

**Institute of Incorporated Public Accountants**

**Professional 2 – Module 8**

**Financial Accounting**

**25 August 2015**

**10am – 1pm**

**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**

<b>Question 1- Limited Company accounts</b>	<b>35 marks</b>
<b>Question 2 - Acquisition by one company of a subsidiary</b>	<b>25 marks</b>
<b>Question 3 - Ratios</b>	<b>20 marks</b>
<b>Question 4 - Multi-choice question</b>	<b>20 marks</b>

**Total 100 marks**

**Including this instruction sheet there are pages numbered 1 to 14**

**Question 1**

Set out below is the Trial Balance of Porcelain Manufacturers as at 30/06/15 together with notes.

		<b>Debit</b>	<b>Credit</b>
		<b>€</b>	<b>€</b>
Inventory [Raw materials and Finished Goods]	30/06/14	26,000	
Purchases		485,000	
Sales			1,000,000
Trade receivables		69,000	
Trade payables			40,400
Premises		1,200,000	
Transport trucks		400,000	
Retained Profit	30/06/14		140,000
Ordinary Share capital [N.V. €0.75 each]			450,000
Share Premium			150,000
5% Debentures			75,000
Revaluation -in relation to premises	30/06/14		100,000
<b>Provision for depreciation</b>			
- Premises	30/06/14		96,000
- Transport trucks	30/06/14		144,000
Provision for doubtful debts	30/06/14		2,760
Bank			183,150
Interim Dividend		7,500	
Advertising		48,000	
Taxation		9,500	
Bad debts		6,000	
V.A.T		1,560	
Operating expenses		125,000	
Interest on debentures		3,750	
<b>Totals</b>		<b>2,381,310</b>	<b>2,381,310</b>

**Note 1**

The inventory at the 30/06/15 was €23,400 and consisted of Raw Materials and Finished Goods. There was no Work-in-Progress.

The analysis was as follows:

Raw materials [used exclusively for input into manufacture] €11,000

note (i)

Finished goods €12,400

note (ii)

(i) The raw materials of €11,000 could be sold as raw materials at 30/06/15 for €10,100.

(ii) The Finished Goods of €12,400 could be sold at 30/06/15 for €16,000.

**Question 1 continued- notes to Trial Balance**

**Note 2**

On the 30<sup>th</sup> June 2015 the company issued goods on approval to a customer at a value equal to a cost of €8,000 plus 20% profit margin. The amount is included in sales in the Trial Balance.

**Note 3**

- (i) The Purchases amount per the Trial Balance includes, in error, an amount for €10,000 in respect of materials purchased and used in extending the reception area of the premises. There were no other errors of misclassification in relation to the Purchases amount per Trial Balance.
- (ii) The depreciation rates and the allocation of their amounts amongst the different functional classifications are as follows:

			<b>Allocated as follows</b>		
	<b>Bases</b>	<b>Rate</b>	<b>Production</b>	<b>Distribution</b>	<b>Administration</b>
Premises	Straight line	4%	70%	20%	10%
Transport trucks	Reducing balance	20%	0%	100%	0%

- (iii) During the year there was a disposal of a truck for €44,200, and which had been purchased on the 01/07/12 for €80,000. Apart from including the amount received of €44,200, in error, in the Sales amount in the Trial Balance no other adjustments were made.
- (iv) It is company policy to depreciate, where relevant, a non-current asset in full in its year of acquisition and not to depreciate, where relevant a non-current asset in its year of disposal or sale.
- (v) The revaluation amount in the Trial Balance relates entirely to the premises. A review of the valuation of the premises as at 30/06/15 was undertaken by an independent surveyor. The valuation of the premises at 30/06/15 was estimated at €961,600. No adjustments have been made to reflect the above.

**Note 4**

The provision for doubtful debts is to be maintained at 6%.

**Question 1-continued-notes to Trial Balance**

**Note 5**

The amount for operating expenses in the Trial Balance of €125,000 includes a payment for rates of €50,000 for the 12 months period ended 30/09/15.

Operating expenses are to be allocated as follows;

<b>Allocation as follows :</b>			
<b>Expense</b>	<b>Production</b>	<b>Distribution</b>	<b>Administration</b>
Operating expenses	60%	30%	10%

**Note 6**

The taxation of €9,500 in the Trial Balance represents an under-estimation of the taxation due on the profits for the year ended 30/06/14. The under estimation was due to a fundamental error of computation by a trainee accountant. The taxation liability for the profits for the year ended 30/06/15 was estimated, applying correct taxation principles, as being €17,500.

**Note 7**

During the year ended 30/06/15 the company issued 100,000 Ordinary Share Shares at €1.10 per share. The amount was properly classified, recorded and included in the Trial Balance.

**Required**

- (a) Set out the Income Statement of Porcelain Ltd for the year ended 30/06/15 in accordance with IAS 1 and other relevant standards. **17 marks**
- (b) Set out the Statement of Changes in Equity for year ended 30/06/15 in accordance with IAS 1 and other relevant standards. **5 marks**
- (c) Set out the Statement of Financial Position [Balance Sheet] of Porcelain Ltd as at 30/06/15. **13 marks**

**Total Marks 35 marks**

***Note where working notes are provided to explain the composition of a particular amount shown in your answer then such notes should be referenced W/N 1 [i.e. working note 1] W/N2 etc. with a suitable heading indicating the purpose of that working note.***

***Rounding; Where relevant, final amounts computed should be rounded to the nearest whole euro.***

**Question 2**

Set out below is the Trial Balance of Hi Tech Ltd as at 30/06/15

			<b>Debit</b>	<b>Credit</b>
			<b>€</b>	<b>€</b>
Ordinary Share capital	Nominal value	€0.80 each		480,000
Share Premium				60,000
6% Redeemable Preference Shares				250,000
Retained Profits	30/06/14			150,000
Dividend received from Lo Tech Ltd				1,200
Investment in Lo Tech	see note (iii)			
<b><u>Accumulated depreciation</u></b>				
Buildings	30/06/15			78,400
Equipment	30/06/15			126,000
Buildings			980,000	
Equipment			420,000	
Cost of Goods sold			555,000	
Interest on debentures			3,600	
Sales/Revenue				925,000
Trade receivables			22,000	
Trade payables				32,000
Inventory	30/06/15		28,000	
Bank				15,100
Ordinary dividends			9,000	
Preference dividend			15,000	
Administration expenses			92,500	
Value Added Tax			8,600	
Distribution expenses			74,000	
8% Debentures				90,000
			<b>Totals</b>	<b>2,207,700</b>
				<b>2,207,700</b>

**Note to Trial balance**

- (i) A provision for taxation on profits of Hi Tech Ltd for €11,000 is required.
- (ii) On the 01/07/14 Hi Tech Ltd acquired 60% of the Ordinary Share Capital in Lo Tech Ltd.

All assets and Liabilities were stated at fair value at date of acquisition.

**This question continues on the next page**

**Question 2-continued-notes to Trial Balance**

- (iii) Hi Tech Ltd issued 80,000 ordinary shares valued at €0.90 per share as consideration for its acquisition of 60% shareholding in Lo Tech Ltd on 01/07/14. No adjustment has been made in the financial statements of Hi Tech Ltd to reflect the issue of Ordinary shares by it to Lo Tech Ltd.

**Trial Balance of Lo Tech Ltd as at 30/06/15.**

		<b>Debit</b>	<b>Credit</b>
		€	€
Sales/Revenue			340,000
Cost of Sales		204,000	
Distribution expenses		34,000	
Administration expenses		27,200	
Premises		180,000	
Accumulated .Depreciation	30/06/15		16,000
Inventory	30/06/15	12,500	
Receivables		11,000	
Payables			5,000
Taxation		7,480	
Dividend paid		2,000	
Ordinary Share Capital N.V. €1.00			100,000
Retained Profits	30/06/14		15,000
Taxation owing on profits			2,200
Bank		20	
<b>Totals</b>		<b>478,200</b>	<b>478,200</b>

- (iv) The inventory in Low Tech includes an amount for €9,000 representing a sale to it by Hi Tech Ltd at a mark-up of 20%.
- (v) An impairment review of the goodwill on acquisition of Low Tech Ltd indicated the need to write down that goodwill by 10%.

**Required**

- a) Prepare the Group Income Statement of Hi Tech Ltd for year ended 30/06/15. **[12 marks]**
- b) Prepare the Group Statement of Changes in Equity of Hi Tech Ltd for the year ended 30/06/15. **[5 marks]**
- c) Prepare the Group Statement of Financial Position-Balance Sheet- of Hi Tech as at 30/06/15. **[8 marks]**

**Total [25 marks]**

**Question 3**

Set out below are the Income Statements and Balance Sheets of Widget Makers Ltd for the first two years of its operations. The company is listed on the stock exchange.

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

Sales Volumes in units	77,000 units		70,000 units
	-	-	-
	€		€
<b>Revenues/ Sales</b>	112,035		105,000
Cost of Goods Sold	(72,823)		(63,000)
<b>Gross Profit</b>	39,212		42,000
Operating Expenses	(23,527)		(26,250)
<b>Operating Profit</b>	15,685		15,750
Finance charges	(4,000)		(2,500)
<b>Profit before tax</b>	11,685		13,250
Taxation	(1,461)		(1,656)
<b>Profit for the year</b>	10,224		11,594

The profit above is after charging depreciation of :      €42,000                                      €26,000

**Movement in reserves for years ended**

	31/07/15		31/07/14
	€		€
Retained profit at start of year	10,094		0
Profit for the year	10,224		11,594
Ordinary Dividends	(3,000)		(1,500)
Retained profit at end of year	<b>17,318</b>		<b>10,094</b>

**Question 3**

Balance Sheets of Widget Makers Ltd as at;

	<b>31/07/15</b>		<b>31/07/14</b>
<b><u>Non-Current Assets</u></b>	€		€
Property Plant Equipment	<b>142,000</b>		<b>104,000</b>
<b><u>Current Assets</u></b>			
Inventory	5,985		4,315
Receivables	10,744		9,206
<b>Total Current Assets</b>	<b>16,729</b>		<b>13,521</b>
<b>Total Assets</b>	<b>158,729</b>		<b>117,521</b>
<b><u>Equity and Liabilities</u></b>			
<b>Equity</b>			
Ordinary Share Capital of €1 each	75,000		75,000
Retained Earnings	<u>17,318</u>		<u>10,094</u>
<b>Total Equity</b>	<b>92,318</b>		<b>85,094</b>
<b><u>Non-Current Liabilities</u></b>			
10% Debentures	40,000		25,000
<b><u>Current Liabilities</u></b>			
Payables	3,990		5,178
Bank	22,421		2,249
<b>Total Equity plus Liabilities</b>	<b>158,729</b>		<b>117,521</b>

Market value of a share at 31<sup>st</sup> July      **€0.66**                                      **€0.71**

**Required**

Analyse and comment on the performance of the company over the first two years of its operations by computing two ratios for each year under the following headings;

- (i) **Liquidity.**
  - (ii) **Profitability.**
  - (iii) **Efficiency.**
  - (iv) **Investment appraisal/Investor satisfaction.**
- [20 marks]**



**See next page for suggested layouts**

**Question 3-suggested layout for ratios**

**Liquidity**

<u>Name of ratio</u>	<u>Formula</u>	<u>2015</u>	<u>2014</u>
???	???	<u>?? x ??</u> =??	<u>?? x??</u>
= ??		??	??
???	???	<u>?? x ??</u> =??	<u>?? x ??</u>
= ??		??	??

**Efficiency**

<u>Name of ratio</u>	<u>Formula</u>	<u>2015</u>	<u>2014</u>
???	???	<u>?? x??</u> =??	<u>?? x ??</u> = ??
		??	??
???	???	<u>?? x ??</u> =??	<u>?? x ??</u> = ??
		??	??

and similarly for the headings "Profitability" and "Investor Satisfaction"

Where candidates choose to set out the name of the ratio and its formula on one page and the actual workings on a separate page, then it is important that the formula and workings are clearly cross referenced to each other.

**Question 4-multi-choice**

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 answers onto. For each item students should mark **X** over the letter corresponding to their choice of answer on the answer sheet provided. Only one **X** will be accepted for each item.

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

---

**Item 1**

The definition of an expense as set out in the framework might best be summarised as:

- (a) An inflow of economic benefits during an accounting period that increases net assets.
- (b) An outflow of economic benefits during an accounting period that will result in a decrease in net assets.
- (c) An incurrence of a liability resulting in the acquisition of an asset.
- (d) An inflow of cash during the accounting period that result in an increase in liabilities.

**Item 2**

Business A acquired 70% of business B resulting in the creation of an amount of positive goodwill in the group accounts. However before finalising that valuation for goodwill, a review of the assets of the subsidiary at acquisition date was undertaken. As a result of that review a number of the subsidiary's assets were revalued downwards.

This will result in:

- (a) The original goodwill amount being increased after the adjustments are made.
- (b) The original goodwill amount being decreased after the adjustments are made.
- (c) No change in the goodwill but an increase in amount of pre-acquisition profits.
- (d) None of the above.

**Question 4 Multi-choice continued**

**Item 3**

Set out below is an analysis of the equity totals of a Private company- ABC Ltd- and a Public Company- XYZ Ltd.

	<u>Private Co</u> <u>ABC Ltd</u>	<u>Private Co</u> <u>ABC Ltd</u>	<u>Public Co.</u> <u>XYZ Ltd</u>	<u>Public Co</u> <u>XYZ Ltd</u>
Ordinary share capital		€5,000		€5,000
Unrealised profits	€2,500		€2,500	
Unrealised losses	<u>(€3,750)</u>		<u>(€3,750)</u>	
		(€1,250)		(€1,250)
Realised profits	€7,000		€7,000	
Realised losses	<u>(€1,750)</u>		<u>(€1,750)</u>	
		<u>€5,250</u>		<u>€5,250</u>
Total equity		<u>€9,000</u>		<u>€9,000</u>

The amount of distributable profit for a private company, ABC Ltd, and for a public company, XYZ Ltd., is as follows:

	<u>Private ABC Ltd</u>	<u>Public XYZ Ltd</u>
(a)	€5,250	€4,000
(b)	€4,000	€5,250
(c)	€9,500	€5,750
(d)	€5,750	€9,500

**Item 4**

According to IAS 36 the “recoverable amount” is the

- (a) The higher of the carrying value and the net realisable value.
- (b) The lower of the value-in-use and the net realisable value.
- (c) The lower of the carrying value and the net realisable value.
- (d) The higher of the net realisable value and the value-in-use.

**Item 5**

According to the framework two examples of enhancing characteristics of information are:

- (a) Relevance and Comparability.
- (b) Faithful representation and Verifiability.
- (c) Relevance and Faithful Representation.
- (d) Comparability and Verifiability.

**Question 4 multi-choice question continued**

**Item 6**

Company AST Ltd bought in goods for €1,125 including 12.50% V.A.T. The company sold half of those goods at a profit margin [i.e. on sales price] of 20% plus 12.50% VAT on the total sales value. The profit made by the company and the amount of V.A.T payable or reclaimable- rounded to the nearest whole euro where relevant- is:

	<u>Profit</u>	<u>VAT</u>
(a)	€141	€47 reclaimable
(b)	€125	€16 payable
(c)	€125	€47 reclaimable
(d)	€141	€16 payable

**Item 7**

A company, whose year end is the 31/07/15, bought a machine for €100,000 on the 01/08/12. It was estimated to have an 8 year useful life. On the 31<sup>st</sup> of January 2015 an impairment review was undertaken and the carrying value of the asset at that date was written down by 5%. Assuming depreciation is computed on a straight line basis, and applied pro-rata where relevant, then the charge for depreciation including the amount for impairment to be included in the Income statement for year ended 31/07/15, to the nearest whole euro is:

- (a) €12,500.
- (b) €15,625.
- (c) € 9,375.
- (d) None of the above.

**Item 8**

Set out below are the stock movements in units for the first month of trading of P.Slater.

				<b>Purchase price per unit</b>	<b>Sales price per Unit</b>
01-Jun	Opening balance	None	units		
05-Jun	Purchases in	1,000	units	€15.00	
13-Jun	Out/sales	500	units		€25.00
20-Jun	Purchases in	400	units	€18.00	
30-Jun	Out/sales	600	units		€25.00

Excluding the "Weighted Average" method of valuation, the value of the closing inventory at 30<sup>th</sup> June in accordance with the requirements of IAS 2 is:

- (a) €5,400.
- (b) €4,500.
- (c) €7,500.
- (d) None of the above.

**Question 4 multi-choice question continued**

**Item 9**

The profit of Tento Ltd for the year ended 30<sup>th</sup> June 2015 was as follows:

Profit for the year €250,000

After charging the following:

Directors fees €23,000

Auditor fees €21,000

Depreciation €38,000

Loss on sale of machinery € 8,000

The balances on Inventory, Receivables and Payables as at 30<sup>th</sup> June of the current and previous year Balance Sheets were as follows:

	<b>30/06/15</b>	<b>30/06/14</b>
Inventory	€26,000	€23,000
Receivables	€16,000	€22,000
Payables	(€33,000)	(€38,000)

The net cash flow from operations is

- (a) €286,000.
- (b) €294,000.
- (c) €298,000.
- (d) None of the above.

**Item 10**

In accordance with IAS 10 Post Balance Sheet events are those events that occur

- (a) Between the financial statements' year end and the date of the annual general meeting.
- (b) Between the date of authorisation of the financial statements and the date of the annual general meeting.
- (c) Between the financial statements' year end and the date of authorisation of approval of the financial statements.
- (d) Between the date of the authorisation of the financial statements and the date of the auditors' report.

**END OF MULTI-CHOICE QUESTION**

**END OF EXAMINATION PAPER**

**AN ANSWER SHEET FOR QUESTION 4 MULTICHOICE IS ATTACHED.**

**PLEASE RETURN THE COMPLETED ANSWER SHEET WITH YOUR ANSWER SCRIPT**

**Q4 Multiple choice – Module 8 Answer sheet August 2015**

**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 an 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**

---