory

Item 4 (c) NBV at revaluation is €475,000 [500,000- 2 x 2.50%] minus €684,000
equals surplus of €209,000 Depreciation is €684,000/38yrs =€18,000

Item 5 (d) [.€0.05 Profit for year is €116,250 –Pref. div €20,000]/2000,000 shares =
Equals €0.048 rounded to €0.05

Item 6 (c) Enhancing characteristics Verifiability, Comparability, and Timeliness

Item7 (d) Relevant information has predictive and confirmatory values

Item 8 (c) Asset recognised if it is probable that future economic benefits will flow to
the entity

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Item 9 (a) Interest €622 C.L. €2,066 N.C.L €2,273

	Capital	10% interest	repay	Balance	CL	NCL
2014	€7,925	€793	(€2,500)	€6,218	€1,878	€4,339
2015	**€6,218**	**€622**	(€2,500)	€4,339	**€2,066**	**€2,273**
2016	€4,339	€434	(€2,500)	€2,273	€2,273	€0
2017	€2,273	€227	(€2,500)	€0	€0	

Item 10 (d) items (ii) and (iv) qualify for inclusion in development costs IAS 38