Financial Accounting
Module 8
November 2009

Instructions

Candidates must answer all four Questions.

Candidates should clearly indicate the number of the question and the part of that question that they 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 and return with your answer script

Marking Scheme

Question 1	25 Marks
Question 2	25 Marks
Question 3	30 Marks
Question 4 Multi-choice question	20 Marks

Total	100 Marks

Question 1

Set out below is the Trial Balance together with notes of Rag Traders- run by a partnership- as at 30/06/09

		€ Debit	€ Credit
Capital Accounts			
Capital accounts01/07/08	- Patrick		125,000
Capital accounts 01/07/08	- Sean		100,000
Capital account	- Mary		80,000
Current accounts			
Current a/c 01/07/08	- Patrick		12,000
Current a/c 01/07/08	- Sean		1,000
Current account	- Mary	7,000	
Drawings	- Patrick	6,500	
Drawings	- Sean	8,500	
Drawings	- Mary	6,500	
8% Loan account	- Patrick		60,000
Revenue			750,000
Purchases		400,000	
inventory		12,500	
Staff wages		40,000	
Sundry expenses		15,000	
Freehold land at cost		400,000	
Building cost		255,000	
Aggregate depreciation	30/06/08		102,000
Receivables		80,000	
Payables			42,000
Bank		41,000	
Totals		1,272,000	1,272,000

Notes

(i) Inventory on the 30/06/09 was €13,750

(ii) Depreciation is to be provided on buildings at 2% straight line

(iii) Advertising costs of €5,000 are to be provided for

(iv) Land is to be re-valued by €50,000 from 01/01/09

(v) Partnership details
At the 01/07/08 the business was run by two partners Patrick and Sean whose partnership arrangements were as follows:

	Patrick	Sean
Saleries	€16,000	€16,000
Interest on capital	5%	5%
Profit sharing	50%	50%

From the 01/01/09 they were joined by a new partner Mary.
Mary introduced €80,000 which included €10,000 in respect of her share of the goodwill of the partnership at the date of her entry. Goodwill is not to remain on the books of the partnership.

The revised partnership arrangements were as follows:

	Patrick	Sean	Mary
Salaries	€12,800	€12,800	€10,000
Interest on capital*	8%	8%	8%
Profit sharing	45%	35%	20%

* The 8% interest on capital is to be calculated by reference to the the balances on the capital accounts after the entry of Mary on the 01/01/09 and taking account of any necessary adjustments arising from her entry on that date.

Required

(a) Prepare the Trading and Profit & Loss account for the year ended 30/06/09 of the partnership **[5 Marks]**

(b) Prepare the appropriate account of the partnership for the year end 30/06/09 **[5 Marks]**

(c) Prepare the Capital accounts for the period 30/06/09 **[5 Marks]**

(d) Prepare the Current accounts for period 30/06/09 **[10 Marks]**

Total Marks 20

Question 2

Windows & Doors Ltd began trading on the 01/01/07 supplying ready made windows and doors to the housing and industrial buildings market. Set out below are Income statements for the first two years of trading and the statements of financial position as at the end of those periods

	31/12/2007	31/12/2007	30/12/2008	30/12/2008
	Debit	Credit	Debit	Credit
Sales units		100,000		100,000
	€	€	€	€
Revenues		6,000,000		5,100,000
Opening inventory	15,000		295,890	
Purchase	3,880,890		3,382,397	
Less				
Closing inventory	(295,890)		(363,288)	
Cost of Goods Sold		3,600,000		3,315,000
Gross Profit		2,400,000		1,785,000
Operating expenses				
insurance	120,000		90,000	
Light & Heat	80,000		90,000	
Wages	250,000		300,000	
Director Fees	600,000		700,000	
Depreciation of plant	25,000		50,000	
Advertising	80,000		125,000	
Consultancy fees	425,000		0	
Sundry expenses	220,000		22,000	
		(1,800,000)		(1,377,000)
Operating Profit		600,000		408,000
Loan interest		(2,800)		(40,000)
Profit beforre tax		597,200		368,000
Taxation	-	(74,650)		(46,000)
Profit for the year		522,550		322,000

The remainder of this question including the Statement of Financial Position are on the following page

Statements of Financial Position of "Windows & Doors" as at

	31/12/2007	31/12/2007	31/12/2007	30/12/2008	30/12/2008	30/12/2008
	€	€	€	€	€	€
<u>Non Current Assets</u>	Premises	Machinery	Total	Premises	Machinery	Total
Cost	150,000	250,000	400,000	900,000	500,000	1,400,000
Depreciation		(25,000)	(25,000)		(75,000)	(75,000)
	150,000	225,000	375,000	900,000	425,000	1,325,000
<u>Current Asset</u>						
Inventory		295,890		363,288		
Receivables		586,849		593,836		
			882,740			957,123
			1,257,740			2,282,123
Equity						
Share Capital						
300,000 €1 ordinary shares			300,000			300,000
Profit for the year	522,550				477,550	
Profit bf/wd prior year	0				322,000	
Dividend paid	(45,000)				(60,000)	
			477,550			739,550
Total Equity			777,550			1,039,550
Non Current Liabilities						
10% Long Term Loan [Repayable 2010]			28,000			400,000
Current Liabilities						
Payables		306,218		370,674		
Bank		145,972		471,900		
			452,190			842,573
			1,257,740			2,282,123

Required

(a) Calculate the following ratios for each year

(i) Current Ratio

(ii) Quick Asset ratio

(iii) Return on Capital Employed

(iv) Inventory/stock days

(v) Receivable/Debtor credit days

(vi) Operating profit to sales

(vii) Gross Profit to sales

(viii) Gearing ratio

[See note on suggested layout below] **[16 Marks]**

(b) Write a brief report on the performance of the business **[9 Marks]**

Total Marks 25

Question 2 Requirement (a)

The following layout is suggested. Other relevant layouts acceptable

Name of Ratio	Formula	2007	2008
Current ratio	state formula	show computation	show computation

Question 3

Set out below is the Trial Balance of Pharma Ltd as 31/10/09

	Debit	Credit
	€	€
Premises	1,000,000	
Equipment	300,000	
Delivery Trucks	125,000	
Retained Profits 31/10/08		125,000
Ordinary Share capital of nominal value €0.75		500,000
5% Redeemable Preference Shares		100,000
Share Premium		60,000
8% Debentures		60,000
Accumulated Depreciation as at 31/10/08		
Premises		360,000
Equipment		83,250
Delivery Trucks		45,000
Inventory as at 31/10/09	85,000	
Cost of sales	350,000	
Revenue		625,000
Trade receivables	25,000	
Provision for doubtful debts		1,000
Trade payables		28,000
Distribution expense	80,000	
Administration expenses	75,000	
Bank	0	56,983
Ordinary dividends	8,333	
Redeemable Preference dividend	5,000	
VAT		7,200
Corporation tax for y/e 31/10/08		1,900
Totals	2,053,333	2,053,333

Notes to the Trial Balance

(i) Included in cost of sales is €93,000 in respect of the upgrading of equipment

(ii) Depreciation has not yet been accounted in the current period. The depreciation rates and their allocation to the functional cost groups are as follows

	Production	Distribution	Administration
Premises 2% Straight line	70%	15%	15%
Equipment Reducing Balance	100%	0%	0%
Delivery Trucks 20% Reducing Balance	0%	100%	0%

(iii) Included in Revenue is €5,000 in respect of the disposal of equipment which was purchase for the sum of €9,000 in august 2005

(iv) It is company policy to depreciate an asset in full in the year of acquisition and not to depreciate it at all in the year of disposal

(v) The buildings were re-valued at 31/10/09 up to a value of €1,250,000

(vi) A receivable has gone into liquidation owing €3,000. It is estimated that only €0.25 in the euro will be recovered

(vii) A provision of 7% is to be made in respect of doubtful debts

(viii) Taxation: A provision of €3,500 is to be made in respect of taxation in relation to the current year profits. There was an overprovision in respect of last years profits of €1,900

(ix) A final ordinary dividend of €0.10 was proposed on the 15/11/09

Required

(a) Prepare the Income statement of Pharma Ltd in accordance with IAS 1 for the year ended 31/10/09 **[10 Marks]**

(b) Prepare the statement of Changes in Equity for Pharma Ltd **[6 Marks]**

(c) Prepare the Statement of Financial Position as at 31/10/09 **[14 Marks]**

Total Marks 30

Question 4

Instructions

The following multiple choice question consists of ten items.
Each item is followed by FOUR possible answers.
There is ONLY ONE correct answer for each item.
Students should complete the answer sheet provided for this question at the back of the exam paper.

The answer sheet is attached to the back of this exam paper. Students should detach it and return it with their answer scripts.

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2 marks for each correct answer. Maximum marks attainable for this question: 20 Marks

Item 1

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

Item 2

A company has previously depreciated its vehicles on a reducing balance basis at 30% but it now proposes to use a straight line method at 20% as fairer representation of the asset's use.

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

Item 3

The following stock movements were recorded by Hardware Ltd in its first month of trading

Date	Units in	Cost	Units Out
01/10/09	300	€4,200	
08/10/09	200	€3,000	
15/10/09			320
22/10/09	400	€6,400	
31/10/09			500

In accordance with IAS 2 the value of the closing stock at 31/10/09 normally be:

(a) €1,280
(b) €1,120
(c) €1,200
(d) none of the above

Item 4

New Start limited issued 5% 200,000 €1 Preference shares at an issue price of €1.10 which were redeemable in three years time at €1.20 The legal costs of issue were €8,000 . The total finance charges were

(a) €50,000
(b) €30,000
(c) €58,000
(d) None of the above

Item 5

Widgets limited, a listed company with an accounting year of 31/12/08 had in issue 100,000 €1 Ordinary share. On the 31/03/09 it made a rights issue of one for four at €1.60 per share. The market value share just before rights issue was €2.2
The theoretical ex rights price of the share to the nearest two decimal places was

(a) 2.02
(b) 1.90
(c) 2.08
(d) 1.60

Item 6

A company has a goodwill policy of refunding dissatisfied customers the cost of any goods returned. On 30/09/09 J Jinks, a dissatisfied customer has returned goods costing €10,000 and the company's new accountant is refusing to make a refund as there is no legal obligation to do so. In its accounts to 31/10/09 the company should include €30,000 as a

(a) A liability
(b) A provision
(c) Contingent Liability
(d) Do none of the above

Item 7

Shannon Ltd with a year end 31/10/09 bought a machine for $400,000 from the USA on the 01/11/08. The exchange rate at the date of purchase was $1.75 to €1.00
Three weeks later the exchange rate was $1.60 to €1.00 where it remained until the 31/10/09 when it changed again to $1.50 to €1.00. The gross amount at which the asset should stated on company's balance sheet and the amount to be charged to the company's income statement should be [to the nearest euro]

	Balance	Income Stat.[P&L]
(a)	€266,667	€none
(b)	€228,571	€38,095 debit
(c)	€266,667	€38,095 credit
(d)	€228,571	€none

Item 8

XYZ sold bought goods for €162,500 including 21% VAT. During the year it had sales of some of those goods inclusive of VAT at 21% and with a mark up on cost of 15% for €98,000. To the nearest euro the profit on disposal and the closing inventory was:

	Profit	Closing Inventory
(a)	€14,700	€65,970
(b)	€10,564	€65,970
(c)	€14,700	€63,870
(d)	€10,564	€63,870

Item 9

Two components of relevance are

(a) Prudence and materiality
(b) Materiality and Timeliness
(c) Prudence and comparability
(d) Comparability and timeliness

Item 10

In distinguishing between an asset and an expense it might stated that

(a) Expenses are paid for immediately , Asset may or may not be paid for
(b) Asset have future economic benefit, Expenses do not have future benefit
(c) The purchase of an Asset will increase Net assets, whilst Expense will leave Net assets unchanged

AN ANSWER SHEET FOR QUESTION 4 MULTICHOICE IS ATTACHED NEXT

PLEASE RETURN THE COMPLETED ANSWER SHEET WITH YOUR ANSWER SCRIPT

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Q4 Multiple choice – Financial Accounting November 2009

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