Institute of Incorporated Public Accountants

Professional 2 – Module 8

Financial Accounting Exam

Tuesday 29th. May 2012

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

Total	**100 marks**

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Question 1
Set out below is the Trial Balance of the Bakery partnership of John and Deirdre as at 30/04/12

			Debit	**Credit**
			€	€
Capital accounts at	01/05/11		_	_
John				425,000
Deirdre				250,000
Current accounts at	01/05/11			
John				6,500
Deirdre			1,350	
Drawings	John		6,800	
Drawings	Deirdre		7,600	
Profit for the year end was				120,000
Capital introduced at 30/04/12 by	Jackie			180,000
Freehold land at cost			400,000	
Building at net book value			325,000	
Machines at Net Book value			215,000	
Inventory	30/04/12		28,000	
Receivables			26,000	
Payables				35,000
Cash			6,750	
Totals			**1,016,500**	**1,016,500**

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Notes

(1)

The profit sharing agreement between the two partners was as follows;

	John	**Deirdre**
Profit sharing ratios	60%	40%
Salaries for the year	€15,000	€18,000
Interest on Capital	5%	5%
Interest penalties charged on drawings during year was	€800	€550

(2)

A new partner -"Jackie" was introduced to the partnership on the 30/04/12 when she introduced capital of €180,000 the profit sharing arrangements are to be as follows;

Arrangements after entry of new partner	**John**	**Deirdre**	**Jackie**
Profit sharing of partners from	50%	30%	20%
Revised annual salaries	€17,000	€19,000	€16,000
Interest on capital remains	5%	5%	5%

Goodwill at the date of entry of Jackie was valued at €50,000 .Goodwill is not to be retained in the books

The following assets were also re-valued on the 30/04/12
Land is to be written down in value by €50,000
Buildings is to be written down in value by €15,000

Required

(a) Prepare the appropriation account showing each of the partners entitlements **(7 marks)**

(b) Prepare Capital accounts for each partner including all movements therein during the year ended 30/04/12 **(5 marks)**

(c) Prepare the Current accounts for each partner including all movements therein during the year ended to 30/04/12 **(8 marks)**

(d) Prepare the Balance Sheet as at 30/14/12 **(5 marks)**

Total (25 marks)

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Question 2

The Trial Balance of Hardware Ltd as at 30/04/12 is set out below:

		Debit	Credit
		€	€
Premises		720,000	
Machinery		350,000	
Trucks		95,000	
Retained Profit			135,000
Ordinary Share capital	€0.50		250,000
5% Redeemable Preference Shares			200,000
Share Premium			45,000
6% Debentures			50,000
Provision for depreciation			
Buildings	30/04/11		57,600
Machinery-	30/04/11		175,000
Vehicles-	30/04/11		34,200
Inventory	30/04/11	26,000	
Purchases		450,000	
Sales			850,000
Trade receivables		25,000	
Trade payables			30,000
Sales returns		2,500	
Purchase Returns			3,000
Settlement discount allowed		1,100	
Settlement discount received			2,600
Provision for doubtful debts			680
Bank		6,780	
Ordinary dividends		5,000	
Preference dividend		10,000	
Rent and rates		25,000	
Bad debts		4,000	
Sundry expenses		6,200	
VAT			3,000
Wages and salaries		95,000	
Motor expenses		14,500	
	Totals	**1,836,080**	**1,836,080**

This question continues on the next page

Question 2-continued

Notes

(1) Inventory at 30/04/12 is €26,000

(2) Included in wages is €12,000 paid to staff to assist in constructing a storeroom.
Materials amounting to €20,000 which were used in constructing the storeroom were included in purchases.

(3) A customer owing €5,000 has gone into liquidation. It is estimate that only €0.15 in the euro will be recovered by the company.

(4) The provision for doubtful debts is to be maintained at 5%

(5) It has been discovered that the company inadvertently debited the VAT account with €2,500 instead of including that amount in repairs

(6) Included in rent and rates is an amount of €10,000 in respect of 15 months to the year ended 31/07/12.

(7) Depreciation rates are as follows:

			Allocated as follows		
			Production	**Marketing**	**Administration**
Premises	4%	Straight line	100%	0%	0%
Machinery	20%	Straight line	100%		0%
Trucks	20%	Reducing balance		100%	0%

(8) Allocation of the remaining other expenses is as follows

			Production	**Marketing**	**Administration**
Motor expenses			0%	80%	20%
Rent rates			70%	20%	10%
Wages and salaries			60%	30%	10%
Sundry expenses			0%	0%	100%

(9) Provide for taxation of €22,000

(10) A final Ordinary dividend of €0.01 was declared on the 15/05/12

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

Question 2-continued

In respect of Hardware Ltd

(a) Prepare the Income Statement of Hardware Ltd for the year ended 30/04/12 **(17 marks)**

(b) Prepare the note Non Current Assets for the year ended 30/04/12 **(9 marks)**

(c) Prepare the Statement of Changes of Equity of Hardware Ltd for the year ended 30/04/12 **(4 marks)**

Total (30 marks)

Amounts computed can be rounded to the nearest euro where relevant

Question 3 is on the next page

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<u>Question 3</u>

Set out below and on the next page are the "draft" Balance sheet and Income Statement for Rayron Ltd for the year ended 31/03/12

Balance Sheet of Rayron Ltd as at 31/03/12

Non Current Assets	Cost	Acc .Depreciation	Net book value
Buildings	250,000	(10,000)	240,000
Motor cars	<u>100,000</u>	<u>(20,000)</u>	80,000
Totals Non Current Assets	<u>350,000</u>	<u>(30,000)</u>	320,000
Current Assets			
Inventory	14,500		
Receivables	20,000		
Cash in hand	11,950		
Total Assets			**<u>366,450</u>**
Equity & Liabilities			
Ordinary Share Capital	125,000	€0.80	100,000
Share Premium			<u>62,500</u>
			162,500
5% Preference Shares			50,000
<u>Movement in Profit</u>			
Profit for the year		32,700	
Dividends			
Preference	2,500		
Ordinary	<u>1,250</u>		
		<u>(3,750)</u>	
			<u>28,950</u>
Total Equity			**241,450**
Non Current Liabilities			
6% Loan			80,000
Current Liabilities			
Payables		26,000	
Sundry Liabilities **[note 1]**		<u>19,000</u>	
			<u>45,000</u>
Total Equity and Liabilities			**<u>366,450</u>**

This question continues on the next page

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Question 3-continued from previous page

Draft income statement of Rayron Ltd for year ended 31/03/12

Revenue			250,000
Cost of sales			(150,000)
Gross Profit			**100,000**
Operating expenses			(62,500)
Profit before interest and tax			**37,500**
Interest			(4,800)
Profit for the year			**32,700**

Note 1

During the review of the above draft financial statements, which had been prepared by the trainee accountant, the following matter came to light

The item on the Balance Sheet for "Sundry Liabilities" €19,000 was in fact not a particular liability but a "Balancing amount" inserted in order to make the Total Assets equal Total Equity plus Liabilities.

As result of this discovery a detailed review of the financial statements was undertaken and the following issues were identified

Issues

(1) Purchases totaling €21,000 were correctly posted to purchases but were posted to payables as €12,000

(2) €5,000 of bad debts were correctly debited to bad debts but incorrectly debited also to receivables

(3) €1,700 of repairs for March had not been accrued for because the invoice has only now been found

(4) Inventory costing €6,000 can be sold for €7,000 if delivered to customer at cost of €1,500. The trainee accountant did not see the need for any adjustment as the selling price was greater than the cost of the inventory

(5) €4,000 of "Sales Returned" was debited to purchases in error.

(6) VAT on sales of €120,000 [i.e.€120,0000 before VAT] was calculated at 10% instead of 20%

Question 3-Issues continued

(7) A machine purchased two years ago for €100,000 was depreciated at 20% straight line instead of 20% reducing balance.

(8) Taxation for €4,000 on profit should have been provided for.

(9) On examining documentation in relation to the issue of shares, it was discovered that the nominal value of the 125,000 ordinary shares issued was €0.70 and not €0.80 but that the issue price of €1.30 was correct

<u>Required</u>

(a) Set out any relevant journal entries in respect of the above
(18 marks)

(b) Show how the Sundry Liability /"Balancing amount" arose
(2 marks)

(c) Show the amendments necessary to the profit of €32,700
<u>(5 marks)</u>

Total <u>(25 marks)</u>

See below for suggested format

Suggested layout for answering requirements (a) and (c) of question 3

Requirement (a) Journal Entries

Issue number (nn)

	<u>Debit</u>	**<u>Credit</u>**
RTC T a/c	€yyyy	
LMN T a/c		€yyy

Being the correction of ………………………..

Alternatively if not journal entry required then state
"No journal entry was required"

For (c)

Profit per question	**€32,700**
Issue???	
Add? Deduct?	€xxx
etc	

Candidate may use an alternative presentation that conveys the same information

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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 completed answer sheet provided at the back of this exam paper and return with their answer scripts.

Students should mark x over the letter corresponding to their choice of answer in respect of each of the items listed.

Only one **X** will be accepted for each item.

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

Question 4 Multi-choice

Item 1

An asset might best be described as

(a) A resource with future economic benefits arising from current event
(b) A resource with current economic benefits arising from past events
(c) A resource with current economic benefits arising from future events
(d) A resource with future economic benefit arising from past events

Item 2

A Liability might be described as:

(a) A present obligation of the entity arising from past events the settlement of which is expected to result in the outflow of resources embodying economic benefits.

(b) A future obligation of the entity arising from current events the settlement of which is expected to result in the outflow of resources embodying economic benefits.

(c) A present obligation of the entity arising from current events the settlement of which is expected to result in the outflow of resources embodying economic benefits.

(d) A future obligation of the entity arising from past events the settlement of which is expected to result in the outflow of resources embodying economic benefits.

Multi-choice question 3 continued

Item 3

The following stock movements were recorded Season Ware Ltd

Date	Units	Cost	Units Out
01/03/12	500	€2,000	
05/03/12	600	€3,000	
08/03/12			700
17/03/12	400	€2,400	
31/03/12			420

In accordance with IAS 2 the closing value of inventory should be

(a) €1,680
(b) €2,280
(c) €2,100
(d) None of the above

Item 4

Orion incurred the following costs in relation to a new product

(1) Costs of introducing new product or service
(2) Cost in construction and operation of pilots plants
(3) Administration and general overheads

According to IAS 38 the following costs would NOT be included in development costs in relation to the above

(a) (1),(2) and (3)
(b) (1) and (2)
(c) (2) and (3)
(d) (1) and (3)

Item 5

According to IAS 10 an "Event after the reporting period "in relation to a set of financial statements occurs

(a) Between the Balance Sheet date and the date of the AGM
(b) Between the date of date the accounts are signed by auditors and AGM
(c) Between the date the accounts approved/ authorised and the date of the AGM
(d) Between the Balance Sheet and the date the accounts were approved/authorised

Question 4 -multi-choice continued

Item 6
A company with year ended 31/12/11 purchase a machine for €200,000 on the 01/01/11 with an estimated disposal value of €20,000 and useful life of 4 years.

A grant of 30% of cost was received from a government industrial agency. The total net amount charged to the income statement and the amounts that would appear on the Balance Sheet using the deferred income would be

		Balance Sheet	
	Income Statement	Grants	Machine
(a)	€45,000	€60,000	€155,000
(b)	€30,000	€45,000	€155,000
(c)	€45,000	€45,000	€140,000
(d)	€30,000	€60,000	€140,000

Item 7
Importers Ltd bought goods from the UK on the 01/01/11 for £100,000. On the 30th of June it paid off half of the amount owed i.e. £50,000 for €62,500 At B/S date the company still owed the remaining £50,000

The following were the exchange rates

01/01/11	£0.90 to €1.00
30/06/11	£0.80 to €1.00
31/12/11	£0.85 to €1.00

The amount to be shown on the Balance Sheet in respect of creditors and the exchange gain or loss arising during the year to the nearest euro is as follows

	Payables creditors	Exchange Gain/ (Loss)
(a)	€55,556	(€6,944)
(b)	€48,611	€2,294
(c)	€55,556	(€4,020)
(d)	none of the above	none of the above

<u>Question 4 multichoice-continued</u>

<u>Item 8</u>

During the course of the preparation of the financial statement for year ended 31/03/12 it was discovered that the opening stock at the 01/04/11 had been overstated by €8,000 due to a misclassification of a cost. This has now been corrected so that opening stock for the current year ended 31/03/12 is properly stated.

The accountant needs to

(a) Do nothing since a retrospective adjustment is not required under IAS 8
(b) As there is a cancelling effect so that the combined profits for the two years are correct in total
(c) Restate the comparative income statement for year ended 31/03/11 and restate the balance brought forward at 01/04/11 in statement of changes in equity
(d) Do nothing since the current year has been correctly stated.

<u>Item 9</u>

A company bought goods for €120,000 inclusive of 20% VAT and had sales of €132,000 inclusive of VAT. The mark up profit on cost was 25%. The Profit and the closing stock after the above transactions were

	Profit	**Closing Stock**
(a)	€12,000	No closing stock
(b)	€22,000	€12,000
(c)	€10,000	No closing stock
(d)	€12,000	€22,000

<u>Item 10</u>

The directors of the company are discussing the possibilities of redundancies. One estimate is for possible redundancy cost of €200,000 another at €350,000. Because of the uncertainty the board has not yet communicated with its employees. The directors should

(a) Provide for the average amount of €275,000 as this is the most likely estimate
(b) Provide for €350,000 as this is the most prudent of estimates
(c) Provide for €200,000 as this takes account of prudence whilst not overstating the provision
(d) Provide for nothing at all as they are not irrevocably committed to making the redundancies

<u>END OF MULTI-CHOICE QUESTION</u>

<u>END OF EXAMINATION PAPER</u>

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 2012

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 an 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

<u>Item</u>

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