CPA IRELAND

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2019

NOTES:
You are required to answer Question 1. You are also required to answer any **three** out of Questions 2 to 5. Should you provide answers to all of Questions 2 to 5, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first three answers to hand for Questions 2 to 5 will be marked.

Note: Students have optional use of the Extended Trial Balance, which if used, must be included in the answer booklet.

Provided are pro-forma:

Statements of Profit or Loss and Other Comprehensive Income By Expense, Statements of Profit or Loss and Other Comprehensive Income By Function, and Statements of Financial Position.

TIME ALLOWED:
3.5 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper but you may not commence writing in your answer book.

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples where appropriate.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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Time allowed: 3.5 hours plus 10 minutes to read the paper.

Answer Question 1 and **three** of the remaining four questions.

Note: Students have optional use of the Extended Trial Balance, which if used, must be included in the answer booklet.

1.

(a) The International Accounting Standards Board (IASB) follows a process for the setting of International Financial Reporting Standards. Outline the main stages of this process.

(10 Marks)

(b) Whytome Limited is a company involved in the manufacture of heating systems for the construction industry. The following trial balance was extracted from its books as at 31 December 2018:

	Debit	**Credit**
	€	€
Accumulated Depreciation - Buildings - 1 January 2018		580,000
Accumulated Depreciation - Equipment - 1 January 2018		220,000
Accumulated Depreciation - Motor Vehicles - 1 January 2018		190,000
Admininstrative Expenses	248,750	
Allowance for Bad & Doubtful Debts		12,601
Bank	394,600	
Buildings at Cost at 1 January 2018	2,242,500	
Current Tax Payable		36,000
Distribution Costs	786,520	
Equipment at Cost at 1 January 2018	864,050	
Finance Costs	36,200	
Income Tax Expense	163,000	
Inventory at 1 January 2018	284,650	
Investments (4% interest rate)	200,000	
Investment Income		4,000
Issued Share Capital - €1 shares each		180,000
Long-Term Loan		1,457,500
Motor Vehicles at Cost at 1 January 2018	468,500	
Other Receivables	40,000	
Purchases / Revenue	4,875,260	7,542,520
Retained Earnings		478,534
Trade Receivables / Trade Payables	345,875	248,750
	10,949,905	10,949,905

The following information has also come to your attention:

(i) Whytome Limited held an inventory count at the year-end which revealed the year-end inventories at cost amounted to €268,460. Included in this figure is €3,200 of slow moving inventories at cost. It is estimated that these will need to be sold at a 40% discount on selling price in order to sell them. Whytome Limited sells at a mark-up of 20% for these goods.

(ii) Depreciation is to be charged as follows:

Buildings	2% Straight Line on Cost
Equipment	16% Reducing Balance
Motor Vehicles	20% Straight Line on Cost

Depreciation for the year is charged in full in the year of disposal and none in the year of acquisition and is allocated evenly between distribution costs and adminstrative expenses.

(iii) Equipment costing €150,000 was purchased and paid by cheque in November 2018.

(iv) A building was sold for €140,000 on 31 October 2018. The cheque received from this sale was lodged to the bank account. This building was purchased in 2000 for €200,000.

(v) In January 2019, Whytome Limited declared dividends of €40,000 for the year-ended 31 December 2018. The financial statements are not authorised for issue until May 2019. Whytome Limited included the following entry into its financial statements in respect of this declaration:

Debit	Other Receivables	€40,000	
Credit	Retained Earnings		€40,000

(vi) Investment income of €4,000 was received during 2018. The remaining balance of investment income was received in February 2019.

(vii) Inventory costing €8,000 was stolen from Whytome Limited in November 2018. The company has an insurance policy which covers theft of inventory and Whytome Limited was compensated in full by its insurance company in February 2019.

(viii) Whytome Limited recovered 80% of a bad debt of €6,000 which was previously written off to admininstration expenses in August 2018. The Allowance for Doubtful Debts should be set at 4%.

(ix) In 2018, Whytome Limited spent €60,000 by cheque on the initial design work of a new product – it is anticipated that this design will be taken forward over the next two year period to be developed and tested with a view to production in three years' time. Seperately, it spent €100,000 (paid by cheque) on the testing of a new production system which has been designed internally and which will be operational during the following accounting year. This new system should reduce the costs of production by 10%. Whytome Limited has not accounted for this money spent in its financial statements. The rate of amortisation that Whytome Limited uses is 10% per annum and is taken to cost of sales.

REQUIREMENT:

Prepare, in a form suitable for publication, based on IFRS, a Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for Whytome Limited for the financial year ended 31 December 2018.

Note: All workings should be shown. (30 Marks)

[Total: 40 Marks]

2. The Statement of Financial Position of the Janemount Dancing Club as at 31 December 2017 was as follows:

	€	€
Non-Current Assets		
Land at cost	150,000	
Equipment & Furniture (Cost - €40,000)	23,000	
Total Non-Current Assets		**173,000**
Current Assets		
Bar inventories	9,200	
Subscriptions Owing	2,500	
Bank Current Account	2,250	
Bank Deposit Account	12,000	
Total Current Assets		**25,950**
TOTAL ASSETS		**198,950**
Equity & Liabilities		
Equity		
Accumulated Fund	139,450	
Total Equity		**139,450**
Non-Current Liabilities		
Long-term Loan	48,000	
Total Non-Current Liabilities		**48,000**
Current Liabilities		
Bar Trade Payables	8,400	
Subscriptions in Advance	800	
Bar Wages Due	2,300	
Total Current Liabilities		**11,500**
TOTAL EQUITY & LIABILITIES		**198,950**

The club's summarised bank account for 2018 was as follows:

	€		€
Balance at 1 January	2,250	Bar purchases	74,700
Bar sales	166,000	Bar expenses	29,200
Subscriptions	68,000	Bar wages	75,600
Competition entries	14,800	Rates	10,000
		Loan repayments	19,600
		Competition entries	10,400
		Equipment	7,000
		Sundry expenses	2,540
		Transfer to deposit account	10,000
		Balance at 31 December	12,010
	251,050		**251,050**

The following information is also provided:

(i) **Balances at 31 December 2018**

	€
Bar inventories	9,900
Subscriptions owing	2,000
Bar trade payables	8,000
Subscriptions in advance	1,200
Bar wages due	1,600

(ii) The long term loan is repaid in annual instalments of €15,000 excluding interest. The interest in 2018 is €4,600.

(iii) Interest receivable on the deposit account is €500.

(iv) Depreciation is provided on equipment and furniture at 10% per annum on cost.

REQUIREMENT:

Prepare for the year ended 31 December 2018:

(a) A Bar Trading account for Janemount Dancing Club. (6 Marks)

(b) An Income & Expenditure account for Janemount Dancing Club. (7 Marks)

(c) A Statement of Financial Position for Janemount Dancing Club. (7 Marks)

[Total: 20 Marks]

3. Proviseo Limited has asked you, a Certified Public Accountant, for advice on how to account for provisions, contingent liabilities and contingent assets. The company's year-end is 31 March.

REQUIREMENT:

PART A

The financial controller of Proviseo Limited has asked you to prepare a report which addresses the following:

(a) In accordance with IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*, describe what is meant by the following:

(i) A provision;

(ii) A contingent liability;

(iii) A contingent asset. (6 Marks)

(b) Discuss the recognition criteria for the following:

(i) A provision;

(ii) A contingent liability;

(iii) A contingent asset (6 Marks)

PART B

Proviseo Limited provides a one year guarantee on equipment that it sold directly to customers. At the company's year end, it is being sued by one of its customers for refusing to repair equipment within the guarantee period. Proviseo Limited believes the fault is not covered by the guarantee on the grounds that the customer did not comply with the instructions for using the equipment.

Proviseo Limited's lawyer has advised that it is more likely than not that the company will be found liable. This would result in it incurring repair costs, including legal expenses amounting to approximately €30,000.

The company also manufactures another line of equipment which it sells to wholesalers. The company sold 4,000 items of this type, including in the past year. This equipment also has a one year repair guarantee. Based on past experience, 10% of items sold are returned for repair. In each case, 70% of the items returned are able to be repaired at a cost of €80, while the remaining 30% need significant repair at a cost of €250.

REQUIREMENT:

Show and justify the correct accounting treatment to deal with the above issues in the books of Proviseo Limited for the year ended 31 March 2019.

(8 Marks)

[Total: 20 Marks]

4. The trial balance for Ms. Frances Kennedy, an IT contractor in Dublin, for the year ended 31 December 2018 does not balance. Ms. Kennedy had identified the following issues but is unsure how to account for them and has approached you for help and guidance in rectifying the issues:

1. Discount received of €210 has been debited to the discount allowed account.

2. A rent expense of €1,000 paid during the year was recorded by debiting the rates account.

3. A €2,000 payment in relation to insurance expenses has been debited to insurance and debited to trade payables in error. The balancing entry was posted to suspense.

4. The total of the purchases day book has been carried forward as €12,348, whereas the correct amount was €12,843. The correct amount has been posted to trade payables.

5. Ms. Kennedy personally paid €10,000 towards the purchase of a motor vehicle for her business. The following entry was made in her financial statements:

Debit	Bank	€10,000	
Credit	Motor Vehicle		€10,000

6. A VAT credit of €2,000 on motor expenses was incorrectly assumed to be recoverable.

7. A prepayment of rent amounting to €8,000 was correctly entered in the bank account and was also credited to rent payable. The balancing entry was posted to suspense.

Ms. Kennedy included a suspense debit balance of €12,075 to balance the trial balance.

REQUIREMENT:

(a) Prepare journal entries for Ms. Frances Kennedy to record and correct relevant transactions from the above information for the financial statements for the year ending 31 December 2018.

(16 Marks)

(b) Prepare the suspense account for Ms. Kennedy in relation to the above transactions (4 Marks)

[Total: 20 Marks]

5. Shacarn Limited is a company which supplies meat to the retail trade. The following are their results for the last two years.

Shacarn Limited Statement of Profit or Loss and Other Comprehensive Income Statement for the Year-ended 31 December 2018

	2018	**2017**
	€'000	**€'000**
Sales	24,000	18,000
Cost of Sales	16,800	12,000
Gross Profit	7,200	6,000
Distribution Costs	1,200	1,000
Administration Costs	800	750
Finance Costs	620	840
Profit before tax	4,580	3,410
Taxation	573	426
Profit for the Year	4,007	2,984
Other Comprehensive Income	0	0
Total Comprehensive Income	4,007	2,984

Shacarn Limited Statement of Financial Position for the Year-ended 31 December 2018

	2018	**2018**	**2017**	**2017**
	€'000	**€'000**	**€'000**	**€'000**
Non-Current Assets		**13,200**		**11,000**
Current Assets				
Inventory	1,400		1,800	
Trade Receivables	2,000		1,200	
Cash and Cash Equivalents	1,200		400	
Total Current Assets		**4,600**		**3,400**
Total Assets		**17,800**		**14,400**
Equity & Liabilities				
Equity				
Ordinary Share Capital (€1)	2,000		2,000	
Retained Earnings	4,767		760	
Total Equity		**6,767**		**2,760**
Non-Current Liabilities				
Long-term Debt	9,000		10,000	
Total Non-Current Liabilities		**9,000**		**10,000**
Current Liabilities				
Trade Payables	1,400		1,200	
Bank Overdraft	240		60	
Taxation	120		180	
Accruals	273		200	
Total Current Liabilities		**2,033**		**1,640**
Total Equity and Liabilities		**17,800**		**14,400**

Notes:

(i) The Opening Inventory for 2017 was €2,000,000.

(ii) The number of ordinary shares in issue is 2,000,000 for both years.

		31/12/2018	**31/12/2017**
(iii)	Current Share Price per Ordinary Share	€26.00	€15.00

REQUIREMENT:

(a) Calculate for the following ratios for both years in relation to Shacarn Limited.

(1) Gross Profit Percentage
(2) Net Profit Percentage
(3) Quick Ratio
(4) Trade Receivable Days
(5) Trade Payable Days
(6) Interest Cover
(7) Earnings Per Share
(8) Price Earnings Ratio (8 Marks)

(b) Draft a report to the Board of Directors of Shacarn Limited in which you provide a commentary on the company's position and performance. Use the ratios calculated at (a) above as the basis for your commentary.

(10 Marks)

(Format and Presentation: 2 Marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

(a) Outline the main points of the standard setting process by the International Accounting Standards Board (IASB) in relation to International Financial Reporting Standards.

(10 Marks)

The Standard Setting Process

International Financial Reporting Standards (IFRSs) are developed through an international consultation process, the "due process", which involves interested individuals and organisations from around the world.

The due process comprises six stages, with the Trustees of the IFRS Foundation having the opportunity to ensure compliance at various points throughout:

1. Setting the agenda
2. Planning the project
3. Developing and publishing the discussion paper
4. Developing and publishing the exposure draft
5. Developing and publishing the standard
6. After the standard is issued

1. Setting the agenda

   The IASB, by developing high quality financial reporting standards, seeks to address a demand for better quality information that is of value to those users of financial reports.

   When deciding whether a proposed agenda item will address users' needs the IASB considers:
   - The relevance to users of the information and the reliability of information that could be provided,
   - Existing guidance available,
   - The possibility of increasing convergence,
   - The quality of the IFRS to be developed,
   - Resource constraints.

   To help the IASB in considering its future agenda, its' staff is asked to identify, review and raise issues that might warrant the IASB's attention. New issues may also arise from a change in the IASB's Conceptual Framework for Financial Reporting.

   In addition, the IASB raises and discusses potential agenda items in the light of comments from other standard-setters and other interested parties, the IFRS Advisory Council and the IFRS Interpretations Committee, and staff research and other recommendations.

   In making decisions regarding its agenda priorities, the IASB also considers factors related to its convergence initiatives with accounting standard-setters. The IASB's approval to add agenda items, as well as its decisions on their priority, is by a simple majority vote at an IASB meeting.

2. Planning the project

   When adding an item to its active agenda, the IASB decides whether to conduct the project alone or jointly with another standard-setter. Similar due process is followed under both approaches.

   When considering whether to add an item to its active agenda, the IASB may determine that it meets the criteria to be included in the annual improvements process. The IASB assesses the issue against criteria such as
   - Clarifying,
   - Correcting,
   - Well defined and sufficiently narrow in scope that the consequences of the proposed change have been considered,

- Completed on a timely basis,

All criteria must be met to qualify for inclusion in annual improvements.

Once this assessment is made, the amendments included in the annual improvements process will follow the same due process as other IASB projects. The primary objective of the annual improvements process is to enhance the quality of IFRSs by amending existing IFRSs to clarify guidance and wording, or correcting for relatively minor unintended consequences, conflicts or oversights.

After considering the nature of the issues and the level of interest among constituents, the IASB may establish a working group at this stage and a project team for the project will be selected. The project manager draws up a project plan under the supervision of the directors of the technical staff and the project team may also include members of staff from other accounting standard-setters, as deemed appropriate by the IASB.

3. Developing and publishing the discussion paper

A discussion paper is not a mandatory step in the IASB's due process. Normally the IASB publishes a discussion paper as its first publication on any major new topic as a vehicle to explain the issue and solicit early comment from constituents. If the IASB decides to omit this step, it will state its reasons.

Typically, a discussion paper includes a comprehensive overview of the issue, possible approaches in addressing the issue, the preliminary views of its authors or the IASB, and an invitation to comment. This approach may differ if another accounting standard-setter develops the research paper.

Discussion papers may result either from a research project being conducted by another accounting standard-setter or as the first stage of an active agenda project carried out by the IASB. If research has been performed by another accounting standard-setter, issues related to the discussion paper are discussed in IASB meetings, and publication of such a paper requires a simple majority vote by the IASB. If the discussion paper includes the preliminary views of other authors, the IASB reviews the draft discussion paper to ensure that its analysis is an appropriate basis on which to invite public comments.

For discussion papers on agenda items that are under the IASB's direction, or include the IASB's preliminary views, the IASB develops the paper or its views on the basis of analysis drawn from staff research and recommendations, as well as suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and presentations from invited parties. All discussions of technical issues related to the draft paper take place in public sessions.

When the draft is completed and the IASB has approved it for publication the discussion paper is published to invite public comment. The IASB normally allows a period of 120 days for comment on a discussion paper, but may allow a longer period on major projects (which are those projects involving pervasive or difficult conceptual or practical issues).

After the comment period has ended the project team analyses and summarises the comment letters for the IASB's consideration. Comment letters are posted on the IASB's website. In addition, a summary of the comments is posted on their website as a part of IASB meeting observer notes.

If the IASB decides to explore the issues further, it may seek additional comment and suggestions by conducting field visits, or by arranging public hearings and round-table meetings.

4. Developing and publishing the exposure draft

Publication of an exposure draft is a mandatory step in due process. An exposure draft is the IASB's main vehicle for consulting the public. Unlike a discussion paper, an exposure draft sets out a specific proposal in the form of a proposed IFRS (or amendment to an IFRS).

The development of an exposure draft begins with the IASB considering issues on the basis of staff research and recommendations, as well as comments received on any discussion paper, and suggestions made by the IFRS Advisory Council, working groups and accounting standard-setters and arising from public education sessions.

After resolving issues at its meetings, the IASB instructs the staff to draft the exposure draft. When the draft has been completed, and the IASB has balloted on it, with a minimum of nine votes necessary to publish an exposure draft, the IASB publishes it for public comment.

An exposure draft contains an invitation to comment on a draft IFRS, or draft amendment to an IFRS, that proposes requirements on recognition, measurement and disclosures. The draft may also include mandatory application guidance and implementation guidance, and will be accompanied by a basis for conclusions on the proposals and the alternative views of dissenting IASB members (if any).

The IASB normally allows a period of 120 days for comment on an exposure draft. If the matter is exceptionally urgent, the document is short, and the IASB believes that there is likely to be a broad consensus on the topic, the IASB may consider a comment period of no less than 30 days, but it will set such a short period only after formally requesting and obtaining prior approval from 75 per cent of the Trustees. The project team collects, summarises and analyses the comments received for the IASB's deliberation.

After the comment period ends, the IASB reviews the comment letters received and the results of other consultations. As a means of exploring the issues further, and soliciting further comments and suggestions, the IASB may conduct field visits, or arrange public hearings and round-table meetings. The IASB is required to consult the IFRS Advisory Council and maintains contact with various groups of constituents.

5. Developing and publishing the standard
The development of an IFRS is carried out during IASB meetings, when the IASB considers the comments received on the exposure draft. Changes from the exposure draft are posted on the website.

After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft

As it moves towards completing a new IFRS or major amendment to an IFRS, the IASB prepares a project summary and feedback statement. These give direct feedback to those who submitted comments on the exposure draft, identify the most significant matters raised in the comment process and explain how the IASB responded to those matters.

At the same time, the IASB prepares an analysis of the likely effects of the forthcoming IFRS or major amendment. The analysis will therefore attempt to assess the likely effects of the new IFRS on;

- The financial statements of those applying IFRSs,
- The possible compliance costs for preparers,
- The costs of analysis for users (including the costs of extracting data,
- Identifying how the data have been measured and adjusting data for the purposes of including them in, for example, a valuation model,
- The comparability of financial information between reporting periods for an individual entity and between different entities in a particular reporting period, and
- The quality of the financial information and its usefulness in assessing the future cash flows of an entity.

When the IASB is satisfied that it has reached a conclusion on the issues arising from the exposure draft, it instructs the staff to draft the IFRS. A pre-ballot draft is usually subject to external review, normally by the IFRS Interpretations Committee. Shortly before the IASB ballots the standard, a near-final draft is posted on its limited access website for paying subscribers. Finally, after the due process is completed, all outstanding issues are resolved, and the IASB members have balloted in favour of publication, the IFRS is issued, followed by publication of any project summary and feedback statement and any effect analysis.

6. After the standard is issued
After an IFRS is issued, IASB members and staff hold regular meetings with interested parties, including other standard-setting bodies, to help understand unanticipated issues related to the practical implementation and potential impact of its provisions. The IFRS Foundation also fosters educational activities to ensure consistency in the application of IFRSs.

The IASB carries out a post-implementation review of each new IFRS or major amendment. This is normally carried out two years after the new requirements have become mandatory and been implemented. Such reviews are normally limited to important issues identified as contentious during the development of the pronouncement and consideration of any unexpected costs or implementation problems encountered. A review may also be prompted by;

- Changes in the financial reporting environment and regulatory requirements,
- Comments made by the IFRS Advisory Council, the IFRS Interpretations Committee, standard-setters and constituents about the quality of the IFRS.

The review may lead to items being added to the IASB's agenda. The IASB may also continue informal consultations throughout the implementation of the IFRS or amendment.

(10 Marks)

(b)

Whytome Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2018

		€	€	€	€	€	€	
Revenue	TB						**7,542,520**	0.25
Cost of Sales	W2						- 4,954,346	
Gross Profit							**2,588,174**	0.25
Investment Income	TB + W1.vi			4,000	4000	8,000		0.50
Bad Debt Recovered	W1.viii					4,800		0.25
Gain on Disposal	W1.iv					12,000		0.25
Finance Costs	TB					36,200		0.25
Distribution Costs	W2					907,936		0.25
Administrative Expenses	W2					370,166	1,289,502	0.25
Profit/(Loss) before Tax							**1,298,672**	
Income Tax Expense	TB						163,000	0.25
PROFIT/(LOSS) FOR THE YEAR							**1,135,672**	
Other Comprehensive Income for the year, net of tax							-	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							**1,135,672**	0.25

Whytome Limited Statement of Financial Position as at 31st December 2018

		€	€	€	€	€	€	€	
Property, Plant & Equipment	W3							2,365,452	0.25
Intangible Assets	W1.ix					100,000 -	10,000	90,000	0.50
Investments	TB							200,000	0.25
Total Non-Current Assets								**2,655,452**	
Current Assets									
Inventories	W1.i							267,564	0.25
Trade Receivables	W1.viii							332,040	0.50
Other Receivables	TB + W1.v + W1.vi + W1.Vii			40,000 -	40,000	8,000	4,000	12,000	0.25
Cash & Cash Equivalents	TB + W1.iii + W1.iv	394,600 -	150,000	140,000	4,800 -	60,000 -	100,000	229,400	0.25
Total Current Assets	+ W1.viii + W1.ix							**841,004**	
TOTAL ASSETS								**3,496,456**	
Equity & Liabilities									
Equity									
Share Capital	TB							180,000	0.25
Retained Earnings	TB + W1.v + SOPL				478,534 -	40,000	1,135,672	1,574,206	0.25
Total Equity								**1,754,206**	
Non-Current Liabilities									
Long-term Loan	TB							1,457,500	0.25
Total Non-Current Liabilities								**1,457,500**	
Current Liabilities									
Trade Payables	TB							248,750	0.25
Current Tax Payable	TB							36,000	0.25
Total Current Liabilities								**284,750**	0.25
TOTAL EQUITY & LIABILITIES								**3,496,456**	
								PRESENTATION	1.00
								TOTAL MARKS	7.50

			Working - Journal Entries				
			€	€	€	€	
1.i		Total Inventories at Cost per Inventory Count				268,460	
		Slow Moving Inventories - Cost		3,200			
		NRV - 50% of Selling Price	***Note 1***	- 2,304			
		Inventory Write Down				896	
		Value of Closing Inventories				267,564	
	Dr.	Inventory	+ Current Assets	SOFP	267,564		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		267,564	
		Note 1					
		Cost		3,200			
		Markup - 20% of Cost i.e. 20% * €3,200		640			
		Selling Price		3,840			
		60% of Selling Price - 3,840 * 60%	60%	2,304			
1.iii	**Dr.**	Property, Plant & Equipment (ppe) - Equipment	+ Non-Current Assets		150,000		**0.50**
	Cr.	Bank	+ Current Assets			150,000	
1.iv	**Dr.**	Bank	+ Current Assets	SOFP	140,000		
	Cr.	Disposal Account		SOFP		140,000	
	Dr.	Disposal Account			200,000		
	Cr.	Property, Plant & Equipment (PPE) - Buildings	- Non-Current Assets	SOFP		200,000	**2.00**
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	72,000		
	Cr.	Disposal Account				72,000	
	Dr.	Disposal Account			12,000		
	Cr.	Gain on Disposal	+ Other Income	SOPL & OCI		12,000	
1.v		Per paragraph 12 of IAS 10 if an entity declares dividends to holders of equity instruments after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period. Even though the journal entry included in the financial statements for the proposed dividend is incorrectly entered the journal entry included in the financial statements needs to be reversed.					**1.00**
	Dr.	Retained Earnings	- Equity	SOFP	40,000		
	Cr.	Other Receivables	- Current Assets	SOFP		40,000	**0.50**
1.vi	**Dr.**	Other Receivables	+ Current Assets	SOFP	4,000		
	Dr.	Investment Income	+ Income	SOPL & OCI		4,000	**1.00**
		Investments			200,000		
		Interest rate on investments			4%		
		Interest to be received in 2018 on investments			8,000		
		Interest received			4,000		
		Interest receivable at 31 December 2018			4,000		
1.vii	**Dr.**	Other Receivables	+ Current Assets	SOFP	8,000		
	Cr.	Purchases	- Cost of Sales	SOPL & OCI		8,000	**1.00**
1.viii	**Dr.**	Trade Receivables	+ Current Assets	SOFP	4,800		
	Cr.	Bad Debt Recovered	+ Income	SOPL & OCI		4,800	
	Dr.	Bank	+ Current Assets	SOFP	4,800		**1.00**
	Cr.	Trade Receivables	- Current Assets	SOFP		4,800	
	Dr.	Allowance for Doubtful Debts	+ Expenses	SOPL & OCI	1,234		**1.00**
	Cr.	Allowance for Doubtful Debts	- Current Assets	SOFP		1,234	
		Trade Receivables	TB		345,875		
		+ Bad Debt Recovered			4,800		
		- Bad Debt Recovered Received			- 4,800		
					345,875		
		- Allowance for Bad & Doubtful Debts - 4%			- 13,835		
		Revised Trade Receivable			**332,040**		**1.00**
		Current Allowance for Bad & Doubtful Debts	TB		12,601		
		New Allowance for Bad & Doubtful Debts	See Above		13,835		
		Increase in Allowance for Bad & Doubtful Debts			1,234.00		
1.ix		The €60,000 are research costs as they are only in the early design stage and therefore, should be written off as part of profit and loss for the period. The €100,000 would appear to be development stage costs as the new production system is due to be in place fairly soon and will produce economic benefits in the shape of reduced costs. Therefore, these should be capitalised as development costs.					
	Dr.	Cost of Sales	+ Expense	SOPL & OCI	60,000		
	Cr.	Bank	- Current Assets	SOFP		60,000	**1.00**
	Dr.	Intangible Assets	+ Non-Current Assets	SOFP	100,000		
	Cr.	Bank	- Current Assets	SOFP		100,000	**1.00**
		Amortisation of Intangible Assets					
	Dr.	Amortisation of Intangible Assets - Cost of Sales	+ Expense	SOPL & OCI	10,000		
	Cr.	Intangible Assets	- Non-Current Assets	SOFP		10,000	**1.00**
						CURRENT MARKS	**13.00**

Working 2 - Expenses		Cost of Sales	Distribution Costs	Administration Expenses		Marks	
Opening Inventory	**Per TB**	284,650	-	-		**Cost of Sales**	
Purchases	**Per TB**	4,875,260	-	-			
Closing Inventory	**W1.i**	- 267,564	-	-		**2.00**	
Expenses	**Per TB**	-	786,520	248,750			
Inventory Stolen	**W1.vii**	- 8,000					
Research expenditure incorrecly capitalised as intangible assets	**W1.ix**	60,000					
Amortisation of intangible assets	**W1.ix**	10,000					
Allowance for Bad & Doubtful Debts	**W1.viii**	-	617	617	1,234	**Distribution**	
Depreciation - Premises	**W3**	-	22,425	22,425	44,850	**2.00**	
Depreciation - Equipment	**W3**	-	51,524	51,524	103,048		
Depreciation - Vehicles	**W3**	-	46,850	46,850	93,700	**Admin. Expenses**	
Total		**4,954,346**	**907,936**	**370,166**		**2.00**	

Working 3 - Property, Plant & Equipment		Buildings €	Equipment €	Motor Vehicles €	Total €	Marks	
Cost	**Per TB**	2,242,500	864,050	468,500	3,575,050		
Accumulated Depreciation b/d	**Per TB**	- 580,000	- 220,000	- 190,000	- 990,000		
Carrying Value b/d at 1st January 2017		1,662,500	644,050	278,500	2,585,050	**0.50**	
Addition	**W1.iii**	-	150,000	-	150,000	**0.50**	
Disposal - Cost	**W1.iii + Note 2**	- 200,000	-	-	- 200,000	**0.50**	
Disposal - Accumulated Depreciation	**W1.iii + Note 2**	72,000	-	-	72,000	**0.50**	
		1,534,500	794,050	278,500	2,607,050		
Depreciation - Premises - 2% Straight Line on Cost	**Note 3**	- 44,850	-	-	- 44,850	**0.50**	
Depreciation - Equipment - 15% Reducing Balance		-	- 103,048	-	- 103,048	**0.50**	
Depreciation - Vehicles - 20% Straight Line on Cost		-	-	- 93,700	- 93,700	**0.50**	
Carrying Value c/d at 31st December 2017		**1,489,650**	**691,002**	**184,800**	**2,365,452**		

Note 2 - Disposal of Equipment

Disposal Account

Cost	200,000	Accumulated Depreciation	72,000
		Disposal Proceeds	140,000
Gain on Disposal	**12,000**		
	212,000		212,000

CURRENT MARKS	**9.50**	
TOTAL MARKS	30.00	

			Adjustment		Statement of Profit or Loss and Other Comprehensive Income		Statement of Financial Position	
	Debit €	Credit €	Debit €	Credit €	Debit €	Credit €	Debit €	Credit €
Accumulated Depreciation - Buildings - 1 January 2018		580,000	72,000	44,850				552,850
Accumulated Depreciation - Equipment - 1 January 2018		220,000		103,048				323,048
Accumulated Depreciation - Motor Vehicles - 1 January 2018		190,000		93,700				283,700
Admininstrative Expenses	248,750		121,416		370,166			
Allowance for Bad & Doubtful Debts		12,601		1,234				13,835
Bank	394,600		144,800	310,000			229,400	
Buildings at Cost at 1 January 2018	2,242,500			200,000			2,042,500	
Current Tax Payable		36,000						36,000
Distribution Costs	786,520		121,416		907,936			
Equipment at Cost at 1 January 2018	864,050		150,000				1,014,050	
Finance Costs	36,200				36,200			
Income Tax Expense	163,000				163,000			
Inventory at 1 January 2018	284,650				284,650			
Investments (4% interest rate)	200,000						200,000	
Investment Income		4,000		4,000		8,000		
Issued Share Capital - €1 shares each		180,000						180,000
Long-Term Loan		1,457,500						1,457,500
Motor Vehicles at Cost at 1 January 2018	468,500						468,500	
Other Receivables	40,000		12,000	40,000			12,000	
Purchases / Revenue	4,875,260	7,542,520	70,000	8,000	4,937,260	7,542,520		
Retained Earnings		478,534	40,000		1,135,672			1,574,206
Trade Receivables / Trade Payables	345,875	248,750	4,800	4,800			345,875	248,750
Inventory at 31 December 2018			267,564	267,564		267,564	267,564	
Gain on Disposal of PPE				12,000		12,000		
Bad Debt Recovered				4,800		4,800		
Intangible Assets			100,000	10,000			90,000	
	10,949,905	10,949,905	1,103,996	1,103,996	7,834,884	7,834,884	4,669,889	4,669,889

SOLUTION 2

Janemount Dancing Club Bar Trading Account for the year-ended 31 December 2018

	€	€		Marks	
Sales		**166,000**		**0.50**	
Less Cost of Sales					
Opening Inventory	9,200			**0.50**	
+ Purchases	74,300			**1.00**	
- Closing Inventory	- 9,900			**0.50**	
Total Cost of Sales		**73,600**		**0.50**	
Gross Profit		**92,400**		**0.50**	
Expenses					
Bar Wages	74,900			**1.00**	
Bar Expenses	29,200			**0.50**	
Total Expenses		**104,100**		**0.50**	
Net Profit/(Loss)		**- 11,700**		**0.50**	
			SUBTOTAL MARKS	**6.00**	

Janemount Dancing Club Income & Expenditure Account for the year-ended 31 December 2018					
Income					
Subscriptions	67,100			**1.00**	
Profit on Competition	4,400		14,800 - 10,400	**1.00**	
Interest Receiveable	500			**0.50**	
Total Income		**72,000**		**0.50**	
Expenditure					
Loss on Bar	11,700			**0.50**	
Rates	10,000			**0.50**	
Loan Interest	4,600			**0.50**	
Sundry Expenses	2,540			**0.50**	
Depreciation	4,700		(40,000+7,000)*0.1	**1.00**	
Total Expenditure		**33,540**		**0.50**	
Excess of Income over Expenditure		**38,460**		**0.50**	
			SUBTOTAL MARKS	**7.00**	

Janemount Dancing Club Statement of Financial Position as at 31st December 2018					
Property, Plant & Equipment	175,300			**1.00**	
Total Non-Current Assets		**175,300**			
Current Assets					
Inventories	9,900			**0.25**	
Subscriptions Owing	2,000			**0.50**	
Deposit Account	22,000		12,000 + 10,000	**1.00**	
Interest Receivable	500			**1.00**	
Cash & Cash Equivalents	12,010			**0.50**	
Total Current Assets		**46,410**			
TOTAL ASSETS		**221,710**		**0.50**	
Equity & Liabilities					
Equity					
Accumulated Fund	139,450			**0.25**	
Excess of Income over Expenditure	38,460			**0.25**	
Total Equity		**177,910**			
Non-Current Liabilities					
Long-term Loan	33,000		48,000 + 4,600 - 19,600	**0.75**	
Total Non-Current Liabilities		**33,000**			
Current Liabilities					
Trade Payables	8,000			**0.25**	
Subscriptions in Advance	1,200			**0.50**	
Bar Wages Due	1,600			**0.25**	
Total Current Liabilities		**10,800**			
TOTAL EQUITY & LIABILITIES		**221,710**			
			SUBTOTAL MARKS	**7.00**	
			OVERALL MARKS	**20.00**	

Bar Purchases Calculation

T. Payables Bar Account

Bank Bar Payments	74,700	Balance B/D	8,400
		Purchases - Balancing Figure	74,300
Balance C/D	8,000		
	82,700		82,700
		Balance B/D	8,000

Subscriptions Calculation

Subscriptions Account

Balance B/D	2,500	Balance B/D	800
Income - I&E A/c - Balancing Figure	67,100	Bank Receipt	68,000
Balance C/D	1,200	Balance C/D	2,000
	70,800		70,800
Balance B/D	2,000	Balance B/D	1,200

Bar Wages Calculation

Bar Wages Account

Bank Payments	75,600	Balance B/D	2,300
		Expense - I&E A/c - Balancing Figure	**74,900**
Balance C/D	1,600		
	77,200		77,200
		Balance B/D	1,600

SOLUTION 3

REPORT

To: Financial Controller, Proviseo Limited
From: Financial Accountant
Re: IAS 37 – Provisions, Contingent Liabilities and Contingent Assets
Date: April 2019

PART A
(a)

(i) A provision is a liability of uncertain timing or amount. A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

(2 Marks)

(ii) A contingent liability is either

(a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because

(i) It is not probable that an outflow of economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability. (2 Marks)

(iii) A contingent asset is a possible asset arising from past events whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the entity.

(2 Marks)

(b)
(i) A provision should be recognised when:

(a) an entity has a present obligation (legal or constructive) as a result of a past event;
(b) It is probable that an outflow of economic resources will be required to settle the obligation, and
(c) A reliable estimate can be made of the amount of the obligation.

If any one of these conditions is not met, no provision may be recognised. (2 Marks)

(ii) A contingent liability is not recognised. A contingent liability is disclosed unless the possibility of an outflow of economic benefits is remote i.e. generally less than 5% chance.

(2 Marks)

(iii) A contingent asset is not recognised because it could result in the recognition of profits that may never be realised. However, where the realisation of profit is virtually certain, then the related asset is not a contingent asset and recognition is appropriate.

A contingent asset is disclosed where an inflow of economic benefits is probable i.e. >50%. (2 Marks)

PART B

(a) The accounting treatment for the transactions for the year-ending 31 December 2018 are as follows:

1. At the end of the reporting period, Proviseo Limited disputes liability (and therefore, whether a present obligation exists).

   (1 Mark)

   However, given that it more likely than not that it will be found guilty, based on the lawyers advise, a present obligation is assumed to exist.

   (1 Mark)

   Given that a single obligation is being measured, a provision is made for the outflow of the most likely outcome i.e. a provision is recognised for €30,000.

   (1 Mark)

2. A present obligation exists at the end of the reporting period based on historical evidence of items being repaired under the guarantee agreement.

   (1 Mark)

   Here, a large population of items is involved. A provision is therefore made for the expected value of the outflow:

   (1 Mark)

4,000 x 10% x 70%	x	€80	€22,400	(1.5 Marks)
4,000 x 10% x 30%	x	€250	€30,000	(1.5 Marks)
			€52,400	

SOLUTION 4

a)

Issue 1

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Trade Payables	210		Dr.	Trade Payables	210	
Cr.	Discount Received		210	Dr.	Discount Allowed Expense	210	
				Cr.	Suspense		420

	To Correct	€	€	Marks
Dr.	Suspense	420		1.00
Cr.	Discount Allowed Expense		210	1.00
Cr.	Discount Received		210	1.00

Issue 2

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Rent Expense	1,000		Dr.	Rate Expense	1,000	
Cr.	Bank		1,000	Cr.	Bank		1,000

	To Correct	€	€	Marks
Dr.	Rent Expense	1,000		0.50
Cr.	Rate Expense		1,000	0.50

Issue 3

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Insurance Expense	2,000		Dr.	Insurance Expense	2,000	
Cr.	Bank		2,000	Dr.	Trade Payables	2,000	
				Cr.	Suspense		4,000

	To Correct	€	€	Marks
Dr.	Suspense	4,000		1.00
Cr.	Bank		2,000	0.50
Cr.	Trade Payables		2,000	0.50

Issue 4

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Purchases	12,843		Dr.	Purchases	12,348	
Cr.	Trade Payable		12,843	Dr.	Suspense	495	
				Cr.	Trade Payable		12,843

	To Correct	€	€	Marks
Dr.	Purchases	495		1.00
Cr.	Suspense		495	1.00

Issue 5

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Bank	10,000		Dr.	Bank	10,000	
Dr.	Motor Vehicles	10,000		Cr.	Motor Vehicles		10,000
Cr.	Bank		10,000				
Cr.	Capital Introduced		10,000				

	To Correct	€	€	Marks
Dr.	Motor Vehicles	20,000		1.00
Cr.	Bank		10,000	1.00
Cr.	Capital Introduced		10,000	1.00

Issue 6

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Nothing			Dr.	Vat Receivable/Bank	2,000	
Cr.				Cr.	Motor Expenses		2,000

	To Correct	€	€	Marks
Dr.	Motor Expenses	2,000		1.00
Cr.	Vat Receivable/Bank		2,000	1.00

Issue 7

	Should Have Happened	€	€		Actually Happened	€	€
Dr.	Rent Prepaid	8,000		Dr.	Suspense	16,000	
Cr.	Bank		8,000	Cr.	Bank		8,000
				Cr.	Rent Payable		8,000

	To Correct	€	€	Marks
Dr.	Rent Prepaid	8,000		1.00
Dr.	Rent Payable	8,000		1.00
Cr.	Suspense		16,000	1.00

TOTAL MARKS 16.00

b)

Suspense Account

		€			€	Marks
	Opening Balance	12,075				0.50
1	Discount Allowed Expense	210	4	Purchases	495	1.00
1	Discount Received	210	7	Rent Prepaid	8,000	1.00
3	Bank	2,000	7	Rent Payable	8,000	1.00
3	Trade Payables	2,000				0.50
		16,495			16,495	

SUBTOTAL MARKS 4.00

OVERALL MARKS 20.00

SOLUTION 5

	2018	2017
Gross Profit Percentage	7,200/24,000 = 30.00%	6,000/18,000 = 33.33%
Net Profit Percentage	4,007/24,000 = 16.70%	2,984/18,000 = 16.58%
Quick Ratio	(4,600 - 1,400)/2,033 = 1.57:1	(3,400 – 1,800)/1,640 = 0.98:1
Trade Receivable Days	2,000/24,000*365 = 30 Days	1,200/18,000*365 = 24 Days
Trade Payable Days	1,400/16,800*365 = 30 Days	1,200/12,000*365 = 37 Days
OR	1,400/16,400*365 = 31 Days	1,200/11,800*365 = 37 Days
Interest Cover	5,200/620 = 8.39 TimeS	4,250/840 = 5.06 Times
Earnings per Share	4,007/2,000 = €2.00	2,984/2,000 = €1.49
Price Earnings Ratio	€26.00/€2.00 = 13.00	€15.00/€1.49 = 10.07

Gross Profit Percentage
The Gross Profit percentage has decreased from 33.33% to 30.00%, a decrease of over 9.99% on the percentages year on year which is a negative trend for the company. Revenues increased by 33.33% year on year but unfortunately, the cost of sales increased by 40% year on year. If we look at Purchases, these have increased from €11.8 million to €16.4 million which is an increase of 38.98%. This increase is greater than the increase in Revenue and for the Company's point of view, it appears that they have experienced price increases in purchases which the company have been unable to pass on to its customers and is something that management need to address in 2019.

	2018	2017	% Increase
Opening Inventory	1,800	2,000	- 10.00%
Purchases (Balancing Figure)	16,400	11,800	+ 38.98%
Closing Inventory	1,400	1,800	- 22.22%
Cost of Sales	16,800	12,000	

Net Profit Percentage
The Net Profit % has increased from 16.58% to 16.70% which is an increase of just over 0.72% year on year on the percentages. This is a decent performance considering the decrease in the gross profit percentage. The main reason for the change in fortunes from Gross to Net Profit is due to the decrease in the finance costs year on year. The company has decreased the amount of long term debt by 10% year on year but they have seen a 26.19% decrease in finance costs which suggests that they have refinanced their debt at a better interest rate (especially given an increase in bank overdraft in 2018 versus 2017) which management should be commended for. The company also kept a reasonable check on administration costs which increased by 6.67% year on year. Distribution costs increased by 20% year on year but again this was a decent result given the percentage increase in sales.

Quick Ratio
This ratio has increased from 0.98:1 to 1.57:1 this year which is an improvement of over 60% year on year percentage wise. The main reason for the increase is the fact that Current Assets minus Inventory increased by 100% driven mainly by the increase in Bank which increased by 200% and Trade Receivables increasing by €800,000 or over 66% year on year. Current Liabilities increased by under 24% driven mainly by the increase in the Bank Overdraft of €180,000. This was a good result overall as the company have increased their revenue significantly which can put some strain on working capital. Yet the quick ratio has increased this year and the company have also purchased some extra Non-Current Assets and paid off some of Non-Current Debt (decreased by 10%). Some of this decrease in debt may have been funded through the Bank Overdraft so Shacarn Limited should ensure that their source of funding is appropriate from a time point of view. Shacarn Limited should reduce some of their cash and cash equivalents in Current Assets in order to reduce the Bank Overdraft and ultimately save even more on bank interest costs.

Trade Receivable Days
This has increased from 24 to 30 days, an increase of 25% year on year which is a deterioration even if a trade receivable days of 30 is still a good overall result. Revenue has increased by over 33.33% but Shacarn Limited should have tried to ensure that there was no deterioration in Trade Receivables Days. The company need to try and ensure that the increase in Revenue is not being fuelled by having customers who are demanding longer credit before they would

purchase goods from Shacarn. The company should continue to focus on managing their Trade Receivables in the coming year.

Trade Payable Days
This decreased from 37 days to 30 days which is a deterioration of nearly 19% year on year. This is not a good result given the fact that the company should be aiming for closer to 45-60 days. The increase in purchases probably ensured that some of the supplier company's set limits on the amount of Inventory they would sell before getting paid and therefore, this meant that the trade payable days decreased. If we compare to 2017, the difference between when money was received in from Trade Receivables and paid out to Trade Payables has decreased from 13 days to 0 days which has obviously put pressure on the cash flow of the company and probably has contributed to the increase in the Bank Overdraft.

Earnings per Share
This has increased from 149 cent per share to 200 cent per share, which is an increase of over 34%. This is a positive trend and is driven by the increase in profit which the company has gained in 2018. The company will be able to use this profit within the company to fuel current and future growth.

Price Earnings Ratio
This ratio has increased from 10.07 to 13.00, an increase of over 29% year on year. This increase is primarily due to the increase in the share price which has increased by 73.33% year on year. As we saw in previous section, the earnings per share increased by a sizeable percentage this year but the share price really changed during the course of the year. A P/E ratio of 13 is a decent P/E ratio when compared to the average P/E ratio for companies and obviously investors are seeing this company as a 'buy' which primarily must be due to the sales, net profit growth and good management of cash and loans from 2017 to 2018.

Calculation of, Commentary on & Presentation of Results **(20 Marks)**

MARKING SCHEME

Q1			
(a)	Outline the main points of the standard setting process by the IASB in relation to IFRS		10
(b)	Workings		
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position		22.5 7.5
	Total Marks – Q1		**40**
Q2			
(a)	Bar Trading Account		6
(b)	Income & Expenditure Account		7
(c)	Statement of Financial Position		7
	Total Marks – Q2		20
Q3	IAS 37 – *Provisions, Contingent Liability and Contingent Assets*		
Part A			
(a)	(i)	Definition of a Provision	2
	(ii)	Definition of a Contingent Liability	2
	(iii)	Definition of a Contingent Asset	2
(b)	(i)	Recognition of a Provision	2
	(ii)	Recognition of a Contingent Liability	2
	(iii)	Recognition of a Contingent Asset	2
Part B			
(a)	Scenario 1		3
	Scenario 2		5
	Total Marks – Q3		20
Q4			
(a)	Journal Entries		16
(b)	Suspense Account		4
	Total Marks – Q4		20
Q5	Calculation of Ratios		8
	Analysis of Ratios		10
	Presentation & Format		2
	Total Marks – Q5		20