



Institute of Incorporated Public Accountants

Final Admitting Examination

Module 11: Advanced Financial Accounting

Monday 24 August 2015

2pm – 5:30pm

Time Allowed: Three and a half hours

Instructions

Candidates must answer all three questions. Candidates should clearly indicate the number of the question and the part of that question (a),(b),(c) etc. on every page on which the answer to that part of the question is written.

Where working notes are supplied by candidates as part of their answer to a particular question then these should be numbered W/N1, W/N2 etc. accompanied by a heading that will clearly indicate the purpose of that note.

If a candidate chooses to use a separate answer book for working notes then s/he must indicate the question to which the working note refers, the working note number together with a suitable description on each and every page on which that working note is written.

Example

Qn? W/N?? "Composition of amount for €???" Shown under- say Cost of Sales- in the Statement of Comprehensive Income?

Candidates should begin each question on a new page

Marking Scheme

Question 1	30 marks
Question 2	50 marks
Question 3	20 marks

Total 100 marks

Question 1

Set out below are the Group Financial statements of the Energy Parts Group Ltd.

Income statements for year ended 31/07/15 31/07/14

	€	€
Sales/ Revenue	1,515,000	1,250,000
Cost of Goods Sold	(1,181,700)	(1,000,000)
Gross Profit	333,300	250,000
Operating Expenses	(196,950)	(125,000)
Operating Profit	136,350	125,000
Finance charges	(1,900)	(1,750)
Profit before tax	134,450	123,250
Taxation	(16,806)	(15,406)
Profit for the year	117,644	107,844
Other comprehensive income		
Revaluation	5,000	8,000
Profit for the year	122,644	115,844
Controlling interest	119,644	115,844
Non-Controlling interest	3,000	0
	122,644	115,844

Note 1 Profit is after charging depreciation of **54,000** **33,750**

Group Statements of Changes in Equity for years 31/07/14 and 31/07/15

	Share Capital	Share premium	Re- valuation	Retained Profits	Total	Non C. Interest
Balance at 31/07/13	50,000		7,000	15,000	72,000	
Issued share capital	20,000	5,000			25,000	
Dividends				(5,600)	(5,600)	
Profit for year end 31/07/14			8,000	107,844	115,844	
Balance 31/07/14	70,000	5,000	15,000	117,244	207,244	0
Acquisition of N.C.I. interest						31,410
Total shares issued during year	50,000	57,500			107,500	
Profit for the year 31/07/15			5,000	114,644	119,644	3,000
Dividends				(12,000)	(12,000)	(100)
Balance 31/07/15	120,000	62,500	20,000	219,888	422,388	34,310

Group Statements of Financial Position of Energy Parts Ltd as at

	31/07/15	31/07/14
Non-Current Assets	€	€
Property Plant and Equipment	238,500	157,500
Goodwill	7,500	
Current Assets		
Inventory	129,501	68,493
Receivables	145,274	102,740
Bank	66,811	19,276
Total Assets	587,586	348,009
Equity and Liabilities		
Equity		
Ordinary Share Capital of €1 each	120,000	70,000
Share Premium	62,500	5,000
Revaluation	20,000	15,000
Retained Earnings	219,888	117,244
Controlling interest	422,388	207,244
Non-Controlling interest	34,310	0
Total Equity	456,698	207,244
Non-Current Liabilities		
5% Debentures	38,000	35,000
Current Liabilities		
Payables	80,938	95,890
Interest	950	875
Taxation	11,000	9,000
Total Equity plus Liabilities	587,586	348,009

This question continues on the next page

Note 2

On the 31/01/15 Energy Parts Group Ltd bought a 70% share in Solar Panels Ltd when the assets and liabilities of that company at the acquisition date were as follows;

Solar Panels Ltd

Set out below are the assets, liabilities and equity at the acquisition date:

	€
Property Plant and Equipment	90,000
Inventory	6,000
Receivables	8,000
Cash	3,000
less Payables	(2,300)
Total Net Assets at acquisition date	104,700
Ordinary share Capital [N.V. €1 each]	40,000
Retained Profits at acquisition date	64,700
Total Equity	104,700

All the assets and liabilities of Solar Panel Ltd were stated at their fair value. The consideration for the acquisition of 70% of Solar Panels Ltd was the issue to that company of 25,000 ordinary shares in Energy Parts Ltd at an agreed value of €2.50 each with the balance of the consideration in cash.

The consideration is analysed as follows:

Ordinary share Capital	€25,000
Share Premium	€37,500
A cash payment of	€20,790
Total consideration	€83,290

Required

(a) Prepare the Group Cash Flow statement of Energy Parts Ltd for the year ended **31/07/15** in accordance with **IAS 7** and reconcile the net cash flow movement with the difference between the opening and closing balances for cash and cash equivalents. **[20 marks]**

(b) Compute three profitability ratios, including Return on Capital Employed, for 2014 and 2015 and comment briefly on your findings.

[10 marks]

Total [30 marks]

Question 2

Storage Ltd, which is owned by 15 investors, who are also the directors, specialises in providing storage facilities for businesses around the country. Set out below is the Trial Balance at **31/07/15** together with notes.

	Notes		€ Debit	€ Credit
Taxation	Note 8			4,200
Preference share dividend paid			3,600	
Distribution expenses [excl. depreciation]			675,000	
Trade receivables			375,333	
Payables				375,000
Revenue				4,500,000
Administration expense [excl. depreciation]			540,000	
Production costs [excl. depreciation]			2,610,000	
5 % Loan stock €500,000	Note 6			450,000
Ordinary share capital		€0.80per share		960,000
Share Premium				240,000
Retained Profits		31/07/14		520,000
Pension costs	Note 7		90,000	
Loan stock interest			12,500	
Interim ordinary share dividend paid	Note 9		12,000	
Inventory		31/07/14	313,200	
Receipt from 90% sale of share in subsidiary	Note 1			204,750
Investment in Binmakers Ltd	Note 1		188,000	
4% Redeemable Preference shares				180,000
Premises	Note 5		2,200,000	
Accumulated depreciation	Note 4	31/07/14		350,000
Transport Trucks			1,000,000	
Accumulated depreciation	Note 4	31/07/14		200,000
Bank overdrawn				64,362
Machine rental	Note 3		28,679	
Totals			8,048,312	8,048,312

Question 2- Note1 to Trial Balance continued from previous page

Note 1 The acquisition of 100% of Binmakers Ltd on 01/08/13 and the subsequent sale of 90%.

On the 01/08/13 Storage Ltd acquired a 100% of the Ordinary Share Capital of Binmakers Ltd. for €188,000. All the assets and liabilities were stated at their fair value at that date.

On the 31/07/15 Storage Ltd sold 90% of its shareholding in Binmakers Ltd for €204,750.

All the assets and liabilities were stated at fair value at the date of the 90% sale of shareholding.

The remaining 10% in Binmakers Ltd is retained as a long term investment but without significant influence over the company's operational and financial policies.

The fair value of the 10% holding retained is assumed- on a pro-rata basis- to be €22,550.

The trainee accountant has provided the information set out below, in respect of which s/he is uncertain as to what is relevant for the 100% purchase on the 01/08/13 and what is relevant in relation to the subsequent sale of 90% of the shareholding on the 31/07/15 and for the preparation of the financial statements for the year then ended.

The information has however been correctly computed and presented by the trainee accountant.

Statement of Changes in Equity for Binmakers Ltd
for years' ended 31st July 2013, 2014, and 2015.

		Share Capital	Retained Profits	Total Equity
Balance end of year	31/07/12	150,000	12,000	162,000
Profit for year ended	31/07/13		18,000	18,000
Balance end of year	31/07/13	150,000	30,000	180,000
Profit for year ended	31/07/14		10,000	10,000
Balance at end of year	31/07/14	150,000	40,000	190,000
Profit for year ended	31/07/15		15,700	15,700
Balance at end of year	31/07/15	150,000	55,700	205,700

Question 2- Storage Ltd -notes to Trial Balance continued

Income Statements of Binmaker Ltd for years ended

	31/07/13	31/07/14	31/07/15
Sales/ Revenue	86,504	75,885	100,000
Cost sales	(47,404)	(41,585)	(54,800)
Gross Profit	39,100	34,300	45,200
less			
Distribution costs	(15,000)	(18,000)	(20,000)
Administration	(4,000)	(4,500)	(5,000)
Operating profit	20,100	11,800	20,200
Taxation	(2,100)	(1,800)	(4,500)
Profit for the year	18,000	10,000	15,700

None of the remaining notes to the Trial Balance refer to, or are in any way related, to the above acquisition and subsequent disposal of shares in Binmakers Ltd.

Note 2

The inventory of Storage Ltd at the 31/07/15 was €344,520

Note 3

The rental of €28,679 refers to the first payment made on the 01/08/14 under a leasing agreement that commenced at that date and will continue for five years with subsequent payments being made on the 1st of August each year. The interest rate implicit in the lease is 10%.

The fair value of the leased asset, used in production, at the 01/08/14 was €100,000.

It may be assumed that the machine has no residual value at the end of the lease term and that depreciation is 20% straight line.

Question 2- Storage Ltd -notes to Trial Balance continued

Note 4

The depreciation of the premises is 2% straight line

The depreciation of transport trucks is 20% reducing balance

The allocation of the depreciation charges are as follows:

		Production	Distribution	Administration
Allocation of depreciation	Premises	70%	20%	10%
Allocation of depreciation	Transport trucks		100%	0%
Allocation of depreciation	Leased machine	100%		0%

Note 5

On 31st July 2015 the board made a decision to sell one of its buildings as it as surplus to its requirements. The property, which is ready for immediate sale, was acquired on the 01/08/11 at cost of €440,000.

To that end the board hired Lynn & Long, property advisors, who felt confident that the property could be sold within three months for an estimated value of €415,000.

Their fees or sales commission is to be 2% of the sales value whilst legal costs were estimated at €5,000.

Note 6

The 5% €500,000 loan was issued on the 01/08/14 at a discount of 10%. The loan is repayable on the 31/07/20 at a premium of 4%. The implicit rate of interest is 8.10%.

The legal and other costs of issuing the loan was €8,904 and this amount was included in Administrative Expenses.

Question 2-Storage Ltd –notes to Trial Balance continued

Note 7

The company operates a defined benefit pension scheme and which is managed independently by Albatross Pensions Ltd. The €90,000 per Trial Balance represents the employer contribution to the pension for year ended 31/07/15.

The employee contribution for the same period was €25,000 and was deducted from their wages and paid over to the pension scheme. The current service cost of the pension for year ended 31/07/15 was €80,000 and the Benefits paid out during the current year by the pension scheme were €70,000.

The fair value of the assets and liabilities at 31st July 2014 and 2015 was as follows:

		Pension plan Assets	Pension plan Liabilities
Valuations at	31/07/14	€850,000	€850,000
Valuations at	31/07/15	€921,000	€925,000

A return of 6% was expected on the pension plan assets whilst a discount of 8% was considered appropriate when calculating the interest costs.

Note 8

The taxation of €4,200 represents an overprovision for the tax on profits for year ended 31/07/14. A provision of €16,000 corporation tax is to be made in respect of profits for the year ended 31/07/15. Due to an oversight, no provision was made in respect of a deferred taxation charge for the year ended 31/07/14, the first period for which a deferred tax charge was required.

Further no provision has been made for the current year. Details of the relevant amounts are set below;

		Net Book Value	Tax Written Down Value
Balance on non-current assets	31/07/14	€2,650,000	€2,400,000
Balances on non-current assets	31/07/15	€2,121,200	€1,750,000

The corporation rate is assumed to be 15%

Question 2 continued

Note 9

A board meeting of the ten investors was convened on the 30th July 2015 to propose and declare a final dividend of €0.012 per Ordinary dividend.

Requirements

In respect of Storage Ltd

(a) Set out the Group Income Statement for the year ended 31/07/15.
[including presentation] **[23 marks]**

(b) Set out the Group Statement of Changes in Equity for the year ended 31/07/15.
[including presentation] **[7 marks]**

(c) Set out the Statement of Financial Position as at 31/07/15.
[including presentation] **[20 marks]**

Total [50 marks]

Question 3 is on the next page

Question 3

Murphy Construction Ltd is in its first year of operations and currently has three Construction contracts, in Dublin, Cork and Galway respectively. Set out below are the relevant details in respect of each contract for year ended 30/06/15.

Contracts	Dublin	Cork	Galway
Contract price	€3,800,000	€1,900,000	€845,000
Cost incurred to date	€2,280,000	€437,000	€295,750
Estimated costs to complete	€525,000	€1,100,000	€645,000
Value of work certified	€2,660,000	€190,000	€211,250
Progress Billings/invoices	€2,090,000	€163,500	€76,050
Cash receipts	€1,900,000	€133,000	€67,600

The company determines the stage of completion by comparing the Value- of-Work-Certified with the contract price. It is company policy not to take profit where the contract is less than 15% complete.

Required

- (a) Show the amounts that would be included in the Statement of Comprehensive Income for year ended 30/06/15 and the Balance Sheet as at that date. **[10 marks]**
- (b) Set out four notes required to be disclosed, in the published financial statements, in relation to above contracts, including "Gross amounts due from/to the customer". **[10 marks]**

Total [20 marks]

END OF EXAMINATION PAPER