IIPA

Professional 2 – Module 8

Financial Accounting SOLUTIONS

May 2013

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

Total	**100 marks**

Question 1

		€
Revenue €770,00-[8,500+37,500+20,000]		704,000
Cost of sales		(524,640)
Gross Profit		179,360
Other operating income-discounts		2,700
Selling and distribution	(85,940)	
Administration expense	(43,805)	
		(129,745)
Operating profit		52,315
Finance Cost		
Debenture interest	(5,600)	
Redeemable Pref dividend	(6,000)	
		(11,600)
Profit before tax		40,715
Income tax expense		(14,000)
Profit for the year		26,715

(1) (b) Statement of changes in Equity for year ended 31/03/13

	Share Capital	**Share Premium**	**Retained Earnings**	**Total**
Balances at 01/04/12	240,000	50,000	125,000	415,000
Issue during the year	80,000	30,000		110,000
Profit for year ended 31/03/13			26,715	26,715
Ordinary dividend paid			(4,000)	(4,000)
Balances as at 31/03/13	320,000	80,000	147,715	547,715

An ordinary dividend of €0.10 per share amounting to €4,800 was proposed to be presented at the AGM on the 15/04/13 for approval

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Question 1 answer (c) Note on Non Current Assets

	Buildings	**Lorries**	**Machinery**	**Total**
Cost or valuation 01/04/12	400,000	250,000	480,000	1,130,000
Capitalisation	40,000			40,000
Disposal		(30,000)		(30,000)
Cost of valuation 310/03/13	**440,000**	**220,000**	**480,000**	**1,140,000**
Depreciation				
Accumulated depreciation01/04/12	24,000	100,000	210,000	334,000
Disposal		(12,000)		(12,000)
Charged to I/S y/e 31/03/13	8,800	44,000	67,500	120,300
Accumulated depreciation31/03/13	32,800	132,000	277,500	442,300

Net Book value at 31/03/12	376,000	150,000	270,000	796,000
Net Book value at 31/03/13	407,200	88,000	202,500	697,700

The depreciation rates are as follows

Buildings 2% straight line
Lorries 20% straight line
Machinery 25% 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 disposal

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Working Note 1- analysis of costs classified by function

	Adjustment	Production	Distribution	Admin	Total	B/S
Building depreciation	40,000	7,040	0	1,760	8,800	
Lorries depreciation		0	44,000	0	44,000	
Machinery Depreciation		67,500	0	0	67,500	
Inventory		20,000			20,000	
Purchases	(40,000)	420,000			420,000	
Purchase Returns		(3,500)			(3,500)	
Settlement discount allowed				1,600	1,600	
Bad debts per T/B				3,000	3,000	
Additional bad debts				10,800	10,800	
Estimate of doubtful debts				785	(a)785	
Insurance **W/N 2**		12,600	5,040	7,560	25,200	2,800
Sundry expenses **W/N 2**				6,200	6,200	
Wages and salaries **W/N 2**		57,000	28,500	9,500	95,000	
Maintenance **W/N 2**		0	10,400	2,600	13,000	
Inventory Closing balance	-	(26,000)	-	-	(26,000)	
Goods on approval stock		(30,000)			(30,000)	
Less profit on disposal of asset			(2,000)		(2,000)	
I/S for Y/E 31/03/13	**0**	**524,640**	**85,940**	**43,805**	**654,385**	

(a) 1,300 minus 5% of [€90,000 -(bad debts €10,800 plus €37,500 goods sold on approval)]

W/N 2 Analysis of other costs by classification for insertion into W/N 1

	T/B	**Accuals**	**Amended**	**Allocation as follows :**		
Expense		**(Prepaid)**		**Production**	**Distribution**	**Admin**
		(Reclassify)				
Maintenance	€13,000		€13,000	0%	80%	20%
				€0	€10,400	€2,600
Insurance	€28,000	(€2,800)	€25,200	50%	20%	30%
				€12,600	€5,040	€7,560
Wages and salaries	€95,000	€0	€95,000	60%	30%	10%
				€57,000	€28,500	€9,500
Sundry expenses	€6,200	€0	€6,200	0%	0%	100%
				€0	€0	€6,200

Balance sheet included for completeness. Not asked for

Non current Assets			€
Property, Plant and Transport			697,700
Current Assets			
Inventory		56,000	
Receivables	90,000		
Bad debts per note to T/B	(10,800)		
Goods sold on approval	(37,500)		
	41,700		
less provision for doubtful debts	(2,085)		
		39,615	
Prepaid insurance		2,800	
VAT		5,000	
			103,415
Total Assets			801,115
Equity and Liabilities			
Equity			
Ordinary Share capital		320,000	
Share Premium		80,000	
Retained Profits		147,715	
			547,715
Non Current Liabilities			
Redeemable Preference share capital		100,000	
8% Debentures		70,000	
			170,000
Current Liabilities			
Payables			
Creditors	40,000		
Taxation	14,000		
Interest	5,600		
Bank	23,800		83,400
Total Equity plus Liabilities			801,115

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Question 2

Answer 2 (a)- Appropriation Account

		from	**from**		
		01/05/12	**01/01/13**		
		to	**to**		
		31/12/12	**30/04/13**	Total	
		€85,600	€42,800	€128,400	
Repairs		(€8,400)	excluded	(€8,400)	
		€77,200	**€42,800**	**€120,000**	
	to 31/12				**post 31/12**
William	60%	€46,320	€0	€46,320	0%
Linda	30%	€23,160	€17,120	€40,280	40%
Sean	10%	€7,720	€12,840	€20,560	30%
Mary	0%	€0	€12,840	€12,840	30%
		€77,200	**€42,800**	**€120,000**	

Answer 2 (b) -Movement on Capital accounts during the year

	William	**Linda**	**Sean**	**Mary**	**Total**
Brought down	€50,000	€30,000	€20,000	€0	€100,000
Property	(€10,800)	(€5,400)	(€1,800)	€0	(€18,000)
Goodwill	€18,000	€9,000	€3,000	€0	€30,000
Goodwill	€0	(€12,000)	(€9,000)	(€9,000)	(€30,000)
Bank	€0	€0	€0	€25,000	€25,000
Bank	€0	€0	€0	€9,000	€9,000
Loan	(€40,000)	€0	€0	€0	(€40,000)
To Capital	€32,820	€0	€0	€0	€32,820
Bank	(€50,020.)				(€50,020)
	€0	**€21,600**	**€12,200**	**€25,000**	**€58,800**

Note T a/cs would be preferable. Above layout used for reasons of space.
Note T accounts or above showing Debits and (Credits) as plus and minuses acceptable

Question 2 (c)- Movement on current accounts during the year

	William	**Linda**	**Sean**	**Mary**	**Total**
brought down	€4,500	€3,800	(€1,500)	€0	€6,800
Profits	€46,320	€23,160	€7,720	€0	€77,200
Profits	€0	€17,120	€12,840	€12,840	€42,800
Drawings	(€18,000)	(€20,000)	(€16,000)	€0	(€54,000)
To Capital	(€32,820)	€0	€0	€0	(€32,820)
	€0	**€24,080**	**€3,060**	**€12,840**	**€39,980**

Note T a/cs would be preferable. Above layout use for reasons of space
Not asked for ; Balance Sheet of Partnership at 30/04/13 after adjustments

Non Current Assets				
Properties/Salons				€162,000
Receivables				€7,000
Total Assets				€169,000
Less Current Liabilities				
Loan from	William	(€40,000)		
Payables		(€15,000)		
Bank overdrawn		(€15,220)		(€70,220)
				‘
Net Assets				**€98,780**
Capital Accounts				
William	€0			
Linda	€21,600			
Sean	€12,200			
Mary	€25,000			
			€58,800	
Current Accounts				
William	€0			
Linda	€24,080			
Sean	€3,060			
Mary	€12,840		€39,980	‘
				€98,780

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Question 3
Issue

(1) & (3)

Purchases	€8,000	
Receivables	€8,000	
Sundry Asset		€16,000

Being the correction of a posting to the wrong account and an incorrect debit leading to a double effect in the error whereby a Liability was overstated and an asset was understated so that Net Assets were understated by €16,000 resulting in the balancing amount of a sundry asset on the Balance Sheet

(2(i)

Accumulated Depreciation Equipment		€12,840
Depreciation expense [20% reducing balance]	€12,840	

Accumulated Depreciation Premises		€13,600
Depreciation Expense [4% straight line]	€13,600	

being depreciation of non current assets for current year which were omitted. The amount for equipment includes purchases during the year which are depreciated in full in accordance with company policy.

(2) (ii)

Operating Expenses		€13,000
Asset [equipment]]	€13,000	

Being the correction of misclassified capital expenditure as revenue expenditure

(2) (iii)

Revaluation account-Premises	€20,000	
Accumulated Depreciation		€20,000

Being the write down of premises in pursuance of a revaluation as at 28/02/13

(3) See above at issue (1)

(4) Loan €74,530 schedule-no double entry required
Instead need to present between NCL and CL

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Question 3-continued

(5) Preference shares-no double entry required but dividend must be posted to the interest charges account thereby amending the Profit for year and excluding it from the movement in reserves.

Dividend-distribution of profit		€4,000
Finance Charges- interest	€4,000	

(6) The balance sheet receivables are €33,250 after 5% PDD
Thus gross amount before PDD is €33,250/95%=€35,000
Thus original provision for doubtful debts posted is
€35,000 x5%=€1,750

Bad debt €8,000 x [1-0.30]	€5,600	
Receivables		€5,600

Revised P.D.D is 10% x [€35,000-€5,600]=€2,940
Existing provision €1,750

Thus Receivables]		€1,190
Income statement	€1,190	

Being the write of a bad debt and the increase in provision for doubtful from existing €1,750 to revised of €2,940

(7) Ordinary dividends proposed but not authorised before the Balance Sheet date should not be included as Liabilities the Balance Sheet as per IAS 10.
Thus no double entry required..

Total marks **[12.00]**

(b) Finalised profits and adjustments made thereto

	Profit for the year	**40,729**
Issue (2) (i)	Depreciation on remaining equipment	(12,840)
Issue (2) (i)	Depreciation premises	(13,600)
Issue (3)	Sales	(25,000)
Issue (3)	Purchases	25,000
Issue (2) (ii)	Operating expenses-equipment	13,000
Issue (6)	Bad debt	(5,600)
Issue (6)	Increase in provision for doubtful debts	(1,190)
Issue (5)	Preference dividend as finance charges	(4,000)
	Amended profit after journals	**16,499**

Question 3-continued

(c) -Presentation issues -**4 marks**

Issue (5) **[1 mark]**

As the preference shares are redeemable they satisfy the definition of a liability - Present obligation to arising from past events the settlement of which is expected to result in the outflow of resources embodying future economic benefits

Thus the 5% Preference shares should be presented as non current liability and the dividend should be shown as an interest charge under Finance charges in the Income statement

Issue 4

The schedule of the four year loan indicates that the principal sum - [money repayable in the minus interest repayment]- , in the year 2014, -should be presented as a current liability and the balance of the amount owing as a non current liability

Current Liability	€22,517	
Non Current Liability	€52,013	**[2 marks**]
	€74,530	

Issue 7

The proposed ordinary dividend of €1,400 should be disclosed only by way of note.

[1 mark]

Not asked for but included. A redrafted Balance Sheet of New Company as at 28/02/13.

Question 3

	€	€	€	€
Non Current Assets				
Premises	340,000	(60,800)		279,200
Equipment	93,000	(41,640)		51,360
	433,000	(102,440)		330,560
Current Assets				
Inventory	24,000	0	24,000	
Receivables	33,250	1,210	34,460	
Bank			18,329	
				76,789
Total Assets				**407,349**
Equity				
Ordinary Share Capital	140,000	0.80	112,000	
Share Premium		0.60	84,000	
Revaluation reserves			20,000	
			216,000	
Preference shares-reclassified				
Movement in Profit				
Profit for the year	40,729			
adjustments> see note	(24,230)			
Amended to a loss of	16,499			
Preference dividend	Re-classified as % charge			
Ordinary dividend	(1,680)			
			14,819	
Total Equity				230,819
Non Current Liabilities				
10% Loan	74,530	(22,517)	52,014	
5% Preference shares Capital			80,000	
				132,014
Current Liabilities				
Loan			22,517	
Payables	30,000	(8,000)	22,000	
				44,517
Total Equity and Liabilities				**407,349**

Question 3solution continued. Not asked for. **Redrafted note on non current assets**

	Premises	**Equipment**	**Total**
Opening balance	340,000	80,000	420,000
Addition		13,000	13,000
Value at cost 28/02/13	**340,000**	**93,000**	**433,000**
Accumulated depreciation 28/02/12	27,200	28,800	56,000
Disposal			0
Depreciation charge	13,600	12,840	26,440
Revaluation w/down	20,000		20,000
Accumulated depreciation 28/02/13	**60,800**	**41,640**	**102,440**
Net Book value 28/02/12	**312,800**	**51,200**	**364,000**
Net Book value 28/02/13	**279,200**	**51,360**	**330,560**

Question 4-multichoice

Item 1

Actual definition of income is
"Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that results in an increase equity other than those relating to contributions by equity participants"

The nearest best answer **is (c)**

Item 2

(b) IAS 8 a change in estimate but no change in accounting policy

Item 3 -IAS 37

(d) No obligating event exists at the balance sheet 31/12/12

Item 4-IAS 36 (b) The search for alternatives for materials etc

Item 5 (b) i.e. €0.24

Ex rights price is [4 x €1.95] +[1 x €1.20] equals €9.00 divided by 5=€1.80

Pre-rights 108,000 x €1.95/1.80 x 6/12mths =117,000 x 6/12= 58,500 shares
Post rights 135000 shares x 6/12 67,500 shares
126,000 shares
€30,000 divided by 126,000 shares equals 23.8 cent rounded to 24 cents

Item 6 (a)
Sales of €100,000 of which in stock in 30% equals €30,000 of which 20%/120% i.e 1/6th represented unrealized profit of €5000

Item 7 (b) “authorised for issued”

Item 8 (d)
It is probable that economic benefits will flow to the entity and that the amount of revenue can be measured reliably

Item 9- (b)- restate the comparative and the amounts brought forward

Item 10 (d)- A resource from which it is probable that future economic benefits will flow to the business entity