



**Institute of Incorporated Public Accountants**

Financial Accounting

Module 8

May 2014

**Solutions**

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- Consolidated Accounts marks 35**

**Question 2-Partnership marks 25**

**Question 3-Journals 20**

**Question 4 Multi-choice question marks 20**

**Total -----  
100 marks**

**Question 1-Merlin Ltd**

**Group Income statement of Merlin Ltd for year ended 30/06/14**

	<b>Parent</b>	<b>Subsidiary</b>	<b>Adjust</b>	<b>Group</b>	
<b>Sales/Revenue</b>	538,750	125,000	(35,000)	628,750	
Cost of sales	(441,000)	(75,000)	32,500	(483,500)	
<b>Gross Profit</b>	97,750	50,000	(2,500)	145,250	
Selling and distribution	(18,000)	(12,500)		(30,500)	
Administration expense	(19,000)	(10,000)		(29,000)	
<b>Operating profit</b>	<b>60,750</b>	<b>27,500</b>	<b>(2,500)</b>	<b>85,750</b>	
<b>[Investment revenues]</b>					
[Dividend income ]	4,400		(4,400)		
<b>Finance Cost</b>					
Debenture interest	(8,000)			(8,000)	
Redeemable Pref dividend	(20,000)			(20,000)	
<b>Profit before tax</b>	37,150	27,500	(6,900)	57,750	
Income tax expense	(16,000)	(2,750)		(18,750)	
<b>Profit for the year</b>	<b>21,150</b>	<b>24,750</b>	<b>(6,900)</b>	<b>39,000</b>	
<b>Controlling interest</b>	21,150	19,800	(6,900)	34,050	
<b>Non controlling interest [20%]</b>		4,950		4,950	
Profit for the year	<b>21,150</b>	<b>24,750</b>	<b>(6,900)</b>	<b>39,000</b>	

The individual columns referring to parent and subsidiary and “adjust” are not required. Only the Group column and related headings are required i.e. the ones in [brackets] should be omitted

**Group Statement of changes in Equity**

	<b>Share Capital</b>	<b>Share Premium</b>	<b>Retained Earnings</b>	<b>Total</b>	<b>NCI</b>	
<b>Balances at 30/06/13</b>	480,000	90,000	145,000	715,000		
<b>Issued share capital W/N 6</b>	64,000	76,000		140,000	28,350	
<b>Profit for year ended 30/06/14</b>			34,050	34,050	4,950	
Ordinary dividend paid			(9,000)	(9,000)	(600)	
Ordinary dividend proposed * appr			(9,000)	(9,000)		
<b>Balances as at 30/06/14</b>	<b><u>544,000</u></b>	<b><u>166,000</u></b>	<b><u>161,050</u></b>	<b><u>871,050</u></b>	<b><u>32,700</u></b>	

\* As the proposed dividend was authorised it is included

**W/N 1 Showing allocation of profits to Cost of Control, Minority % and Group**

	Parent	Subsidiary	Adjust	Group Profits
<b>Movement in reserves</b>				
<b>Cost of control of Fairlin Ltd</b>				
Cost of control –Pre acq fwd 80% x €26,500		21,200	(21,200)	0
Cost of control –current year 80% x €24,750		19,800	(19,800)	0
Less dividend paid to Merlin 80% x €2,500		(2,000)	2,000	0
<b>Pre-Acq profits to cost of control</b>	<b>To W/N 3-&gt;</b>	<b>39,000</b>	(39,000)	
Merlin share of Post-Acq 80% x €24,750		19,800		19,800
less dividend payable		(2,400)		
Merlin's Profit in "stand alone" accounts	21,150			21,150
Less unrealised profits on sales to Fairlin				(2,500)
less dividend income from Fairlin included in				(4,400)
<b>Group profit for the year</b>				<b>34,050</b>
Opening retained profits- Merlin	145,000			145,000
Dividend paid by Merlin	(9,000)			(9,000)
Dividend authorised by Merlin Ltd	(9,000)			(9,000)
<b>Minority interest 20% in Fairlin Ltd &gt;W/N5</b>				
Minority % of post acq profit 20% x €24,750		4,950		N/A
Minority % of Pre-acq profit 20% x €24,750		4,950		N/A
Minority % share of profit b/fwd 20% x €26,500		5,300		N/A
Dividends paid to minority 20% x €2,500		(500)		N/A
Dividends payable 20% x €3,000		(600)		
	<b>148,150</b>	<b>70,500</b>		<b>161,050</b>

**The Group Balance Sheet[SOPF] of Merlin Ltd showing total assets as at 30/06/14**

<b>Non current Assets</b>	<b>Parent</b>	<b>Subsidiary</b>	<b>Adjust</b>	<b>Group</b>
Property, Plant Equipment W/N 7	1,055,500	143,000		1,198,500
<b>[Fixed Financial Assets]</b>				
[Investment ]	140,000		(140,000)	N/A
<b>Intangible assets</b>				
Goodwill W/N 2				24,600
<b>Current Assets</b>				
Inventory	24,000	20,000	u/r profit\ /	50,500
[goods sold on approval at cost]	9,000		(2,500)	
Receivables	18,000	13,000		19,750
[goods sold on approval]	(11,250)			
VAT	1,800			1,800
Investment income	2,400		(2,400)	0
Bank	7,700	500		8,200
<b>Total Assets</b>	<b><u>1,247,150</u></b>	<b><u>176,500</u></b>	<b><u>(144,900)</u></b>	<b><u>1,303,350</u></b>

Only the group statement of financial position [SOPF] column is required together with the relevant headings ie. The headings in [brackets] would be omitted

Others are included for information only

The remaining "half" of the B/S is on the next page

**Group Balance Sheet [showing equity and Liabilities] of Merlin as**

<b>Equity and Liabilities</b>	Parent	Sub	Adjust	Group	
<b>Equity</b>					
Ordinary Share capital	544,000	64,000		544,000	
Revaluation		10,400			
Share Premium	166,000			166,000	
[Retained Profits ]	148,150	17,400		161,050	
[Pre-Acq Group Profits ]		39,000			
<b>Non-Controlling Interest w/n 5</b>		32,700		32,700	
<b>Total equity</b>	<b>858,150</b>	<b>163,500</b>		<b>903,750</b>	
<b>Non-Current Liabilities</b>					
Redeemable Preference S. capital	250,000			250,000	
10% Debentures	80,000			80,000	
<b>Current Liabilities</b>					
Payables					
Creditors	26,000	10,000		36,000	
Dividend payable	9000	2,400	(2,400)	9,000	
Dividend payable to Minority w/n 5		600		600	
Taxation	16,000			16,000	
Interest	8,000			8,000	
<b>Total Equity plus Liabilities</b>	<b>1,247,150</b>	<b>176,500</b>	(2,400)	<b>1,303,350</b>	

**at 30/06/14**

Only the group/SOFP is required together with relevant headings. The ones in [brackets] would be omitted. Included only for info

**W/N 3- computation of goodwill**

Cost of control		
Share of Capital 80,000 x 80%		€64,000
Share of Pre-acq revaluation €13,000 x 80%		€10,400
Share of Pre-acq profits W/N 1		<u>€39,000</u>
Net asset at acquisition date		€103,400

Consideration 80,000 share x €1.75	€140,000 W/N 6	
Less pre acq dividend received	<u>(€ 2,000)</u>	
		<u>€138,000</u>
Goodwill arising		€ 24,600

**W/N 5 Minority interest 20% in Fairlin Ltd**

Share capital €80,000 x 20% equals	€16,000
Share premium account €13,000 x 20%	€ 2,600
Total profits W/N 1	
€4,950 +€4,950+€5,300-€500-€600 <sup>(a)</sup> equals	<u>€13,700</u>
Amount per B/S	€32,300

(a) Dividend payable to Minority on Group B/S €600

**W/N 6 Issue of share capital**

In the "stand alone" accounts of Merlin	Dr	Cr
80,000 share x €0.80 Share Capital account		€64,000
80,000 shares x€0.95 Share Premium		€76,000
80% Investment in Merlin Ltd	€140,000	
Pre acquisition dividend		
Dividend/Investment income	€2,000	
Cost of investment in Merlin		€2,000

**W/N 7 Non Current Assets**

Net Book values per T/B	
Merlin Ltd	€1,055,500
Fairlin Ltd	€ 130,000
Revaluation surplus	<u>€ 13,000</u>
<b>Total</b>	<b>€1,198,500</b>



**Question 2 solution**

**Trading & Income statement of Stylo Furnishing for year ended 30/04/14**

	€sub totals	€subtotals	€	€	
Sales				480,000	
Sales returns				(4,500)	
Inventory	4,000				
Purchases	350,000				
Purchase returns	(5,800)				
Closing inventory	(4,400)				
<b>Cost of goods sold</b>				<u>(343,800)</u>	
Gross Profit				131,700	
Operating expenses					
Wages employees	8,500	1,800	10,300		
Light heat			8,000		
Advertising			7,600		
Insurance	8,000	(2,000)	6,000		
Bad debts	800	400	1,200		
PDD			284		
Depreciation			<u>3,600</u>		
				<u>(36,984)</u>	
<b>Profit before interest tax</b>				94,716	
10% Loan from Larry				<u>(2,800)</u>	
<b>Profit before tax</b>				91,916	
Taxation				<u>(3,600)</u>	
<b>Profit for the year</b>				88,316	

**Question 2 continued**

Appropriation account (b)

		<u>Appropriation a/c</u>	
		€	€
<b><u>Salary</u></b>			
	Mary	12,000	
	Larry		
<b><u>% drawings</u></b>			
	Mary	8%	400
	Larry	8%	320
<b><u>% capital</u></b>			
	Mary	10%	5,000
	Larry	10%	3,000
	c/d	69,036	
		<b>89,036</b>	<b>89,036</b>
	b/d		<b>b/d69,036</b>
<b><u>Profit sharing</u></b>			
	Mary	60%	41,422
	Larry	40%	27,614

**Current Accounts**

		<b>Mary</b>	<b>Larry</b>	<b>Total</b>	
Salary	Cr	12,000	0	12,000	
% drawings	(Dr)	(400)	(320)	(720)	
% capital	Cr	5,000	3,000	8,000	
Profit sharing	Cr	<u>41,422</u>	<u>27,614</u>	<u>69,036</u>	
<b>Total allocation</b>		<b>58,022</b>	<b>30,294</b>	<b>88,316</b>	
10% Loan from Larry			1,400	1,400	
Balance Cr (Dr) at 30/04/13		4,500	(3,800)	700	
Drawings	Dr	(5,000)	(4,000)	(9,000)	
<b>Balance Cr (Dr) at 30/04/14</b>		<b>57,522</b>	<b>23,894</b>	<b>81,416</b>	

**Note**

Tabular format acceptable where Credit and (Debit) amounts clearly indicated. T accounts acceptable alternative although not specified

**Question 3**

Note as long as the issues are properly referenced then they can be done in any order depending one's preference.

**Issue 1**-(a) inventory

	Dr	Cr
Prior year adjustment		
Opening retained profits at 01/05/13	€28,000	
Cost of sales y/e 30/04/14		€28,000

Being correction of the inclusion of non-production costs in inventory

Issue 1(b)

Cost of sales [€32,000+€8,000-€9,700=€30,300 v cost €32,000] €1,700

Inventory as at 30/04/14 €1,700

Being write down of closing inventory to its net realisable amount per IAS 2

**Issue 2**

	Dr	Cr
Revenue	€80,000	
Disposal of asset account		€80,000
Accumulated depreciation [Year 1]	€24,000	
Disposal of asset account		€24,000
Accumulated depreciation [Year 2 ]	€19,200	
Cost of sales [should not have been charged] [in year of sale ]		€19,200
Machine account		€120,000
Disposal of asset account	€120,000	
I/S-Profit on disposal of asset		€ 3,200
Disposal asset a/c	€ 3,200	

Being the correction of incorrect inclusion of disposal proceeds for machinery in the sales and its depreciation charge cost of sales and the accounting for the profit on its sale

**Issue 3** [see W/N 1]

Interest-financial charges [ see W/N 1]	€16,000	
Non Current Loan		€16,000
Non Current Loan [increase in payment]	€35,792	
Amount of payment owing		€35,792
Non Current Loan [see W/N1 adjustment of C.Liability]	€23,636	
Current Liability		€23,636

**Question 3 (a)**

**Issue 4**

	Dr	Cr
Retained profits brought forward 01/05/13		€6,000
Taxation charge I/S y/e 30/04/14	€6,000	

No restatement is required for estimates and instead such amounts should be added or subtracted to the tax charge in current income statement as the above journal does

**Issue 5**

Bad debts-Operating expenses	€25,000	
Receivables		€25,000

Being write off bad debt in relation to sales on credit up to the 30/04/14  
Monies uncollected in relation to sales in credit in the period y/e 30/04/15 will be written off in those accounts.

**Issue 6** see W/N 2

Finance charges	<b>Dr</b>	<b>Cr</b>
Bank account	€7,000	€7,000
Creditors		€3,000
Bank account	€3,000	

Being adjustment for unrecorded items and their posting to the relevant accounts

**Issue 7**

Ordinary share capital		€467,500
Share Premium	€467,500	

Being the bonus issue of 425,000 shares [3,400,000/8] at nominal value of €1.10 each

Note €3,740,000 per B/S divided by N.V. €1.10 equals 3,400,000

**Question 3 (a)**

**W/N 1-Issue 3**

**Draft proposal first two years**

<b>A t start</b>	<b>Balance</b>	<b>2% interest</b>	<b>repayments</b>	<b>Balance</b>	<b>C.Liability</b>	<b>N.C.Liability</b>
01/05/13	€200,000	€4,000	(€27,302)	€176,698	(a)€23,768	€152,930
01/05/14	€176,698	€3,534	(€27,302)	€152,930	€24,243	€128,687

**Agreed proposal first two years**

	<b>Opening</b>			<b>Closing</b>		
	<b>Balance</b>	<b>10% interest</b>	<b>repayments</b>	<b>Balance</b>	<b>C.Liability</b>	<b>N.C.Liability</b>
01/05/13	€200,000	€20,000	(€63,094)	€156,906	(a)€47,404	€109,502
01/05/14	€156,906	€15,691	(€63,094)	€109,502	€52,144	€57,358

Incremental differences

Interest viz €20,000 v €4,000 equals additional charge of €16,000  
 Repayments viz 63,094 v €27,302 equals additional payment of €35,792  
 Current liability viz €47,404 v €23,768 equals adjustment of €23,636

Proof

Non Current liability as per original B/S	€152,930
Add incremental charge for interest	€ 16,000
Less incremental payment	<u>(€35,792)</u>
Amended balance	€133,138
Less incremental difference in CL. Liability	<u>(€ 23,636)</u>
Restated Non-Current liability	<u>€109,502</u>

Current liability as originally stated	€23,768
Plus adjustment	<u>€23,636</u>
Restated current liability	47,404

Note(a)

The first two years are shown in order to compute the current liability in 2014 is the amount payable in 2015 less the interest payable in 2015

Original draft this was €27,302 less € 3,554 equals €23,748

Agreed proposal €63,094 less €15,691 equals €47,403 allow for rounding

Difference is thus €35,792 less €12,137 equals €23,655

**Alternatively the original entries could be reversed in their entirety viz interest charges and repayment and the correct amounts posted.**

**Question 3 (a)**

**W/N 2-issue 6 This note is not really necessary but included for info**

Balance per bank balance in nominal ledger	€3,823 Dr in surplus
Less unrecorded bank charges	(€7,000)
Plus unrecorded receipt	<u>€3,000</u>
Amended	<u>(€ 177)</u> Cr o/drawn

Balance per bank statement	€9,523 Cr in surplus
Less outstanding cheques(a)	
Cheque no 48542 for Light & Heat	(€5,800)
Cheque no 48543 for Insurance	<u>(€3,900)</u>
Amended	(€ 177) dr o/drawn

(a) Outstanding items are already recorded and thus are irrelevant from the double entry requirements

**Question 3 (b)**

	<b>Original</b>	<b>Adjustments</b>	<b>Adjusted</b>
<b>Revenue</b>	2,500,000	(80,000)	2,420,000
Cost of sales	<u>(1,300,000)</u>	<u>25,300</u>	<u>(1,274,700)</u>
<b>Gross Profit</b>	<b>1,200,000</b>	<b>(54,700)</b>	<b>1,145,300</b>
Operating expenses	(625,000)	(25,000)	(650,000)
Profit on disposal of asset	<u>                    </u>	<u>3,200</u>	<u>3,200</u>
<b>Profit before interest and tax</b>	<b>575,000</b>	<b>(76,500)</b>	<b>498,500</b>
Interest	(200,000)	(23,000)	(223,000)
<b>Profit for the year</b>	<b>375,000</b>	<b>(99,500)</b>	<b>275,500</b>
Taxation	<u>(46,875)</u>	<u>(6,000)</u>	<u>(52,875)</u>
<b>Profit for the year</b>	<b>328,125</b>	<b>(105,500)</b>	<b>222,625</b>

Only the final column required Other columns included for explanation only

**Question 3 MIR and B/S included for info only. Not required by question**

<b>Movement in reserves</b>	<b>original</b>	<b>adjustments</b>	<b>Adjusted</b>
Balance at 30/04/13	131,000	( 28,000)	103,000
prior year adjustment	<u>(6,000)</u>	<u>6,000</u>	<u>                    </u>
Restated balance 30/04/13	125,000	(22,000)	103,000
Profit for the year 30/04/14	328,125	(105,500)	222,625
Preference dividend paid	(105,000)		(105,000)
Ordinary dividend paid	<u>(34,000)</u>	<u>                    </u>	<u>(34,000)</u>
balance at 30/04/14	<b>314,125</b>	<b>(127,500)</b>	<b>186,625</b>

	€	€	€
<b>Non Current Assets</b>			
Buildings	4,450,000	(356,000)	4,094,000
Machinery	8,380,000	(3,016,800)	5,363,200
Leased asset	200,000	(25,000)	175,000
	<u>13,030,000</u>	<u>(3,397,800)</u>	9,632,200
<b>Current Assets</b>			
Inventory	125,300		
Receivables	<u>35,000</u>		
			<u>160,300</u>
<b>Total Assets</b>			<b><u>9,792,500</u></b>
Equity			
Ordinary Share Capital		N.V.1.10	4,207,500
Share Premium			552,500
Revaluation			1,000,000
Retained profits			<u>186,625</u>
			5,946,625
7% Preference Shares			<u>1,500,000</u>
<b>Total Equity</b>			<b>7,446,625</b>
<b>Non Current Liabilities</b>			
10% Loan		2,000,000	
Lease Loan		<u>109,502</u>	
			2,109,502
<b>Current Liabilities</b>			
Payables		153,000	
Lease Loans		47,404	
Under payment lease		35,792	
Bank overdrawn		<u>177</u>	
			<u>236,373</u>
<b>Total Equity and Liabilities</b>			<b><u>9,792,500</u></b>



**Question Multi Choice Question**

**Item 1 (b)** A present obligation arising .....

**Item 2 (c )** Searching for applications of newly discovered knowledge.....

**Item 3 (b)**

	<b>UK £</b>	<b>X rate</b>	<b>Payables</b>
<b>Purchases</b>	£500,000	0.80 Average	€625,000
<b>Paid</b>	(£300,000)	0.85 at 01/09	(€352,941)
<b>balance</b>	£200,000		€272,059
<b>Xch Gain</b>	<u>n/a</u>		<u>€28,156</u>
<b>at</b>			
<b>31/12/13</b>	£200,000	0.82 at B/S date	€243,902

**Item 4 (c)** between the end of the financial statements and the date they are authorised for issue

**Item 5 (b)** FIFO 200 units x €5 equals €1,000

**Item 6 (a)** LIFO 200 units x €3 equals €600

**Item 7 (b)** higher of the Carrying value and recoverable amount

**Item 8(d)** It is probable that revenue .....and can be measured reliably

**Item 9 (d)** Provide nothing at all as they are not irrevocably committed.....

**Item 10 (c )** An asset is a resource from which future economic benefits .....

**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 May 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

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7	A	B	C	D
8	A	B	C	D
9	A	B	C	D
10	A	B	C	D

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PLEASE RETURN THIS ANSWER FORM WITH YOUR ANSWER BOOK

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