Institute of Incorporated Public Accountants

Professional 2 - Module 8:

Financial Accounting

Tuesday 28th. May 2013

10am – 1pm

Time Allowed: Three hours

<u>Instructions</u>

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

<u>Marking Scheme</u>

Question 1-Company Accounts	**35 marks**
Question 2-Partnership	**25 marks**
Question 3-Journal Entries	**20 marks**
Question 4 Multi-choice question	**20 marks**

Total	**<u>100 marks</u>**

Question 1

Set out below is the Trial Balance of Garden Furniture Ltd as at 31/03/13

		Debit	Credit
		€	**€**
6% Redeemable Preference Shares			100,000
Bad debts		3,000	
Sundry expenses		6,200	
VAT		5,000	
Wages and salaries		95,000	
Maintenance		13,000	
Retained Profit			125,000
Ordinary Share capital	€0.80		320,000
Share Premium			80,000
8% Debentures			70,000
Sales/Revenue			770,000
Sales/ Revenue returns		8,500	
Bank			23,800
Provision for doubtful debts	01/04/12		1,300
Inventory		20,000	
Purchases		460,000	
Trade receivables		90,000	
Purchase Returns			3,500
Settlement discount allowed		1,600	
Settlement discount received			2,700
Ordinary dividends		4,000	
Preference dividend		6,000	
Insurance		28,000	
Trade payables			40,000
Buildings		400,000	
Lorries		250,000	
Machinery		480,000	
Provision for depreciation			
Buildings	01/04/12		24,000
Lorries	01/04/12		100,000
Machinery	01/04/12		210,000
	Totals	1,870,300	1,870,300

Notes to the Trial Balance

(i) The closing inventory at the 31/03/13 was €26,000

This question continues on the next page

Question 1 Garden Furniture Ltd -continued-notes to Trial Balance

(ii) The purchases of €460,000 include materials of €40,000 that were used in extending the premises.

(iii) A customer owing €12,000 to Garden Furniture Ltd has gone into liquidation. The most that will be repaid is €0.10 in the euro.

(iv) Included in sales are goods sold on approval on 15/03/13 which cost Garden Furniture €30,000 and were sold on credit at a profit margin on sale of 20%. The terms allow the customer up to 30 days to return the goods to Garden Furniture Ltd without any obligation.

(v) A provision for doubtful debts of 5% is to be maintained.

(vi) Included in insurance is a public liability premium of €11,200 covering 12 months to the 30/06/13.

(vii) The depreciation rates and the allocation of the amounts amongst the functional classifications are as follows;

			Allocated as follows		
			Production	**Marketing**	**Administration**
Buildings	2%	Straight line	80%		20%
Lorries (viii)	20%	Straight line		100%	0%
Machinery	25%	Reducing balance	100%	0%	0%

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

(viii) Included in sales is an amount for €20,000 in respect of the disposal of a lorry that was acquired on the 01/04/10 for €30,000. Apart from the recording of the receipt of €30,000 no other adjustments were made

This question continues on the next page

Question 1- Garden Furniture Ltd -continued-notes to Trial Balance

(ix) The expenses set out hereunder are to be allocated by function as follows;

	Allocation as follows :		
Expenses	**Production**	**Distribution**	**Admin**
Maintenance	0%	80%	20%
Insurance	50%	20%	30%
Wages and salaries	60%	30%	10%
Sundry expenses	0%	0%	100%

(x) A final ordinary dividend of €0.10 per ordinary share was proposed to be approved by shareholders at the AGM on the 15th April 2013

(xi) Taxation of €14,000 was proposed.

(xii) During the year the company issued 100,000 ordinary shares at €1.10 which were properly recorded and accounted for;

<u>Required</u>

(a) Prepare the Income Statement of Garden Furniture Ltd for the year ended 31/03/13 in accordance with the relevant accounting standards.

(20 marks)

[Including marks for relevant working notes]

(b) Prepare the Statement of Changes in Equity in accordance with the relevant standards.

(5 marks)

(c) Prepare the note on Non Current Assets in accordance with IAS 16.

(<u>10 marks</u>)

Total <u>(35 marks</u>)

Amounts computed can be rounded to the nearest euro where relevant

Question 2

William, Linda and Sean were in partnership running a number of hairdressing salons through out the country.
Set out below is the Balance Sheet as at 30/04/13 before apportionment of the Profit for the year ending at that date and adjustment for other matters set out in the notes.

			€
Non Current Assets			
Properties/Salons			180,000
Debtors			7,000
Bank			800
Total Assets			**187,800**
Less Current Liabilities			
Payables			(15,000)
Net Assets			**172,800**
Capital Accounts			
William (note ii)	01/05/12		50,000
Linda	01/05/12		30,000
Sean	01/05/12		20,000
Mary (note iii)	31/12/12		
			100,000
Current Accounts			
William	01/05/12	4,500	
Linda	01/05/12	3,800	
Sean	01/05/12	(1,500)	
			6,800
Drawings			
William		(18,000)	
Linda		(20,000)	
Sean		(16,000)	
			(54,000)
Profit for the year ended		30/04/13	120,000
			172,800

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Question 2-continued

(i) Profit sharing ratios up to the 31/12/12 were as follows;

William	60%
Linda	30%
Sean	10%

(ii) William retired on the 31/12/12 and at that date it was agreed that
Goodwill was valued at € 30,000
Due to the recession property was re-valued to €162,000

It was agreed that William has agreed to forego immediate payment of all his entitlement. Instead he will convert €40,000 of what is due to him into an interest free loan to the partnership repayable in six months. Any balance owing in excess of the €40,000 to be repaid immediately

(iii) Mary joined the partnership on January 1st 2013 and agreed to invest €25,000 by way of capital. Profit sharing was revised as follows;

Linda	40%
Sean	30%
Mary	30%

Further it was agreed that additionally Mary would pay her share of the goodwill. No adjustments have yet been made to reflect Mary's capital investment and payment of her share of goodwill.

(iv) Goodwill is not to remain in the books of account.

(iv) Profit for the year ended 30/04/13 was €120,000 and accrued evenly through out the year with the exception of machine repair expenses of €8,400. It was agreed that the €8,400 expenses were incurred in the period up to the 31/12/12.

Required

(a) Show the apportionment of the profit for the year ended 30/04/13 for each partner **(7 marks)**

(b) Show the movements and final balances of the Capital accounts of each partner for the period ended 30/04/13. **(12 marks)**

(**c)** Show the movements and final balances of the Current accounts of each partner for the period ended 30/4/13 **(6 marks)**

(25 marks)

Question 3

Set out below and on the next page are the "draft" Balance sheet and Income Statement for New Company Ltd for the year ended 28/02/13

	€	€	€
Non Current Assets			
Premises	340,000	(27,200)	312,800
Equipment	80,000	(28,800)	51,200
	420,000	(56,000)	364,000
Current Assets			
Inventory	24,000		
Receivables	33,250		
Sundry Asset [note 1]	16,000		
Bank	18,329		
			91,579
Total Assets			**455,579**
Equity			
Ordinary Share Capital	140,000	€0.80	112,000
Share Premium			84,000
Revaluation of premises			40,000
			236,000
5% Preference Shares			80,000
Movement in Profit			
Profit for the year		40,729	
Dividends			
Preference	4,000		
Ordinary dividend	1,680		
		(5,680)	
			35,049
Total Equity			**351,049**
Non Current Liabilities			
10% Loan			74,530
Current Liabilities			
Payables			30,000
Total Equity and Liabilities			**455,579**

Question 3-continued

Draft income statement of New Company Ltd for the year ended 28/02/13

Revenue	360,000
Cost of sales	(216,000)
Gross Profit	**144,000**
Operating expenses	(90,000)
Profit before interest and tax	**54,000**
Interest	(7,453)
Profit for the year	**46,547**
Taxation	(5,818)
Profit for the year	**40,729**

On examining the above statements prepared by a trainee accountant the following issues came to light

(1) The sundry asset refers to a balancing difference in the Trial Balance.

. (2) The following matters arose in relation to Non Current Assets

(i) No depreciation was provided for the year ended 28/02/13.

(ii) Operating expenses included an amount for €13,000 in respect of the purchase of equipment. There was no other sale of assets and no acquisitions of assets during the period.

(iii) Due to the economic downturn the premises were re-valued on the 28/02/13 to €320,000 but no adjustment had been made.

(iv) The rates of depreciation are as follows;

(a) Premises 4% straight line
(b) Equipment 20% reducing balance.

It is company policy to depreciate an asset in full in its year of acquisition and not to depreciate it in its year of sale.

(3) €8,000 of sales on credit was correctly posted to the sales account in the nominal ledger but the corresponding entry was credited to purchases.

This question continues on the next page

Question 3- issues-continued

(4) The following schedule of repayments in relation to the 5% Loan that was taken out on the 01/03/12 was found in the file maintained by the trainee accountant.

Opening Balance	interest	repayments	Closing Balance	Year end
€95,000.	€9,500.	(€29,970.)	€74,530.	28/02/13
€74,530.	€7,453.	(€29,970.)	€52,013.	28/02/14
€52,013.	€5,201.	(€29,970.)	€27,244.	28/02/15
€27,244.	€2,726.	(€29,970.)	€0.	28/02/16

(5) 5% Preference shares were in fact 5% redeemable preference shares which must be repaid by 2018.

(6) The receivables are after a deduction of 5% provision for doubtful debts. It was discovered on review that there was a customer owing €8,000 who had gone into liquidation and from whom €0.30 in euro at most was recoverable. Further it was felt that a 10% provision was more appropriate.

(7) An ordinary dividend of €0.01 was proposed and to be approved at the AGM scheduled for April 25th 2013.

<u>Required</u>

(a) Show, where required, the relevant journal entries in relation to any of the above issues.Where no journal entries are required then give reasons. **(12 marks)**

(b) Show the finalised Net Profit and the adjustment made thereto. **(4marks)**

(c) Identify any amendments required in relation to matters of presentation in the final accounts. **<u>(4 marks).</u>**

<u>(20 marks)</u>

Suggested layout for answering requirements (a) of question 3
Requirement (a) Journal Entries

Issue number (??)

		<u>Debit</u>	**<u>Credit</u>**
ARB	T a/c	€XXX	
WTA	T a/c		€xxx

Being the correction of ………………………..

Alternatively if no journal entry required in relation to a particular issue, "No journal entry was required for issue (??) Because …………… . **Candidates may use an alternative presentation that conveys the same information.**

<u>Question 4-Multi-choice- instructions</u>

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

Each item has four possible answers (a), (b), (c) or (d).
There is only one correct answer.

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

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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
Income might best be described as

(a) An increase in net assets other than a distribution to the owners.
(b) A decrease in net working capital other than a contribution by the owners.
(c) An increase in net assets other than a contribution by the owners.
(d) A decrease in net working capital other than a distribution to the owners.

Item 2
A company has previously depreciated its vehicles on a straight line basis but it now proposes to depreciate on a reducing balance basis.
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.

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

Item 3

Under new legislation enacted on 01/01/12 companies are required to install clean air filters on their industrial chimneys with effect from the 30/04/13 or face a fine of €10,500. Company ABC Ltd estimated that it will cost €30,000 to fit such filters and it has not yet decided to fit them. ABC Ltd, which is preparing its financial statements for the year ended 31/12/12, should:

(a) Make no provision for the cost of €30,000 but provide for the fine of €10,500
(b) Provide for the cost of €30,000 but make no provision for the fine of €10,500
(c) Provide for the net cost of €19,500 i.e. cost of installing less fine avoided
(d) Make no provision at all

Item 4

Which one of the following would **<u>not be</u>** included in Research & Development

(a) The design construction and testing of preproduction or pre-use prototypes
(b) The search for alternatives for materials, devices, products, processes or services
(c) The design of jigs tools, moulds and dies involving new technology
(d) The design construction and testing of a chosen alternative for new or improved products processes, systems or devices.

<u>Item 5</u>

LOW Ltd has Profits of €30,000 for year end 31/12/12. It had Ordinary Share Capital as at 31/12/11 of 108,000 Ordinary shares with a nominal value of €1.0 each. On the 01/07/12 it made a "one for four" rights issue at €1.20 when the market value of the share just before the Rights Issue date was €1.95. In the financial statements for the year ended 31/12/12 the Earnings per Share, to nearest two decimal places, is:

	<u>31/12/12</u>
(a)	€0.28
(b)	€0.24
(c)	€0.22
(d)	none of the above

Question 4-multichoice continued

Item 6
In preparing a set of consolidated accounts for 31/12/12 sales of €100,000 by the Parent company to its 80% subsidiary had occurred. The subsidiary had been acquired some years ago. The parent company had a mark up of 20% on cost of sales to its subsidiary.
In the subsidiary company accounts 30% of the purchases from the parent company were still in inventory at 31/12/12. The amount by which inventory in the Group's Balance Sheet and the amount by which the Group Profit should be reduced is

	Subsidiary Stock	Parent Profit
(a)	€ 5,000	€ 5,000
(b)	€ 4,800	€ 6,000
(c)	€ 20,000	€ 16,000
(d)	None of the above	none of the above

Item 7
According to IAS 10 a "Post Balance Sheet" event occurs

(a) Between the Balance Sheet date and the date of the company's AGM.
(b) Between the Balance Sheet date and the date that the financial statements were authorised for issue.
(c) Between the date of the auditors report and the date of the company's AGM.
(d) Between the date the financial statements were approved by the company's board of directors and the date of the date of the company's AGM.

Question 4 multi-choice continued

Item 8

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

(a) It is certain that economic benefits will flow into the entity.
(b) It is probable that economic benefits will flow into the entity.
(c) It is certain economic benefits will flow into the entity and the amount of revenue can be measured in monetary terms.
(d) It is probable economic benefits will flow into the entity and that the amount of revenue can be measured reliably.

Item 9

During the course of preparation of the financial statements for year end 30/11/12 it was discovered that the opening inventory as at 01/12/11, was overstated by €50,000 due to a fundamental error.

The accountant needs to;

(a) Do nothing because it has cancelling effect over the two years i.e. the combined total of the profits for 30/11/11 and 30/11/12 would be unchanged.

(b) Restate the comparative profits for year end 30/11/11 and the balance brought forward at 01/12/12.

(c) Restate the balance brought forward at 01/12/11.

(d) Do nothing because a retrospective adjustment is not required.

Item 10

An asset might best be described as

(a) Something which is owned by a business entity.
(b) A resource which has given economic benefits to the business entity.
(c) A resource from which it is certain that future economic benefit will flow to the business entity.
(d) A resource from which it is probable that future economic benefit will flow to the business entity.

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 Financial Accounting May 2013

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)

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