Professional 2 – Module 8

August 2015 Financial Accounting

Solutions

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- Limited Company accounts	**35 marks**
Question 2 - Acquisition by one company of a subsidiary	**25 marks**
Question 3 - Ratios	**20 marks**
Question 4 - Multi-choice question	**20 marks**
An answer sheet is provided at the back of this exam paper	
Total	**100 marks**

Including this instruction sheet there are pages numbered 1 to ?

Question 1-solutions

Income statement for year ended 30/06/15

				17.00
	Notes			
Revenue	W/N 6		945,800	1.50
Cost of sales	W/N 1		(573,780)	4.50
Gross Profit			372,020	
Selling and distribution	W/N 1	(133,190)		4.00
Administration expense	W/N 1	(23,270)		3.00
			(156,460)	
Operating profit			215,560	
Loss on disposal of asset	W/N 2		(7,000)	1.50
Finance Cost				
Debenture interest			(3,750)	0.50
Profit before tax			204,810	
Income tax expense	W/N 5		(17,500)	1.00
Profit for the year			187,310	
Other comprehensive income				
Write down revaluation account			(100,000)	1.00
Profit for the year			87,310	

	Share Capital	**Share Premium**	**Re-valuation**	**Retained Earnings**	**Total**	**5.00**
Balances as at 30/06/14	375,000	115,000	100,000	140,000	730,000	1.00
Prior year adjustment				(9,500)	(9,500)	1.00
Restated balances as at 30/06/14	375,000	115,000	100,000	130,500	720,500	
Profit			(100,000)	187,310	87,310	1.00
Issue of ordinary share capital	75,000	35,000			110,000	1.00
Ordinary paid				(7,500)	(7,500)	1.00
Balances as at 30/06/15	**450,000**	**150,000**	**0**	**310,310**	**910,310**	

Question 1 solution continued

Statement of Financial Position as at 30/06/15

Non-current Assets				
Property, Plant and Equipment W/N 3			1,125,440	6.50
Current Assets				
Inventory **W/N 7**		31,400		0.50
Receivables	59,000			0.50
Provision for doubtful debts	(3,540)			0.50
		55,460		
Prepaid		12,500		1.00
V.A.T		1,560		0.50
			100,920	
Total assets			1,226,360	
Equity and Liabilities				
<u>Equity</u>				
Ordinary Share capital		450,000		0.50
Share Premium		150,000		0.50
Revaluation		0		
Retained Profits		310,310		0.50
Total equity			910,310	
<u>Non Current Liabilities</u>				
5% Debentures		75,000	75,000	0.50
<u>Current Liabilities</u>				
Payables				
Trade Creditors		40,400		0.50
Taxation		17,500		0.50
Bank		183,150		0.50
			241,050	
Total Equity and Liabilities			1,226,360	0.25

W/N 1 Analysis of production, distribution and administration expenses in SOCI

	reclassify Adjustment	**Production**	**Distribution**	**Admin**	**Total**
Premises depreciation W/N 4	10,000	33,880	9,680	4,840	48,400
Premises extra depreciation W/N4		2,800	800	400	4,000
Transport trucks depreciation W/N4			40,960		40,960
Inventory 30/06/14		26,000			26,000
Purchases	(10,000)	475,000			475,000
Bad debts per T/B				6,000	6,000
Estimate of doubtful debts				780	780
Advertising			48,000		48,000
Operating expenses per Qn Note5		67,500	33,750	11,250	112,500
Inventory 30/06/15 W/N 7		(23,400)			(23,400)
Goods on approval stock W/N 7		(8,000)			(8,000)
		573,780	133,190	23,270	730,240

W/N 2 Trucks sold	Cost	80,000	
Depreciation	Reducing balance	(16,000)	30/06/13
Depreciation	Reducing balance	(12,800)	30/06/14
		51,200	NBV
Sale price		44,200	
Loss on sale of asset		(7,000)	

W/N 3	Straight line	Reducing balance		
Non Current Assets	4%	20%		
	Premises	**Transport trucks**	**Total**	**6.50**
Cost value at 30/06/14	1,200,000	400,000	1,600,000	1.00
Capitalisation Qn Note 3(i)	10,000		10,000	1.00
Disposal **W/N 2**		(80,000)	(80,000)	0.50
Cost/value at 30/06/15	1,210,000	320,000	1,530,000	
				0.00
Acc. Dep at 30/06/14	96,000	144,000	240,000	1.00
Disposal **W/N 2**		(28,800)	(28,800)	1.00
Charged to I/S **W/N 4**	52,400	40,960	93,360	1.00
Charged to revaluation	100,000		100,000	1.00
Acc. Dep at 30/06/15	248,400	156,160	404,560	
Net Book value 30/06/14	1,104,000	256,000	1,290,000	
Net Book value 30/06/15	961,600	163,840	1,125,440	

W/N 4

Depreciation Buildings 1,210,000 x 4% €48,400 before additional write down of €4,000

Additional write down €4,000

Premises revalued at 30/06/15 to	€ 961,600
NBV [before adjustment] at 30/06/15	€1,065,600 (i)
Thus write down required	€ 104,000
Through revaluation account	€ 100,000
Thus additional depreciation	€ 4,000

(i) Cost at end of year €1,210,000 less [Acc dep at start of year €96,000 plus €48,400]

Thus total depreciation charge to S.O.C.I is €48,400 plus €4,000 equals €52,400
This is allocated in accordance with question note 3 i.e. 70%;20%:10%

Depreciation charge Transport trucks

Policy of no depreciation in the year of disposal.

Opening net book value €256,000 less NBV of sold asset [W/N 2] €51,200.

equals €204,800 x 20% equals €40,960.

W/N 5

Changes in estimation are treated prospectively.IAS8 However where there is a fundamental error as in the case of the computation of the previous year's taxation then such adjustments will be treated retrospectively.

W/N 6 Revenue

Revenue per Trial Balance		€1,000,000
Proceeds from sale of truck		(€ 44,200)
Sale on approval	(i)	(€ 10,000)
Amended		€ 945,800

(i) The goods on approval cost €8,000 and issue at cost plus 20% margin which is the equivalent of 25% on cost price giving a total value of €10,000.

Sale is not yet complete and in the absence of other information, previous experience of sales on approval to particular customers etc, it cannot be presumed as a sale. Entry should be reverse and goods included in closing inventory.

W/N 7 Inventory

As long as the raw materials are inputted into finished goods whose final costs will be covered by estimated net realisable value then no adjustment is required to reflect the fall in raw material prices. This appears to be so from the estimated NRV of finished goods being greater than their cost.

Final inventory is thus €23,400 plus €8,000 goods on approval equals €31,400.

Question 2

Group Income statement of Hi Tech Ltd for year ended 30/06/15

		Hi Tech Ltd	Adjust	Lo Tech	Group	
Sales/Revenue		925,000	(9,000)	€340,000	1,256,000	2.00
Cost of sales		(555,000)	7,500	(€204,000)	(751,500)	2.00
Gross Profit		370,000	(1,500)	136,000	504,500	0.50
Selling and distribution		(74,000)		(€34,000)	(108,000)	0.75
Administration expense		(92,500)	(300)	(€27,200)	(120,000)	1.00
Operating profit		**203,500**	**(1,800)**	**74,800**	**276,500**	0.50
Investment revenues						
Dividend income		1,200	(1,200)		0	
Finance Cost						
Debenture interest		(7,200)			(7,200)	1.00
Redeemable Pref dividend		(15,000)			(15,000)	1.00
Profit before tax		182,500	(3,000)	74,800	254,300	0.67
Income tax expense		(11,000)		(7,480)	(18,480)	1.50
Profit for the year		**171,500**	**(3,000)**	67,320	**235,820**	0.67
Attributable to						
Equity holding interest				40,392	208,892	0.25
Non Controlling interest				26,928	26,928	0.75
Profit for the year				67,320	**235,820**	

Only the headings and the extreme right column required. Others included for info

Group Statement of Changes in Equity for year ended 30/06/15

	Share Capital	Share Premium	Retained Earnings	Total	NCI	5.00
Balances at 30/06/14	480,000	60,000	150,000	690,000		1.00
Issued share capital	64,000	8,000		72,000		1.00
Non-Controlling % arising on acquisition					46,000	1.50
Profit for year ended 30/06/15			208,892	208,892	26,928	0.50
						0.00
Ordinary dividend paid			(9,000)	(9,000)	(800)	1.00
Balances as at 30/06/15	**544,000**	**68,000**	**349,892**	**961,892**	**72,128**	

Group Statement of Financial Position as at 30/06/15

Non-current Assets	**Subsidiary**	**Hi Tech Ltd**	**Adjust**	**Group**	**Group**	
Property, Equipment	164,000	1,195,600			1,359,600	0.50
Goodwill W/N 1			3,000			
			(300)			
					2,700	
Investment in lo tech		72,000	(72,000)		0	0.50
Current Assets						
Inventory	12,500	28,000	(1,500)	39,000		0.75
Receivables	11,000	22,000		33,000		0.50
VAT		8,600		8,600		0.50
Bank	20			20		0.25
					80,620	
Total Assets	**187,520**	**1,326,200**	-	-	**1,442,920**	0.50
Equity and Liabilities						
Equity						
Ordinary Share capital	100,000	544,000		544,000		0.33
Share Premium		68,000		68,000		0.33
Current profit for year end -Div	65,320	162,500	n/a	n/a		
Retained Profits	15,000	150,000	199,892	349,892		0.50
Total equity	180,320	924,500			961,892	
						0.00
Non-Controlling Interest	-		-		72,128	0.25
Total equity		924,500			**1,034,020**	0.50
						0.00
Non Current Liabilities						0.00
8% Debentures		90,000		90,000		0.50
6% Red. Preference Shares		250,000		250,000		0.50
					340,000	
Current Liabilities						
Payables	5,000	32,000		37,000		1.50
Taxation		11,000		11,000		1.50
Interest	2,200	3,600		5,800		1.50
Bank overdrawn	-	15,100		15,100	68,900	2.00
Total Equity plus Liabilities	**187,520**	**1,326,200**	-	-	**1,442,920**	

Only the headings [*excluding those in italics*] and the extreme two right hand columns required Hi Tech own B/S adjusted for issue of shares in exchange for 60% of subsidiary. This was not required. Included for info only. Similarly subsidiary own B/S not required

<u>Question 2</u>

W/N1 Cost of control , Goodwill and Non-Controlling interest

	Lo Tech	Subsidiary	NCI
Net Asset acquired		60%	40%
Share Capital	€100,000	€60,000	€40,000
Retained Profit 30/06/14	€15,000	€9,000	€6,000
Thus Goodwill		€3,000	
Investment	**€115,000**	**€72,000**	**€46,000**

(i) Goodwill of €3,000 is to be written down by 10%

Consideration was 80,000 shares x €.90 €72,000

<u>Analysed into</u>

Ordinary Share Capital 80,000 shares x €0.80 €64,000

Share Premium € 8,000

<u>Revised Share Capital of Hi Tech</u>

Ordinary share capital €480,000 [per T/B]+€64,000= €544,000

Share premium € 60,000 [per T/B] +€8,000=€68,000

<u>Minority interest as at date acquisition per above</u>	€46,000
Share of current year profit	€26,928
Share of dividend paid by Lo Tech	<u>(€ 800)</u>
Balance at 30/06/15	**<u>€72,128</u>**

Question 3

Ref Name of ratio and ratio formulae

Liquidity- ability to meet day to day demands for cash

[1] Current Ratio	Current Assets	: Current Liabilities
[2] Quick Asset ratio	[Current Assets minus inventory]	: Current Liabilities

Profitability- A business grows through profits and shrinks through losses

[3] Gross Profit margin [Gross Profit/ Sales] x 100

[4] Operating Profit [Profit before interest & Tax / Sales] x 100
Or
[5] R.O.C.E. [Profit before interest & Tax/ Capital Employed] x 100

Efficiency- minimizing inputs to achieve a given output

[6] Inventory days [Inventory/ Cost of sales] x 365 days or inverse stock T/over

[7] Receivable days [Receivables/Sales on credit] x 365 days
Or
[8] Payable days [Payables/Purchases on credit] x 365 days

Investor appraisal – seeks an adequate return having regard to the risk

[9] Earning per share [Profit available to O.S.Holders]/ No. of ordinary shares

[10] Price earnings ratio Market value/ Market price per share
Or
[11] Gearing –financial risk Long terms loans / Capital employed] x 100

Computations **31/07/15** **31/07/14**

Liquidity

[1]Current Ratio

$\frac{€16,729}{€26,411}$ = 0.63 to 1 $\frac{€13,521}{€7,427}$ = 1.82 to 1

[2]Quick assets

$\frac{€10,744}{€26,411}$ = 0.41 to 1 $\frac{€9,206}{€7,427}$ = 1.24 to 1

		31/07/15			**31/07/14**	

Profitability

[3] Gross Profit margin

€39,212	x100% =	34.99%	€42,000	x100%=	40.00%
€112,035			€105,000		

[4] Operating Profit

€15,685	x 100%=	14.00%	€15,750	x 100% =	15.00%
€112,035			€105,000		

[5] ROCE

€15,685	x 100%=	11.85%	€15,750	x 100%=	14.31%
€132,318			€110,094		

Efficiency

[6] Inventory days

€5,985	x365 days=	30	€4,315	x 365 =	25	days
€72,823			€63,000			

[7] Receivable days

€10,744	x365 days=	35	€9,206	x 365=	32	days
€112,035	100%		€105,000	100%		

Assume sales are 100% on credit

[8] Payable days

€3,990	x365 days=	20	€5,178	x 365=	30	days
€72,823	100%		€63,000	100%		

Cost of sales taken as a surrogate for purchases. Assume all purchases on credit

Investor appraisal			31/07/15				31/07/14
[9] Earnings per share							
€10,224 / 75,000	=	0.14	€0.14	€11,594 / 75,000	=	€0.15	
[10] Price earnings ratio							
€0.61 / €0.14	=	4.50		€0.77 / €0.15	=	5.00	
[11] Gearing							
€40,000 / €132,318	x 100%=	30.23%		€25,000 / €110,094	x100%=	22.71%	

Brief comments on the ratios selected

Question 4-multi-choice

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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**. **Yes**

(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 liabilities.

Question 4 Multi-choice continued

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**. Yes

(c) No change in the goodwill but an increase in amount of pre-acquisition profits.

(d) None of the above.

Item 3

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

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

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

		Private ABC Ltd	Public XYZ Ltd
(a)	**yes**	**€5,250**	**€4,000**
(b)		€4,000	€5,250
(c)		€9,500	€5,750
(d)		€5,750	€9,500

Question 4 multichoice continued

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 Yes

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 Yes

Item 6

Company AST Ltd bought in goods for €1,125 including 12.50% V.A.T.
The company sold half of these goods at a profit margin [i.e. on sales price] of 20% .
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:

	Profit	VAT
(a)	€141	€47 reclaimable
(b)	€125	€16 payable
(c)	**€125**	**€47 reclaimable Yes**
(d)	€141	€16 payable

€1,125/1.125 equals €1000 ex VAT and €125 vat reclaimable

50% €500 sold at MU25%=€625 ex VAT plus 12.5%=€78 round 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 31st 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 is

(a) €12,500

(b) €15,625 Yes

(c) € 9,375

(d) None of the above

Up to date of impairment there is 2.5 years depreciation or 12.5% x2.5=31.25%

Thus NBV at date of impairment is €100,000 minus €31,250 =€68,750

Impairment is 5% x €68,750 equals €3,438 rounded	(€ 3,438]
Revised net book value	€65,312

Depreciation 2nd half of current year is €65,312 x 0.5/5.5 equals €5,937

Depreciation 1st half of year €12,500 x 50%	€ 6,250
Impairment	€ 3,438
2nd half depreciation charge	€ 5,937
Total	€15,625

<u>Question 4</u> multi-choice question continued

<u>Item 8</u>

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

				Purchase price per unit	**Sales price per Unit**
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 30th June in accordance with the requirements of IAS 2 is :

(a) €5,400 Yes

(b) €4,500

(c) €7,500

(d) None of the above

FIFO IS acceptable: Total inputs were 1,400units and total outputs were 1,100 units leaving 300 units in stock. FIFO charge out means LIFO remaining. Thus last purchase price is €18 which multiplied by 300 =€5,400

Sales price irrelevant

Question 4 multi-choice continued

Item 9

The profit of Tento Ltd for the year ended 30th 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 30th June of the current and previous year Balance Sheets was as follows:

	30/06/15	30/06/14
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 Yes

(c) €298,000

(d) None of the above

Profit €250,000 + depreciation €38,000 plus loss on sale of machine €8,000

Adjusted profit before W.C. capital adjustment is thus	€296,000
Increase in working capital is	(€ 2,000)
Net cash flow from operations is	€294,000

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**. yes

(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 NEXT

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 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