



# Financial Accounting Module 8 November 2009

## Suggested Solutions

### Question 1

		€
Sales		750,000
Cost of sales		
Opening stock	12,500	
Purchases	400,000	
Closing stock	<u>(13,750)</u>	<u>(398,750)</u>
Gross profit		351,250
Less:		
Wages	40,000	
Advertising	5,000	
Sundry expenses	15,000	
Depr Buildings (255,000 x 2%)	5,100	
Interest on loan (60,000 x 8%)	<u>4,800</u>	<u>(69,900)</u>
Net profit		281,350

1/7/08 to 31/12/08 6 months

$6/12 \times \text{€}281,350 = \text{€}140,675$

#### Salaries

Patrick	(€16,000 x 6/12)	8,000
Sean	(€16,000 x 6/12)	8,000
Interest on capital		
Patrick	(€125,000 x 5% x 6/12)	3,125
Sean	(€100,000 x 5% x 6/12)	<u>2,500</u>
		21,625

Profit left to share

$\text{€}140,675 - \text{€}21,625 = \text{€}119,050$

Patrick	(50% x €119,050)	59,525
Sean	(50% x €119,050)	59,525

1/1/09 – 30/9/09      6 months

$6/12 \times \text{€}281,350 = \text{€}140,675$

Salaries

Patrick	(€12,800 x 6/12)	6,400
Sean	(€12,800 x 6/12)	6,400
Mary	(€10,000 x 6/12)	5,000
Interest on capital		
Patrick	(€152,500 x 8% x 6/12)	6,100
Sean	(€132,500 x 8% x 6/12)	5,300
Mary	(€70,000 x 8% x 6/12)	<u>2,800</u>
		32,000

Profit left to share

$\text{€}140,675 - \text{€}32,000 = \text{€}108,675$

Patrick	(45% x €108,675)	48,904
Sean	(35% x €108,675)	38,036
Mary	(20% x €108,675)	21,735

Capital Account

	P	S	M		P	S	M
Goodwill	22,500	17,500	10,000	Bal b/d	125,000	100,000	
				Goodwill	25,000	25,000	
				Bank			80,000
				Revaluation	25,000	25,000	
Bal c/d	<u>152,500</u>	<u>132,500</u>	<u>70,000</u>				
	<u>175,000</u>	<u>150,000</u>	<u>80,000</u>		<u>175,000</u>	<u>150,000</u>	<u>80,000</u>
				Bal b/d	152,500	132,500	70,000

Current Account

	P	S	M		P	S	M
Bal b/d			7,000	Bal b/d	12,000	1,000	
				Salaries	14,400	14,400	5,000
				Int on cap	3,125	2,500	
				Profit	59,525	59,525	
				Int on loan	4,800		
				Int on cap	6,100	5,300	2,800
Bal c/d	<u>142,354</u>	<u>112,261</u>	<u>16,035</u>	Profit	48,904	38,036	21,735
	<u>148,054</u>	<u>120,761</u>	<u>29,535</u>		<u>148,054</u>	<u>120,761</u>	<u>29,535</u>
				Bal b/d	142,354	112,261	16,035

When goodwill is not to be included in the books:

Dr Capital account with goodwill in new profit sharing ratio  
 Cr Capital account with goodwill in old profit sharing ratio

## Question 2

### Ratios

#### Current ratio

Current assets: current liabilities

882,740:452,190  
1.95:1

957,123:842,573  
1.14:1

#### Quick ratio

Current assets – stock: current liabilities

586,849:452,190  
1.30:1

593,836:842,573  
0.7:1

#### Return on capital employed

Profit before interest and tax

Equity and long term loans

600,000  
(777,550 + 28,000)

408,000  
(1,039,550 + 400,000)

= 74.48%

28.3%

#### Inventory days

Closing stock

Cost of goods sold

x 365

295,890 x 365  
3,600,000

363,288 x 365  
3,315,000

= 30 days

= 40 days

#### Debtor days

Debtors

Sales

x 365

586,849 x 365  
6,000,000

593,836 x 365  
5,100,000

= 36 days

= 43 days

#### Operating profit to sales

Operating profit

Sales

600,000  
6,000,000

408,000  
5,100,000

10%

8%

#### Gross profit margin

Gross profit

Sales

2,400,000  
6,000,000

1,785,000  
5,100,000

40%

35%

#### Gearing ratio

Share capital and non current liabilities: non current liabilities

777,550:28,000  
27.7:1

1,039,550:400,000  
2.59:1

## Comments

Some reference to general downturn in building market. Discuss ratios. Conclusion Refer to repayable date of long term loan and ballooning of overdraft.

### Question 3

(a)

#### Income Statement for year ended 31/10/09

Sales	(w4)	620,000
Cost of Sales	(w1)	<u>(316,758)</u>
Gross Profit		302,242
Selling & Distribution	(w9)	(99,000)
Admin expenses	(w9)	<u>(80,843)</u>
Operating profit		123,399
Profit on disposal	(w3)	<u>302</u>
		123,701
Finance cost		
Debenture interest	(100,000 x 5%)	(5,000)
Preference dividend	(60,000 x 8%)	<u>(4,800)</u>
Profit before tax		113,901
Tax	(3,500 - 1,900)	<u>(1,600)</u>
Net profit after tax		112,301

#### W1 Cost of sales

Per trial balance	350,000
Less: Equipment	(93,000)
Depreciation	<u>59,758</u>
	316,758

#### W2 Depreciation

	Cos	Dist	Admin
Buildings (1,000,000) x 2% = 20,000	14,000	3,000	3,000
Equipment (300,000+93,000-83,250 -9,000+4,302)x15% = 45,758	45,758		
Trucks ((125,000-45,000) x 20%) = 16,000	<u>0</u>	<u>16,000</u>	<u>3,000</u>
	59,758	19,000	3,000

#### Equipment

	€
Cost 2005	9,000
Depr 2005 (15%)	<u>(1,350)</u>
NBV end 2005	7,650
Depr 2006 (15%)	<u>(1,148)</u>
NBV end 2006	6,502
Depr 2007 (15%)	<u>(975)</u>
NBV end 2007	5,527
Depr 2008 (15%)	<u>(829)</u>
NBV end 2008`	4,698
Total depreciation	4,302

W3 Revaluation buildings

Cost	1,000,000
Acc depr (360,000 + 20,000)	<u>(380,000)</u>
Net book value	620,000

Revalued	1,250,000
Increase	630,000

W4 Sales

	€
Sales	625,000
Sale of equipment	<u>(5,000)</u>
	620,000
Equipment sold	
Sales proceeds	5,000
NBV	<u>4,698</u>
Profit on disposal	302

W5 Bad debt = €3,000 x 0.75 = 2,250

W6 Bad debt provision

		€
Debtors		25,000
Less; Bad debts	(w5)	<u>(2,250)</u>
		22,750

Bad debt provision

€22,750 x 7% = €1,593 Subtract from debtors in balance sheet

Per trial balance €1,000

Therefore increase of €593 expense in income statement

W7 Tax = €3,500 - €11,900 = €1,600

W8 Ordinary dividend = 500,000/0.75 = 666,667 x 0.10 = €66,667

W9

	Distribution	Administration
	€	€
Per trial balance	80,000	75,000
Depr (w2)	19,000	3,000
Bad debt (w5)		2,250
Bad debt prov (w6)		<u>593</u>
	<u>99,000</u>	<u>80,843</u>

(b)

Statement of changes in Equity

	Share Capital	Share Premium	Revaluation	Retained Earnings	Total
Opening Bal	500,000	60,000		125,000	685,000
Issue	0	0			0
Professional fees		0			0
Profit				112,302	112,302
Revaluation			630,000		630,000
Dividends					0
Ordinary Paid				(8,333)	(8,333)
	<u>500,000</u>	<u>60,000</u>	<u>630,000</u>	<u>228,969</u>	<u>1,418,969</u>

Pharmaceuticals Ltd Ordinary proposed

€66,667 on the 11/15/2009

(c)

Statement of Financial Position as at 31/10/09

Fixed Assets	Cost	Acc Depr	NBV
Premises	1,250,000	0	1,250,000
Equipment	384,000	124,706	259,294
Trucks	125,000	61,000	64,000
	1,759,000	185,706	1,573,294
Current Assets			
Stock		85,000	
Debtors/recievables	22,750		
Less : bad debt prov (w6)	(1,593)	21,157	106,157
			1,679,451
Equity and reserves			
Ordinary shares capital		500,000	
Share Premium		60,000	
Revaluation (w3)		630,000	
Retained profits (125000 + 112301 – 8333)		228,968	1,418,968
Non Current Laibilities			
Long term liabilities			
Preference shares		100,000	
Debentures		60,000	160,000
Current Liabilities			
Creditors		28,000	
Bank		56,983	
Vat		7,200	
Tax		3,500	
Debenture interest		4,800	100,483
			1,679,451

#### Question 4

1 A

2 B

3 A

300 x €14  
200 x €15  
Sold 320

Left 180 x €15  
400 x €16

Sold 500

Left = 80 x €16 = €1,280

4 c

	€
Finance costs $200,000 \times 5\% \times 3 =$	30,000
Repayment $0.10 \times 200,000 =$	20,000
Legal fees	8,000
Total finance costs	58,000

IAS 23 Borrowing costs are interest and other costs incurred by the entity in connection with the borrowing of funds, so include legal fees.

5 c

Shares		Value
4	x €2.20 =	€8.80
1	x €1.60 =	€1.60
5		€10.40
Theoretical ex rights price $\text{€}10.40/5 = \text{€}2.08$		

6 b

7 b

\$400,000 \$1.75 €228,571  
\$400,000 \$1.50 €266,666

Difference exchange loss €38,095



8 d

$\text{€}162,500 / 1.21 \times 100 = \text{€}134,298$  Purchases

Sales  $\text{€}98,000 / 1.21 \times 21 = 80,992$

$\text{€}80,992 \times 15 / 115 = 10,564$  profit on sales

Sales		80,992
Cost of sales		
Purchases	134,298	
Closing stock	<u>(x)</u>	<u>(y)</u>
Gross Profit		10,564

$Y = \text{€}80,992 - \text{€}10,564 = \text{€}70,428$

$X = \text{€}134,298 - \text{€}70,428 = \text{€}63,870$

9. b

10. b