IIPA

Financial Accounting
Module 8

November 2010

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-Partnership	25 marks
Question 2-Company Accounts	30 marks
Question 3-Journal Entries	25 marks
Question 4 Multi-choice question	20 marks

Total	100 marks

Question 1

Set out below is the Balance Sheet of "Consultants"partnership as at 30/06/10

			€
Premises			130,600
Debtors			2,000
Bank			12,000
Total Assets			144,600
Less Current Liabilities			(8,000)
			136,600
Capital Accounts			
Brian	01/07/09	Note (i)	35,000
Mary	01/07/09		25,000
Patrick	01/07/09		20,000
Sandra		Note (ii)	
			80,000
Current Accounts			
Brian	01/07/09	3,100	
Mary	01/07/09	2,800	
Patrick	01/07/09	(1,300)	
Drawings			4,600
Brian		(16,000)	
Mary		(16,000)	
Patrick		(12,000)	
			(44,000)
Profit for the year ended		30/06/10	96,000
			136,600

Notes :

(i) Up to the 30/09/09 the profit sharing ratio was ;

Brian	50%
Mary	40%
Patrick	10%

On that date Brian retired. It was agreed that the Premises had a value of €200,000 and goodwill a value of €20,000

(ii) On the same date- 30/09/09-, Sandra, -daughter of Brian, became a partner under the following terms. She was to pay in money to the amount of €18,000 in respect of Capital. Additionally she is required to pay in a further amount equal to her share of the goodwill.

(iii) The new partnership arrangement is as follows.

Mary	50%
Patrick	25%
Sandra	25%

Neither the bank account nor the other relevant accounts have been adjusted to reflect payments made by Sandra in respect of the above..

Goodwill is not to be retained on the Balance Sheet.

(iv) The profit for the twelve months ended 30/06/10 was €96,000 and has accrued evenly over that twelve months with the exception of a "once off" expense of €9,000. It was agreed by Brian , Mary and Patrick that this expense occurred before Sandra entered into the new partnership.

(v) In order to ease the cash flow of the business Brian has agreed to accept a €40,000 10% interest loan in part consideration of the amount due to him. Further it was agreed that no interest will be paid on the loan for the year ended 30/06/10

Required

(a) Show the movements for the period in all the capital accounts

[11 Marks]

(b) Show the movements for the period in all current accounts

[11 Marks]

(c) Show the finalised balances for each of the assets and liabilities on the Balance Sheet after executing any necessary adjustments

[3 Marks]

Total Marks 25

Question 2

Set out below is the trial balance of Clear windows Ltd, -a company that manufactures industrial windows-, as at 30/06/10

		Debit	Credit
		€	**€**
Premises		900,000	
Machinery		350,000	
Transport vehicles		120,000	
Retained Profit			125,000
Ordinary Share capital [Nominal value €0.80]			320,000
6% Redeemable Preference Shares			100,000
Share Premium			40,000
Provision for depreciation			
Premises Accumulated Depreciation	30/06/09		288,000
Machinery-Accumulated. Depreciation	30/06/09		126,000
Transport Vehicles-Accumulated Depreciation	30/06/09		72,000
Inventory		35,000	
Purchases		350,000	
Sales			750,000
Sundry receipt	Note (viii)		50,000
Taxation	Note(ix)		2,500
Trade receivables		30,000	
Trade payables			28,000
Sales returns		3,500	
Purchase Returns			3,600
Settlement discount allowed		1,800	
Provision for doubtful debts			960
Bank		13,160	
Ordinary dividends		4,000	
Preference dividend		6,000	
Rent rates		15,000	
Bad debts		6,000	
Sundry expenses		9,800	
VAT		2,800	
Wages and salaries		42,000	
Transport expenses		17,000	
Totals		**1,906,060**	**1,906,060**

Notes:

(i) The closing inventory at year end was €52,500
(ii) Included in wages is €15,000 paid to staff in respect of an extension attached to the buildings. Materials amounting to €25,000, in respect of the same extension, were included in purchases.
(iii) The company has always properly accounted for its VAT. However following a VAT inspection it was determined that the VAT rate of 21.00% should have been applied to sales and not the 12.50% as the company had been doing. All other matters in relation to VAT were correctly done.
(iv) The provision for doubtful debts is to be 6%
(v) Included in rent and rates is an amount for €9,000 that is in respect of 12 months to 30/09/10
(vi) Depreciation is to be provided and allocated by function as follows

			ALLOCATION		
Asset	**Rate**	**Basis**	**Production**	**Distribution**	**Administration**
Premises	4%	Straight line	80%	10%	10%
Machinery	20%	Reducing balance	100%	0%	0%
Transport vehicles	12%	Straight line	0%	80%	20%

(vii) Other Expenses are allocated as follows

ALLOCATION

Expense	**Production**	**Distribution**	**Administration**
Transport expenses	0%	80%	20%
Rent and rates	50%	25%	25%
Wages and Salaries	80%	0%	20%
Sundry expenses	0%	0%	100%

(viii) The sundry receipt refers to the issue of €50,000 5% Debenture stock on the 01/01/10 . The trainee accountant was not sure how to account for it
(ix) Taxation of €12,500 is to be provided. The €2,500 represents an overestimation of the tax liability on profits for year end 30/06/09
(x) A final ordinary dividend of €0.01 [one cent] per share was proposed on the 15/07/10

Required

(a) Prepare the Income statement of Clear Windows Ltd for the year end 30/06/10 in accordance with IAS 1 and other relevant standards. **[18 Marks]**
(b) Prepare the Statement of Changes in Equity for the same period. **[3 Marks]**
(c) Prepare the note on Non Current Assets in accordance with IAS 16 for inclusion in the published accounts. **[9 Marks]**

Total Marks 30

Question 3

Set out below and on the next page are the draft Financial Statements of Simco Ltd in its first year of trading for year ended 30/06/10. The accounts were prepared by a trainee in your department and you are required to review them.

Statement of Financial Position as at 30/06/10

Non Current Assets			
Buildings	300,000	(12,000)	288,000
Delivery Van	60,000	(12,000)	48,000
	360,000	(24,000)	336,000
Current Assets			
Inventory	15,000		
Receivables	22,000		
Sundry Asset [note (i)	11,800		
			48,800
Total Assets			**384,800**
Equity			
Ordinary Share Capital	100,000	€0.80	80,000
Share Premium			40,000
			120,000
8% Preference Shares			60,000
Movement in Profit			
Profit for the year		70,000	
Dividends			
Preference	4,800		
Ordinary	1,000		
		(5,800)	
			64,200
Total Equity			244,200
Non Current Liabilities			
Loan			100,000
Current Liabilities			
Payables		26,000	
Bank overdrawn		14,600	
			40,600
Total Equity and Liabilities			**384,800**

Draft Income Statement of Simco Ltd for year ended 30/06/10

Sales	250,000
Cost of sales	(130,000)
Profit	120,000
Operating expenses	(40,000)
Operating Profit	80,000
Interest	(10,000)
Operating Profit for the year	70,000

Issues

1) The "Sundry Asset" on the Balance Sheet was a suspense amount put into the trial balance by the trainee accountant in order to balance it. S/he then listed the suspense balance as a sundry asset
2) Sales of €31,000 were correctly posted to Sales account but an amount of €13,000 was posted to the Receivables account.
3) €3,100 was correctly posted to bad debts expense account but debited to receivables account.
4) Light and Heat accrual of €685 had been omitted from the accounts
5) €1,200 of the closing inventory was un-sellable but the trainee didn't think any adjustment was required.
6) €2,500 of Purchase Returns were correctly posted to Payables/Creditors but credited to Sales account.
7) €5,000 of Sales Returns were correctly posted to Sales account but credited to Creditors/ Payables account.
8) The Trainee has now remembered that s/he depreciated the Building at 4% reducing balance instead of 4% straight line and Machinery at 20% straight line instead of 20% reducing balance
9) €5,000 should have been provided for tax on profits.
10) The 8% preference shares were misclassified. They were in fact 8% Redeemable Preference shares
11) On examining the documents it has now been established that the company issued 120,000 shares at €1.00 each with a nominal value of €0.70 and not 100,000 shares €1.20 each with a nominal value of €0.80

Required

(a) Set out any relevant journal entries in respect of the above **[18 Marks]**
(b) Show how the Sundry Asset/Suspense error arose **[2 Marks]**
(c) Show the amendments necessary to the profit of €70,000 **[5 Marks]**

Total Marks 25

Suggested layout for requirements (a) and (c)

Requirement (a) Journal Entries

Issue say (12)

	Debit	**Credit**
RTC T a/c	€yyyy	
LMN T a/c		€yyy

Being the correction of ………………………..

Alternatively where relevant "No journal entry was required"

Requirement (c) necessary adjustments to profit of 70,000

			€
Profit for the year per question			70,000
Adjustment			
As per issue ?	Add	xxxxx	
As per issue ?	Subtract	(zzzz)	
As per issue? N/A i.e no adjustment required		N/A	

However candidates can use their own layout to present the information required..

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

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

Each item has four possible answers. There is only one correct answer.

Students should detach the answer sheet provided at the back of this exam paper for entering their answer onto.
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. f

----
2 marks for each correct answer. Maximum marks is 10 items x 2 marks =20

Question 4

Item (1)

Company XYZ omitted from the their accounts a machine, with a ten year useful life, acquired, at the start of its accounting year, with a 5% €50,000 loan from a finance company. The affect of the omission from the accounts was to ;

(a) Understate net assets by €45,000 and overstate profit by €5,000
(b) Overstate net assets by €45,000 and overstate profit by €7,500
(c) Overstate net assets by € 5,000 and overstate profits by €5,000
(d) Overstate Net assets by €7,500 and overstate profits by €7,500

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 and a change in accounting policy
(b) A change in recognition but no change in accounting policy
(c) A change in estimation but no change in accounting policy
(d) A change in estimation and a change in accounting policy

Item (3)

When preparing its accounts for year end 30/09/10 Caxto Limited suffered a major fire on the 09/10/10 which resulted in destruction of its warehouse to the value of €45,000 In its accounts to the year end 30/09/10 the best approach for the company would be to

(a) Include a note in the current years accounts if it is considered material to the user of the accounts
(b) Do nothing at all since it happened after the year end.
(c) Recognise the amount in its current year income statement.
(d) Leave the matter until next years accounts are being prepared.

Item (4)

Both Revenue and Liability have normally credit balances. However the difference between the two of them might best be stated as

(a) Revenue increases net assets whereas Liability will always decrease net assets
(b) Revenue will increase assets but leave net assets unchanged whereas a liability will always increase expenses but leave net assets unchanged
(c) Revenue will increase net assets whereas a liability can sometimes reduce net assets or leave them unchanged
(d) Revenue will increase sales but leave net assets unchanged whereas Liability will increase expenses and leave net assets unchanged

Item (5)

High Tech has the following equity

	30/09/10	30/09/09
Ordinary share capital of €0.80 each	€100,000	€100,000
Profit & Loss for the year	€140,000	€130,000

On the 31/03/10 the company made a 1 for 5 bonus issue to its existing shareholders. No adjustment has yet been made for the bonus issue.
The Earning per Share-EPS- to the nearest two decimal places- that would be shown in financial statements for year ended 30/09/10 and the comparative amount would be;

	30/09/10	30/09/09
(a)	€0.93	€0.87
(b)	€0.93	€1.04
(c)	€1.40	€1.30
(d)	€1.12	€1.04

Item (6)

A company purchased a machine for €150,000 with an estimated useful life of five years and a residual value of €20,000. A grant of 20% of the cost was received from the government agency. The total amount charged to the P&L and the amounts appearing on the Balance Sheet in respect of the machine and the capital grant, where both the Machine and Grant are separately disclosed, is as follows

		Balance Asset	
	P&L Dr	**Deferred Credit balance**	**Machine at NBV**
(a)	€20,000	€24,000	€124,000
(b)	€30,000	€0	€ 90,000
(c)	€24,000	€0	€ 96,000
(d)	€26,000	€30,000	€ 94,000

Item (7)

According to IAS 36 an asset is said to be impaired when

(a) When its value in use is greater than its sales value
(b) When the carrying value is greater than the sales value less costs to sell
(c) It is has suffered physical damage
(d) When its carrying value is greater than its recoverable amount

Item (8)

On the 01/01/10 MLC airlines issued 120,000 5% €1.00 Preference shares redeemable on the 31st December year 2013 at a premium of €1.10. Legal costs of the original issue were €7,500.

The total finance charges are :

(a) €43,500
(b) €24,000
(c) €36,000
(d) None of the above

Item (9)

Fred, Mary and Pat are in partnership share profits 50%, 25% and 25% respectively. In the current accounting year when the partnership was dissolved. Pat has a deficit of (€15,000) and has no private resources to rectify the deficit.
In that situation under the Garner V Murray

a) Fred and Mary have no responsibility for Pat deficit of €15,000
b) Fred and Mary share the deficit 50% i.e. €7,500 and 25% €3,750 respectively and have no responsibility for the remaining €3,750
c) Share the deficit 50% to 25% ie. 2/3 Fred €10,000and 1/3 Mary ie. €5,000
d) Pat and Mary share the deficit on the basis of their last agreed Balance Sheet capitals.

Item (10)

An asset might be best be described as

(a) A resource from which a past economic benefit has been obtained
(b) A resource from which current economic benefits are being obtained
(c) A resource from which profits have been generated from in the past
(d) A resource from which future economic benefits are expected to flow

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 November 2010

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	________

PLEASE RETURN THIS ANSWER FORM WITH YOUR ANSWER BOOK