



Final Admitting Examination
Advanced Financial Accounting

Module 11

August 2015 Solutions

Group Cash flow of Energy Parts Ltd for the year ended 31/07/15

Cash flows from operating activities						20.00
Net Profit before tax					134,450	0.50
adjustment for non-cash items						
Depreciation				54,000		1.00
interest charged				1,900		1.00
impairment of goodwill				2,500		1.00
					58,400	
Working Capital adjustment	31/07/14	acquisition	31/07/15			
Inventory	68,493	6,000	129,501	(55,008)		1.50
Receivables	102,740	8,000	145,274	(34,534)		1.50
Payables	(95,890)	(2,300)	(80,938)	(17,252)		1.50
	75,342	11,700	193,837		(106,795)	
Cash generated from operations					86,055	
	OB	I/S	CB			
Interest paid	875	1,900	950	(1,825)		1.50
Taxes	9,000	16,806	11,000	(14,806)		1.50
					(16,631)	
Net Cash generated from operations					69,424	
Investing activities						
<i>non-current Assets</i>	OB adjust	Clos bal				
Per SOFP 31/07/14	157,500					
Revaluation per SOFP 31/07/14	5,000					
Due to acquisition of subsidiary	90,000					
Group Depreciation in SOCI 2015	(54,000)					
	198,500	238,500		(40,000)		2.50
Cash consideration for acquisition	20,790	(3,000)		(17,790)		1.50
					(57,790)	
Cash flow from financing activities						
Proceeds from issue of shares	01/08/14	Acquisition	31/07/15			
Share Capital	70,000	25,000	120,000			
Share premium	5,000	37,500	62,500			
	75,000	62,500	182,500	45,000		2.00
Loan repaid				3,000		1.00
Dividends paid to non Controlling %				(100)		1.00
Dividends paid Controlling interest				(12,000)		1.00
					35,900	
Net Cash flow					47,534	0.50
Opening cash balance					19,276	
Closing cash balance					66,811	

Question 1 solution

Only the two extreme right handed columns entitled “Group” are required to be set out. The other columns are for info in relation to workings.

W/N 1

Computation of Goodwill and Non-Controlling interest at acquisition date.

	100%	70%	30%
	€	€	€
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	28,000	12,000
Retained Profits at acquisition date	64,700	45,290	19,410
Total Equity	104,700		
Thus goodwill on acquisition		10,000	
Consideration as per question note		83,290	31,410
Analysed as follows			
25,000 shares issued at €2.50 each		62,500	
Balance cash consideration		20,790	
		83,290	

Goodwill per Statement of Financial Position is €7,500 . Thus amount written off subsequently was €2,500

Question 1 solution continued

Ratios

Gross profit margin [Gross Profit/Sales] x 100

2015		2014	
<u>333,300</u>	22.00%	<u>250,000</u>	20.00%
1,515,000		1,250,000	

Operating Margins

2015		2014	
<u>136,350</u>	=9.00%	<u>125,000</u>	=10.00%
1,515,000		1,250,000	

Return on Capital employed

2015			2014		
<u>136,350</u>	=27.56%		<u>125,000</u>	=51.60%	
456,698 +	38,000		207,244+	35,000	

Capital employed turnover

2015		2014	
<u>1,515,000</u>	3.06	<u>1,250,000</u>	5.16
494,698		242,244	

There is an improvement of 2 percentage points in the Gross Profit margin but a small fall in the operating margin.. However there is an absence of “like for like” income statements since the previous year does not include amounts for the subsidiary. To that extent there is a distortion in comparability

The largest fall is in the Return on Capital Employed. The main contributing factor is the fall in capital employed by about 60%. This may due to insufficient time to exploit the returns available on the new acquired assets, as well implementing synergy savings in relation to duplicate overheads and unused capacities.

Question 2 solution.

Group Income Statement of Storage Ltd for the year ended 31/07/15

		Parent	Adjust	Sub	Group	
Sales/Revenue		4,500,000		€100,000	4,600,000	1.50
						0.00
Cost of sales	W/N 1	(2,611,650)		(€54,800)	(2,666,450)	2.00
Gross Profit		1,888,350	0	45,200	1,933,550	0.50
						0.00
Selling and distribution	W/N 1	(864,420)		(€20,000)	(884,420)	3.50
Administration expense	W/N 1	(535,806)		(€5,000)	(540,806)	2.50
Operating profit		488,124	0	20,200	508,324	0.50
Other Gains and Losses		35,550	(35,550)			
	W/N 5		€13,800		13,800	2.50
Finance Costs						
Interest on loan stock	W/N 6	(35,729)			(35,729)	1.00
Redeemable Pref dividend		(7,200)	-		(7,200)	1.00
Pension costs	W/N 4	(72,000)			(72,000)	3.00
Interest on lease	W/N 3	(7,132)			(7,132)	1.50
Profit before tax		401,613	(21,750)	20,200	400,063	
Income tax expense	W/N 8	(29,980)		(4,500)	(34,480)	2.50
Profit for the year		371,633	(21,750)	15,700	365,583	0.50
Other comprehensive income						
Actuarial Loss	W/N 4	(22,000)			(22,000)	1.50
Profit for the year		349,633	(21,750)	15,700	343,583	0.25

Note only the amounts in "Group" column of SOCI required. Others included for info

Group Statement of Changes in Equity for year end 31/07/15

	Share	Share	Retained	Total	7.00
	Capital	Premium	Earnings		
Balances at 31/07/14 [W/N4]	960,000	240,000	530,000	1,730,000	1.50
Prior period deferred tax			(37,500)	(37,500)	2.00
	960,000	240,000	492,500	1,692,500	
Issued share capital					
Profit for year ended 31/07/15			343,583	343,583	1.00
interim ordinary dividend			(12,000)	(12,000)	1.00
Final Dividend declared W/N7			(14,400)	(14,400)	1.50
Balances as at 30/06/15	960,000	240,000	809,683	2,009,683	

Statement of Financial Position of Storage Ltd as at 31/07/15

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Non-current Assets		Own a/cs	Adjust	Storage	Storage	
Property, Plant & Equipment	W/N 2	2,121,200			2,121,200	6.50
Investment in Bin Makers Ltd	W/N 5	18,800	1,380		22,750	0.75
			2,570			0.50
Current Assets						
Inventory		344,520		344,520		0.50
Receivables		375,333		375,333		0.50
Assets held for sale	W/N1 (b)	401,700		401,700		1.50
					<u>1,121,553</u>	0.50
Total Assets		3,261,553	3,950		3,265,503	0.75
Equity and Liabilities						
Equity						
Ordinary Share capital		960,000			960,000	0.50
Share Premium		240,000			240,000	0.50
<i>Own profit for year end less Div</i>		805,733	10,000			
Retained Profits			3,950		809,683	0.50
Total equity		2,005,733	13,950		2,009,683	0.75
						0.00
Non Current Liabilities						0.00
3 % Loan stock €500,000	W/N 6	451,825		451,825		1.50
4% Redeemable Pref. shares		180,000		180,000		0.50
Pension obligations	W/N 4	4,000		4,000		1.00
Leasing	W/N 3	54,752		54,752		1.00
Deferred tax	W/N 8	55,680		55,680		1.00
					746,256	
Current Liabilities						
Payables		375,000		375,000		0.50
Prefer Dividend payable		3,600		3,600		1.00
Dividend payable		14,400		14,400		
Leasing	W/N 3	23,702		23,702		1.25
Taxation	W/N 8	16,000		16,000		1.50
Interest owing [bonds]	W/N 6	12,500		12,500		1.00
Bank overdrawn		64,362		64,362	509,564	0.50
Total Equity plus Liabilities		3,261,553			3,265,503	

Note only the headings [excluding *italics*] and the "Storage" columns required. Others for info only

Question 2 solution W/N 1-analysis of functional costs

			Production	Distribution	Admin	7.00
Per Trial Balance			2,610,000	675,000	540,000	
Subsidiary see adjust col.						
Depreciation	(a)	Premises	30,800	8,800	4,400	1.50
extra w/down asset for sale	(b)	Premises	2,170	620	310	1.50
Depreciation	(c)	Trucks	0	160,000	0	1.00
Depreciation	(d)	Leased M		20,000		1.00
Inventory		31/07/14	313,200			0.50
Inventory		31/07/15	(344,520)			0.50
Issued costs of loan stock	W/N 6				(8,904)	1.00
Total			2,611,650	864,420	535,806	

(a) €2,200,000 x 2% =€44,000 allocated: 70% [€30,800]: 30%[€8,800; 10% [€4,400]

(b) Available for sale premises

Cost €440,000 01/08/11 less 4 years depreciation [4 x2%] €35,200 =€404,800

Sales value estimate	€415,000
Sales commission 2%	(€ 8,300)
Estimated legal costs	(€ 5,000)

€401,700

Further write down of "available for sale" asset required

€ 3,100

Allocated : 70% [2,170] ; 20%[620] and 10% [310]

(c) Trucks 20% RB [€1,000,000-€200,000] x 20% equals €160,000.

(d) Leased machinery €100,000 x 20% straight line equals €20,000.

W/N 2 Non-Current Assets

	Premises	trucks	Leased M	Total	
Cost/value 31/07/14	2,200,000	1,000,000		3,200,000	1.00
Revaluation					0.00
Additions			100,000	100,000	1.00
"Available for Sale"	(440,000)			(440,000)	0.50
Cost value 31/07/15	1,760,000	1,000,000	100,000	2,860,000	0.75
					0.00
Accumulated depreciation	350,000	200,000		550,000	1.00
"Available for Sale"	(35,200)			(35,200)	1.00
					0.00
SOCI charge 31/07/15	44,000	160,000	20,000	224,000	0.75
Accum.Dep 31/07/15	358,800	360,000	20,000	738,800	
Net Book value 31/0715	1,401,200	640,000	80,000	2,121,200	0.50

Question 2-continued

W/N 3 Machine acquired under a lease

Schedule

	amount	repaid	balance	10%	balance
01/08/2014	100,000	(28,679)	71,321	7,132	78,453
01/08/2015	78,453	(28,679)	49,774	4,977	54,752
01/08/2016	54,752	(28,679)	26,073	2,607	28,680
01/08/2017	28,680	(28,679)	1	0	1

The €28,679 amount is paid at the start of year. Thus interest is after such deduction.

Current Liability is €28,679 minus 2nd year interest €4,977 equals €23,702

Non-Current Liability is €54,572

Finance charge for year ended 31/07/15 € 4,977

Depreciation as W/N 2 €20,000

Note only the first two lines of the schedule required. Others included for info.

W/N 4 Pension costs

		Assets	Liabilities	B/S	I/S	
	Balance at 31/07/14	€850,000	€850,000	€0		
	Employer Contribution	€90,000		€90,000		
	Current service costs		€80,000		€80,000	
	less Employee contributions	€25,000			(€25,000)	
	Benefits paid	(€70,000)	(€70,000)			
6%	Returns on assets	€51,000			(€51,000)	
8%	Interest		€68,000		€68,000	
	Total returns	€946,000	€928,000		€72,000	<S.O.C.I.
	actuarial loss	(€25,000)	€3,000		€22,000	<O.C.I.
	Balance at 31/07/15	€921,000	€925,000	€4,000	€94,000	

The total charge to SOCI plus OCI is €94,000. Per Trial balance company has only paid €90,000 thus result a shortfall liability of €4,000 Note no opening difference on total of assets and total of Liabilities.

S.O.C.I	€72,000	[3.00 marks]
O.C.I	€ 22.000	[1.50 marks]
B/S	€4,000 NCL	[1.50 marks].

Question 2-W/N 5 Acquisition of 100% and subsequent sale of 90%

Note the disposal did not take place till the last day of the current accounting year 31/07/15. Thus the full 100% of the profits of the subsidiary is incorporated in the Group Income statement. However at the B/S date only 10% is held by way of a long term investment without significant influence of the policies of that company. Thus the SOFP is of Storage Ltd with the inclusion of Binmakers Ltd only as a long term investment. In addition to incorporating results of the subsidiary for the year ended 31/07/15 there is also a gain at 31/07/15 on the sale of 90% shareholding of Binmakers Ltd

Additional there is the gain on the “re-measurement” of the 10% holding

Acquired 100% of Binmakers for €188,000 at 01/08/13
 Sold 90% of Binmakers for €204,750 at 31/07/15

S.O.C.E Profit b/f y/e 31/07/14 per T/B €520,000 +Post acq of sub €10,000 equals €530,000

		Acquired	Sold	Retained	
		Total 100%	90%	10%	2.50
Fair Value of assets including goodwill	01/08/13	€188,000	€169,200	€18,800	0.50
Post acquisition profit for year ended	31/07/14	€10,000	€9,000	€1,000	0.50
Current post acq. profits for year ended	31/07/15	€15,700	€14,130	€1,570	0.50
Net assets plus goodwill	31/07/15	€213,700	€192,330	€21,370	
Consideration for 90%/ F.V. for 10%	31/07/15	€227,500	€204,750	€22,750	0.50
Gain on sale and value of 10% holding		€13,800	€12,420	€1,380	0.50

Note the 10% retained in Binmakers Ltd is a long term investment rather than an associate company because Storage Ltd retains no significant influence over the financial and operating policies of the company.

The gain arising on the “re-measurement” of the retained 10% holding is €1,380, which along with the gain on sale of the 90% of €12,420 amounts to total gain of €13,800

As stated in the question it can be assumed that the value attributable to the 90% by the buyer of €204,750 can be allocated pro-rata to the 10% holding ie
 $€204,750 \times 10\%/90\% = €22,750$

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Issue on 01/08/14 a 5% €500,000 loan at discount of 10% i.e. €450,000 [€500,000 -10%]
 The loan is repayable on the 31/07/20 at a premium of 4% i.e. €520,000 [€500,000 x 1.04]
 The cost of issue was €8,904 and the interest rate implicit in the loan was 8.10%
 Comment The net proceeds received are €450,000 minus €8,904 equals €441,096

Amount	8.10%	repayable	lump sum	Balance	
€441,096	€35,729	(€25,000)		€451,825	31/07/15
€451,825	€36,598	(€25,000)		€463,423	31/07/16
€463,423	€37,537	(€25,000)		€475,960	31/07/17
€475,960	€38,553	(€25,000)		€489,513	31/07/18
€489,513	€39,651	(€25,000)		€504,163	31/07/19
€504,163	€40,837	(€25,000)	(€520,000)	€0	31/07/20

Credit administration expenses € 8,904	Debit Loan account €8,904
Credit Loan €35,729	Debit SOCI €35,729
Debit Loan €25,000	Cr Bank €12,500
	[per T/B] Cr interest payment owing €12,500

Note only the first row is required. Others included for info.

W/N 7

The dividends were declared and approved by the board which consisted of all the shareholders of the company prior to the year end.

Question 2 Taxation

W/N 8

Taxation provision for y/e 31/07/15	€16,000
Less over-estimation for y/e 31/07/14	<u>(€4,200)</u>
SOCI	€11,800

Omission of deferred tax charge for prior year and computation of deferred tax charge for current year. Prior year omission will require a restatement of opening retained profits. Where comparative amounts provided the comparative SOCI would require restatement and reconciliation of reserves as previously reported with the amended reserves.

		Net Book	Tax Written	Difference	15%
		Value	Down Value		
Balance non-current assets	31/07/14	€2,650,000	€2,400,000	€250,000	€37,500
SOCI 31/07/15----->					€18,180
Balance non-current assets	31/07/15	€2,121,200	€1,750,000	€371,200	€55,680

31/07/15 Debit opening retained profits at 31/07/14	€37,500	
Cr deferred taxation account		€37,500
Debit taxation SOCI for year ended 31/07/15	€18,180	
Credit deferred taxation account		€18,180

Summarising

Taxation charge €11,800 plus €18,180 equals €29,980 for parent company	
Add tax on subsidiary profits y/e 31/07/15	<u>€ 4,500</u>
Total	<u>€34,480</u>

Question 3 Murphy construction

W/N 1 Determination if overall profit or loss on contract

		Dublin	Cork	Galway
Contract price	(i)	€3,800,000	€1,900,000	€845,000
Total costs incurred	(ii)	(€2,280,000)	(€437,000)	(€295,750)
Cost to complete	(iii)	(€525,000)	(€1,100,000)	(€645,000)
Overall Profit /(Loss)	(iv)	€995,000	€363,000	(€95,750)
Value of work certified	(v)	€2,660,000	€190,000	€211,250
Percentage complete	(v)/(i)	70%	10%	25%
		take profit	Don't take profit	Take whole loss
Sales	(vi)	€2,660,000	equal to costs	€211,250
Cost of sales	(vii)	(€1,963,500)	(€153,700)	(€235,188)
Profit /(Loss)	(viii)	€696,500	€none	(€23,938)
Provision required	(ix)	N/A	N/A	(€71,812)

Statement of Comprehensive Income of Murphy for year ended 30/06/15[extract]

	Dublin	Cork	Galway	Total	
Sales/Revenue	€2,660,000	€153,700	€211,250	€3,024,950	1.50
Cost of sales	(€1,963,500)	(€153,700)	(€235,188)	(€2,352,388)	1.50
Provision			(€71,812)	(€71,812)	1.50
Profit/(Loss)	€696,500	€0	(€95,750)	€600,750	

Statement of Financial Position of Murphy as at 30/06/15 [extract]

Current Assets	Dublin	Cork	Galway	Total	
Inventories [(ii) minus (vii)]	€316,500	€283,500	[w/n 2] €0	€660,363	1.50
Trade Receivables [(vi) –cash]	€190,000	€30,500	€8,450	€226,950	1.50
Amounts recoverable un contract [(v) minus invoice billed]	€570,000		€135,200	€733,700	1.00
Total Assets				€xxxx	
Provision for loss on contract		w/n 2---→	€11,250		1.50

W/N 2 Galway Closing inventory :Cost to date €295,750 less C.O.S.€235,188 =€60,562
 Galway inventory €60,562 less loss provision €71,812 =€0 on inventory on B/S and
 Provision of €71,812 –inventory w/off €60,562 =€11,250

W/N 3 Cork inventory is €437,000-€153,700=€283,300 less [Billings€163,500-sales€153,700]
 = €283,300 less €9,800 equals €273,500

Question 3 answer (b)

Notes to financial statements of Murphy Ltd

para		Dublin	Cork	Galway	
39(a)	Contracts revenue recognised in period	€2,660,000	€153,700	€211,250	1.50
40(a)	Cost incurred + recognised profit	€2,976,500	€437,000	€391,500	3.00
40(b)	Advances received	€1,900,000	€133,000	€67,600	1.50
43	Gross amount due from customer				
	Cost incurred to date	€2,280,000	€437,000	€295,750	1.50
	plus Recognised profits	€696,500	€0		0.50
	minus recognised loss			(€95,750)	0.50
	less progress billings	(€2,090,000)	(€163,500)	(€76,050)	1.50
		€886,500	€273,500	€123,950	