CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 2018

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

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 2018

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) Identify and explain the advantages and limitations of ratio analysis for the purposes of assessing financial performance.

(10 Marks)

(b) You are the newly apointed financial accountant to Delloyd Limited, a manufacturing company. You have extracted the following trial balance below, as at 31 December 2017:

	Debit	**Credit**
	€	**€**
Accumulated Depreciation - Buildings at 31.12.16		275,220
Accumulated Depreciation - Motor Vehicles at 31.12.16		51,600
Administrative Expenses	293,766	
Allowance for Bad and Doubtful Debts		11,160
Bank	312,870	
Buildings	974,400	
Current Tax Payable		30,000
Distribution Costs	274,692	
Income Tax	28,000	
Inventory at 31.12.16	141,480	
Investment Income		6,250
Investments - 5%	250,000	
Long Term Loan		210,000
Motor Vehicles	144,000	
Purchases	875,300	
Retained Earnings at 31.12.16		1,236,763
Revenue		1,480,200
Share Capital - 120,000 at €0.50 each		60,000
Trade Payables		188,715
Trade Receivables	255,400	
	3,549,908	3,549,908

The following information, based on your investigations, has also come to light:

(i) Delloyd Limited's inventory was counted on 31 December 2017 and amounted to €286,400 at cost. On that date one of the counting team forgot to count one bay of a warehouse. This bay was counted on 2 January 2018 and the inventory counted was valued at €12,600 on that date. However, inventory was sold from that bay on 1 January 2018 at a selling price of €1,600. Delloyd Limited makes a 20% margin on its sales.

(ii) Investment income has only been received for the first six months of 2017.

(iii) A credit sale of €4,800 was debited to bank and credited to trade payables by mistake.

(iv) Delloyd Limited recovered a bad debt of €3,100 in December 2017. This amount was lodged to its bank account but has not been recorded in its financial statements. It has also decided to change the rate for the allowance of bad and doubtful debts to 4%.

(v) Delloyd Limited made a tax payment on 23 December 2017 of €46,000.

(vi) Delloyd Limited purchased goods on credit from a UK supplier for £12,000 on 1 November 2017 but incorrectly recorded this as €12,000 in its accounts on that date. On 10 December 2017, Delloyd Limited paid £8,000 to the UK supplier but again entered the amount incorrectly in its accounts as a payment of €8,000. The balance owing was unpaid at year-end. The exchange rates were as follows:

01.11.17	€1 = £0.75
10.12.17	€1 = £0.80
31.12.17	€1 = £0.90

(vii) Delloyd Limited purchased and paid for a building amounting to €200,000 on 1 July 2017.

(viii) Delloyd Limited sold a motor vehicle on 1 September 2017 for €6,000 and lodged the money to the bank. It purchased this motor vehicle on 1 April 2013 for €25,000.

(ix) Depreciation is to be charged as follows:

Buildings	2% Straight Line on Cost
Motor Vehicles	15% Straight Line on Cost

No depreciation is charged in the year of sale and a full year's depreciation is charged in the year of purchase. Revaluation losses are split evenly between Administrative Expenses and Dsistribution Costs.

On 31 December 2017, the buildings were revalued by a professional valuer at €850,000.

(x) All of the relevant expenses in the trial balance are to be split evenly between Administrative Expenses and Distribution Costs.

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 Delloyd Limited for the financial year-ending 31 December 2017.

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

[Total: 40 Marks]

2. The financial controller of Ocalliam Limited has asked you prepare some information in relation to its trade receivables and trade payables. The company has provided the following information:

(i) The opening balance on its trade receivables and trade payable ledger were as follows:

Trade Receivables:	Debit Balance	€56,247
Trade Payables:	Credit Balance	€68,164

(ii) The following were the transactions that occurred for the year-ended 31 December 2017 in relation to its trade receivables and trade payables:

	€
Credit sales	345,812
Cash sales	10,845
Credit purchases	220,541
Credit sales returns	6,475
Credit purchases returns	20,169
Trade payable accounts settled by contra accounts with trade receivables	15,467
Discount allowed	14,852
Discount received	23,253
Amounts paid by cheque to trade payables	194,652
Amounts received by cheque from trade receivables	362,145
Cheques received from trade payables	1,571
Cheques paid to trade receivables	1,854

REQUIREMENT:

(a) For the year ended 31 December 2017, prepare both a Trade Receivable Control Account and a Trade Payable Control Account.

(8 Marks)

(b) Prepare journal entries for note (ii) above for the year-ended 31 December 2017 on the basis that none of the transactions in note (ii) have as yet been accounted for in the records of Ocalliam Limited.

(12 Marks)

[Total: 20 Marks]

3. The financial controller of Femphr Ltd. has asked you, a trainee accountant, to research the implications for the company arising from the implementation of the new international financial reporting standard on Revenue i.e. IFRS 15 - *Revenue from contracts with customers.*

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

REQUIREMENT:
Prepare a report for the financial controller in which you:

(a) (i) Identify and briefly explain each of the five steps for revenue recognition. (5 Marks)

(ii) Explain what is meant by the term 'performance obligations' in a contract? (2 Marks)

(iii) Advise how a good or service can be defined as 'distinct'. (2 Marks)

(b) Femphr Ltd. enters a contract with a customer to supply a licence for a standard software product. The company will also install the software, provide updates to the software and technical support for a number of years. Femphr Ltd. sells the licence and technical support separately, the software will continue to operate without the software updates and the installation of the software will be sub-contracted to a number of approved installers throughout the country.

REQUIREMENT:
In light of your answer to part (a) above, identify the good/services which are distinct in the above contract.

(4 Marks)

(c) Femphr Ltd. entered into a contract with a customer to sell its product for €200 per unit for the 2017 calendar year. If the customer was to purchase more than 1,200 units in the year, the price would decrease to €150 per unit. Femphr Ltd. did not believe at the date of the contract being initiated that the customer would purchase more than 1,200 units from it due to previous trading patterns with this customer. However, on 1 October 2017, Femphr Ltd. formed the view that the customer would meet or exceed the 1,200 units threshold based on its sales of 1,100 units by that date. The customer had purchased 500 units on that date and informed management of Femphr Ltd. that it would be placing a further order of 200 units on 1 December 2017. This customer had purchased 600 units by 30 June 2017.

REQUIREMENT:
Using journal entries, show how Femphr Ltd. accounts for its revenue to the customer in the period from 1 January 2017 to 30 June 2017 and in the period from 1 July 2017 to 31 December 2017.

(7 Marks)

[Total: 20 Marks]

4. The trial balance for Mr. Thomas Dornan, a butcher in Cork, for the year ended 31 December 2017 does not balance. Mr. Dornan had identified the following issues and has approached you for help and guidance in rectifying them. The issues are:

1. Home insurance of €1,000 was paid and included in the business insurance expense.

2. Purchase returns of €600 have been posted to the revenue returns account.

3. A bad debt recovered of €840 was credited to the bad debt written off account by mistake.

4. Mr. Dornan introduced €2,000 of his own money into the business in December 2017. The journal entry included in his financial statements was as follows:

Debit	Bank	€2,000	
Credit	Revenue		€2,000

5. The rate for amortisation of government grants incorrectly used was 20% instead of 10%. The government grant amount is €20,000 before amortisation commenced. The bookkeeper debited cost of sales and credited property, plant and equipment with the incorrect amount.

6. Deposit interest received and banked of €800 was included in finance costs.

7. Repairs and maintenance unpaid of €3,000 were capitalised to property, plant and equipment. The depreciation rate used for property, plant and equipment is 10% and a full year's depreciation occurs in the year of purchase.

Prior to the discovery of the above, Mr. Dornan's gross profit for the year was calculated at €65,600 and the net profit for the year at €26,400.

REQUIREMENT:

(a) Prepare journal entries for Mr. Thomas Dornan to record and correct relevant transactions from the above information for the financial statements for the year-ending 31 December 2017.

(12 Marks)

(b) Calculate the revised gross and revised net profit figures after adjusting for items 1 to 7, as appropriate.

(8 Marks)

[Total: 20 Marks]

5. Franfie Limited is involved in the service industry and its financial statements are as follows:

Franfie Limited Statement of Financial Position as at 31 December 2017

	2017 €'000	2016 €'000
Non-Current Assets		
Property, Plant and Equipment	2,850	2,050
Total Non-Current Assets	**2,850**	**2,050**
Current Assets		
Inventories	580	600
Trade Receivables	420	300
Cash and Cash Equivalents	30	50
Total Current Assets	**1,030**	**950**
Total Assets	**3,880**	**3,000**
Equity & Liabilities		
Equity		
Share Capital	1,100	900
Share Premium	200	100
Retained Earnings	980	610
Revaluation Surplus	300	100
Total Equity	**2,580**	**1,710**
Non-Current Liabilities		
Long-Term Loan	950	800
Total Non-Current Liabilities	**950**	**800**
Current Liabilities		
Trade Payables	290	320
Bank Overdraft	20	120
Current Tax Payables	40	50
Total Current Liabilities	**350**	**490**
Total Equity and Liabilities	**3,880**	**3,000**

Franfie Limited Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2017

	€'000
Revenue	11,700
Cost of Sales	(10,400)
Gross Profit	1,300
Distribution Costs	(520)
Administration Expenses	(250)
Finance Costs	(50)
Profit before Tax	**480**
Income Tax Expense	(60)
Profit for the Year	**420**
Other Comprehensive Income	
Gains on Property Revaluations	200
Other Comprehensive Income for the year, net of tax	**200**
Total Comprehensive Income for the year, net of tax	**620**

Notes:

(i) Property, Plant & Equipment with a carrying value of €280,000 was sold during 2017 for €290,000. This asset had originally cost €450,000.

(ii) Depreciation of Property, Plant & Equipment during 2017 amounted to €400,000.

(iii) Dividends paid during 2017 amounted to €50,000 and are reported in the Statement of Changes in Equity.

REQUIREMENT:

Prepare a Statement of Cash Flows for the year-ended 31 December 2017 for Franfie Limited in accordance with IAS 7 - *Statement of Cash Flows.*

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

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FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 2018

SOLUTION 1

(a) Discuss the advantages and limitations of ratios (10 Marks)

Advantages of Ratios (5 Marks)

Comparison
Financial ratios provide a standardised method with which to compare companies and industries. Ratios can put all companies on a relatively equal playing field in the eyes of analysts; companies are judged on their performance rather than their size, sales volume or market share.

Industry Analysis
Ratios can reveal trends in particular industries, creating benchmarks against which the performance of all industry players can be measured thus providing valuable information to users, shareholders, trade payables, banks.

Stock Valuation
Ratios help investors and analysts to evaluate the strengths and weaknesses of individual companies or industries and allow them to highlight companies to invest in or to avoid investing in.

Planning and Performance
Ratios can provide guidance to entrepreneurs when creating business plans or preparing presentations for lenders and investors. Ratios can also serve as an impetus for strategic change within an organisation, providing management with relevant guidance and feedback as ratio valuations shift in response to organisational changes. Ratios help to ensure managers perform by revealing financial weaknesses and opportunities.

Simplicity
It highlights important information in simple formats. A user can judge a company by just looking at a small amount of numbers instead of reading the whole financial statements.

Limitations of Ratios (5 Marks)

Financial Statements
Ratios are based off of financial statements, so if the financial statements are incorrect in any way it will affect the quality of the analysis

Historical Information
Ratios are based on historical findings and don't take into consideration current market conditions. Therefore, they may not be all that helpful for predicting the future

Quantitative Tool
Ratios are a quantitative tool, thus ignoring qualitative factors when completing the ratios. For example, a large current ratio might not equal a good liquidly position if current assets include large inventories of obsolete items

Ratios account for one variable
Ratios only account for 1 variable. Therefore, they cannot always show the correct picture since multiple variables need to be kept in mind when interpreting them

Seasonal factors affect financial data
Ratios can be biased for seasonal businesses. For example, a snow shovel company may maintain high inventory for the winter season, but will have significantly less for rest of the year

Total (10 Marks)

(b) **Delloyd Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2017**

		€	€	€	€	€	€	€	€	
Revenue	**TB + W1.iii**						1,480,200	4,800	**1,485,000**	**0.25**
Cost of Sales Total	**W2**								720,500	**0.25**
Gross Profit									**764,500**	**0.25**
Investment Income	**W1.ii**						6,250	6,250	12,500	**0.25**
Bad Debt Recovered	**W1.v**								3,100	**0.25**
Foreign Exchange Gain	**W1.vi**								1,556	**0.25**
Loss on Disposal of PPE	**W1.ii**							4,000		**0.25**
Distribution Costs	**W2**							307,831		**0.25**
Administrative Expenses	**W2**							326,905	638,736	**0.25**
Profit/(Loss) before Tax									**142,920**	**0.25**
Income Tax	**Per TB**								28,000	**0.25**
PROFIT/(LOSS) FOR THE YEAR									**114,920**	**0.25**
Other Comprehensive Income for the year, net of tax									**-**	**0.25**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR									**114,920**	**0.25**

Delloyd Limited Statement of Financial Position as at 31st December 2017

		€	€	€	€	€	€	€	€	
Non-Current Assets										
Property, Plant & Equipment	**W3**								914,550	**0.25**
Investments - 5%	**TB**								250,000	**0.25**
Total Non-Current Assets									**1,164,550**	
Current Assets										
Inventories	**W1.i**								300,280	**0.25**
Trade Receivables	**W1.viii**								249,792	**0.50**
Other Receivables	**W1.ii**								6,250	**0.25**
Current Tax Asset	**TB + W1.v**						- 30,000	46,000	16,000	**0.50**
Cash & Cash Equivalents	**TB + W1.iii + W1.iv**	312,870	- 4,800	3,100	- 46,000	- 2,000	- 200,000	6,000	69,170	**0.50**
Total Current Assets	**+ W1.v + W1.vi + W1.viii + W1.ix**								**641,492**	
TOTAL ASSETS									**1,806,042**	
Equity & Liabilities										
Equity										
Share Capital	**TB**								60,000	**0.25**
Retained Earnings	**TB + SOPL**						1,236,763	114,920	1,351,683	**0.50**
Total Equity									**1,411,683**	
Non-Current Liabilities										
Long-term Loan	**TB**								210,000	**0.25**
Total Non-Current Liabilities									**210,000**	
Current Liabilities										
Trade Payables	**TB + W1.iii + W1.vi**								184,359	**0.50**
Total Current Liabilities									**184,359**	
TOTAL EQUITY & LIABILITIES									**1,806,042**	
									PRESENTATION	**1.00**
									TOTAL MARKS	**8.50**

Working - Journal Entries

					€'000	€'000	
1.i		Total Inventories at Cost per Inventory Count				286,400	
		Plus Inventory not counted until 02.01.18				12,600	
		Plus Goods Sold at Cost before count on 02.01.18	See Below			1,280	
		Value of Closing Inventories				300,280	
		Selling price of Inventory sold			1,600		
		Profit Margin			20%		
		Cost			1,280		
	Dr.	Inventory	+ Current Assets	SOFP	300,280		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		300,280	
1.ii	**Dr.**	Other Receivables	+ Current Assets	SOFP	6,250		**1.00**
	Cr.	Investment Income	+ Income	SOPL & OCI		6,250	
		Investments			250,000		
		Interest rate on Investments			5%		
		Interest on Investments			12,500		
		Amount received already		Per TB	6,250		
		Amount to be accounted for			6,250		
1.iii		Reverse original incorrect entry					
	Dr.	Trade Payables	- Current Liabilities	SOFP	4,800		**0.50**
	Cr.	Bank	- Current Assets	SOFP		4,800	
		Enter Correct Entry					
	Dr.	Trade Receivables	+ Current Assets	SOFP	4,800		**0.50**
	Cr.	Revenue	+ Income	SOPL & OCI		4,800	
1.iv	**Dr.**	Trade Receivables	+ Current Assets	SOFP	3,100		**0.50**
	Cr.	Bad Debt Recovered	+ Income	SOPL & OCI		3,100	
	Dr.	Bank	+ Current Assets	SOFP	3,100		**0.50**
	Cr.	Trade Receivables	- Current Assets	SOFP		3,100	
	Dr.	Trade Receivables	+ Current Assets	SOFP	752		
	Cr.	Allowance for Bad & Doubtful Debts	- Expenses	SOPL & OCI		752	**0.50**
		Trade Receivables	Balance per TB		255,400		
		Credit Sale	W1.iii		4,800		
		Bad Debt Recovered	W1.iv		3,100		
		- Bad Debt Recovered received	W1.iv		- 3,100		
					260,200		
		- Allowance for Bad Debts - 4%			10,408		
		Revised Trade Receivable			**249,792**		**0.50**
		Current Allowance for Bad & Doubtful Debts	TB		11,160		
		New Allowance for Bad & Doubtful Debts	See Above		10,408		
		Decrease in Allowance for Bad & Doubtful Debts			- 752		**0.50**
W1.v	**Dr.**	Current Tax Asset	+ Current Assets	SOFP	46,000		
	Cr.	Bank	- Current Assets	SOFP		46,000	
1.vi		What Happened - 01.11.17					
	Dr.	Purchases	+ Cost of Sales	SOPL & OCI	12,000		
	Cr.	Trade Payables	+ Current Liabilities	SOFP		12,000	**0.50**
		What Should Have Happened - 01.11.17					
	Dr.	Purchases	+ Cost of Sales	SOPL & OCI	16,000		
	Cr.	Trade Payables	+ Current Liabilities	SOFP		16,000	**0.50**
		To Correct - 01.11.17					
	Dr.	Purchases	+ Cost of Sales	SOPL & OCI	4,000		
	Cr.	Trade Payables	+ Current Liabilities	SOFP		4,000	**0.50**
		What Happened - Payment - 10.12.17					
	Dr.	Trade Payables	- Current Liabilities	SOFP	8,000		
	Cr.	Bank	- Current Assets	SOFP		8,000	**0.50**
		What Should Have Happened - Payment - 10.12.17					
	Dr.	Trade Payables	- Current Liabilities	SOFP	10,000		
	Cr.	Bank	- Current Assets	SOFP		10,000	**0.50**
		To Correct - 10.12.17					
	Dr.	Trade Payables	- Current Liabilities	SOFP	2,000		
	Cr.	Bank	- Current Assets	SOFP		2,000	**0.50**
		Closing Balance of Trade Payable - 31.12.17		**Sterling**	**Euro**		
		Purchase		12,000	16,000		
		- Payment		- 8,000	- 10,000		
		Closing Balance - 31.12.17		4,000	6,000		
		Exchange Rate		0.90			
		Converted Into Euro		4,444	6,000		
		Exchange Difference - Gain				- 1,556	
	Dr.	Trade Payables	- Current Liabilities	SOFP	1,556		
	Cr.	Foreign Exchange Gain	+ Income	SOPL & OCI		1,556	**1.00**
		Trade Payables	TB		188,715		
		Incorrect Entry	W1.iii		- 4,800		
		Error in Entry	W1.vi		4,000		
		Payment	W1.vi		- 2,000		
		Exchange Loss	W1.vi		- 1,556		
		Revised Trade Payables			184,359		**0.50**
1.viii	**Dr.**	Buildings	+ Non-Current Assets	SOFP	200,000		**0.50**
	Cr.	Bank	- Current Assets	SOFP		200,000	
1.ix	**Dr.**	Bank	+ Current Assets	SOFP	6,000		
	Cr.	Disposal Account				6,000	
	Dr.	Disposal Account			25,000		
	Cr.	Motor Vehicles - Property, Plant & Equipment (PPE)	- Non-Current Assets	SOFP		25,000	
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	15,000		
	Cr.	Disposal Account				15,000	
	Dr.	Loss on Disposal of PPE	+ Expenses	SOPL & OCI	4,000		**1.00**
	Cr.	Disposal Account				4,000	
						CURRENT MARKS	**11.50**

Working 2 - Expenses		Cost of Sales	Distribution Costs	Administration Expenses		
Opening Inventory	Per TB	141,480	-	-		Cost of Sales
Purchases	Per TB	875,300	-	-		
Closing Inventory	W1.i	- 300,280	-	-		2.00
Expenses	Per TB	-	274,692	293,766		Distribution Costs
Purchases	W1.vi	4,000				
Allowance for Bad & Doubtful Debts Decrease	W1.iv	-	- 376	- 376	- 752	2.00
Revaluation Loss	W3	-	12,846	12,846	25,692	
Depreciation - Premises	W3	-	11,744	11,744	23,488	Admin
Depreciation - Motor Vehicles	W3	-	8,925	8,925	17,850	2.00
Total		**720,500**	**307,831**	**326,905**		

Working 3 - Property, Plant & Equipment		Buildings €	Motor Vehicles €	Total €	
Cost		974,400	144,000	1,118,400	
- Accumulated Depreciation b/d		- 275,220	- 51,600	- 326,820	
Carrying Value b/d at 1 January 2017		699,180	92,400	791,580	0.50
Disposal	W1.ii	-	- 25,000	- 25,000	0.50
Disposal - Accumulated Depreciation	W1.ii	-	15,000	15,000	0.50
Carrying Value		699,180	82,400	781,580	
Addition - Premises	W1.iii	200,000	-	200,000	0.50
		899,180	82,400	981,580	
Depreciation - Buildings - 2% Straight Line on Cost		- 23,488	-	- 23,488	0.50
Depreciation - Motor Vehicles - 15% Straight Line on Cost		-	- 17,850	- 17,850	0.50
		875,692	64,550	940,242	
Revaluation Loss		- 25,692	-	- 25,692	0.50
Carrying Value c/d at 31 December 2017		**850,000**	**64,550**	**914,550**	0.50

Dr. Administrative Expenses - P/L - SOPL & OCI	**12,846**	
Dr. Distribution Costs - P/L - SOPL & OCI	**12,846**	
Cr. Buildings - PPE - Non-Current Assets - SOFP		**25,692**

CURRENT MARKS	**10.00**
TOTAL MARKS	**21.50**

			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 at 31.12.16		275,220		23,488				298,708
Accumulated Depreciation - Motor Vehicles at 31.12.16		51,600		17,850				69,450
Administrative Expenses	293,766		33,515	376	326,905			
Allowance for Bad and Doubtful Debts		11,160	752					10,408
Bank	312,870		9,100	252,800			69,170	
Buildings	974,400		200,000	25,692			1,148,708	
Current Tax Payable		30,000	46,000				16,000	
Distribution Costs	274,692		33,515	376	307,831			
Income Tax	28,000				28,000			
Inventory at 31.12.16	141,480				141,480			
Investment Income		6,250		6,250		12,500		
Investments - 5%	250,000						250,000	
Long Term Loan		210,000						210,000
Motor Vehicles	144,000		15,000	25,000			134,000	
Purchases	875,300		4,000		879,300			
Retained Earnings at 31.12.16		1,236,763			114,920			1,351,683
Revenue		1,480,200		4,800		1,485,000		
Share Capital - 120,000 at €0.50 each		60,000						60,000
Trade Payables		188,715	8,356	4,000				184,359
Trade Receivables	255,400		7,900	3,100			260,200	
Inventory at 31.12.17			300,280	300,280		300,280	300,280	
Other Receivables			6,250				6,250	
Bad Debt Recovered				3,100		3,100		
Foreign Exchange Gain				1,556		1,556		
Loss on Disposal of PPE			4,000		4,000			
	3,549,908	3,549,908	668,668	668,668	1,802,436	1,802,436	2,184,608	2,184,608

SOLUTION 2

a)

Dr.	Trade Payables Control Account			Cr.	Marks
	€			€	
Balance B/d		Balance B/d		68,164	0.50
Purchase Returns	20,169	Purchases		220,541	1.00
Contras	15,467	Cheques Received from Trade Payables		1,571	1.00
Discount Received	23,253				0.50
Cheques Paid to Trade Payables	194,652				0.50
Balance C/d	36,735	Balance C/d		-	0.50
	290,276		-	290,276	
Balance B/d	-	Balance B/d		36,735	

Dr.	Trade Receivables Control Account		Cr.	Marks
	€		€	
Balance B/d	56,247	Balance B/d		0.50
Sales	345,812	Sales Returns	6,475	1.00
Cheques Paid to Trade Receivables	1,854	Contras	15,467	1.00
		Discount Allowed	14,852	0.50
		Cheques Received from Trade Receivables	362,145	0.50
Balance C/d		Balance C/d	4,974	0.50
	403,913		403,913	
Balance B/d	4,974	Balance B/d	-	

SUBTOTAL MARKS	**8.00**

b)

		Dr.	Cr.	Marks
	Trade Payables Journal Entries			
Dr.	Purchases - Cost of Sales - P/L - SOPL & OCI	220,541		0.50
Cr.	Trade Payables - Current Liabilities - SOFP		220,541	0.50
Dr.	Trade Payables - Current Liabilities - SOFP	20,169		0.50
Cr.	Purchases Returns - Cost of Sales - P/L - SOPL & OCI		20,169	0.50
Dr.	Trade Payables - Current Liabilities - SOFP	15,467		0.50
Cr.	Trade Receivables - Current Assets - SOFP		15,467	0.50
Dr.	Trade Payables - Current Liabilities - SOFP	23,253		0.50
Cr.	Discount Received - P/L - SOPL & OCI		23,253	0.50
Dr.	Trade Payables - Current Liabilities - SOFP	194,652		0.50
Cr.	Cash & Cash Equivalents - Current Assets - SOFP		194,652	0.50
Dr.	Cash & Cash Equivalents - Current Assets - SOFP	1,571		0.50
Cr.	Trade Payables - Current Liabilities - SOFP		1,571	0.50
	Trade Receivables Journal Entries			
Dr.	Trade Receivables - Current Assets - SOFP	345,812		0.50
Cr.	Revenue - Income - SOPL & OCI		345,812	0.50
Dr.	Bank - Current Assets - SOFP	10,845		0.50
Cr.	Revenue - Income - SOPL & OCI		10,845	0.50
Dr.	Revenue Returns - Income - SOPL & OCI	6,475		0.50
Cr.	Trade Receivables - Current Assets - SOFP		6,475	0.50
Dr.	Discount Allowed - P/L - SOPL & OCI	14,852		0.50
Cr.	Trade Receivables - Current Assets - SOFP		14,852	0.50
Dr.	Bank - Current Assets - SOFP	362,145		0.50
Cr.	Trade Receivables - Current Assets - SOFP		362,145	0.50
Dr.	Trade Receivables - Current Assets - SOFP	4,974		0.50
Cr.	Bank - Current Assets - SOFP		4,974	0.50

SUBTOTAL MARKS	**12.00**
OVERALL MARKS	**20.00**

Solution 3

REPORT
To: Financial Controller – Femyhr Limited
From: Future Financial Accountant
Re: IFRS 15 – Revenue from contracts with customers
Date: April 2018

(a)
(i) An entity recognises revenue in accordance with that core principle by applying the following five steps.

Identify the contract with a customer **Step 1**	Identify the performance obligations in the contract **Step 2**	Determine the transaction price **Step 3**	Allocate the transfer price to the performance obligations **Step 4**	Recognise revenue when each performance obligation is satisfied **Step 5**

(5 Marks)

(ii) A performance obligation is where there is a contract to transfer goods or services to a customer and the goods or services are distinct and can be accounted for separately.

(2 Marks)

(iii) A good or service is distinct if;

(a) The customer can benefit from the good or service on its own or together with other resources that are readily available to the customer; and
(b) The entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

(2 Marks)

(b) Given the above information, the customer can benefit from each of the goods or services either on their own or altogether. The promises to transfer goods or services are separately identifiable. Consequently there are a number of distinct good or services identified i.e. software licence, installation service, software updates and technical support.

(4 Marks)

(c) **Period 01.01.17 – 30.06.17**
As Femphr Limited does not believe that the customer will hit the target, it should account for the sales using a sales price per unit of €200 i.e. sales of 600 units x €200 per unit = €120,000 as follows:

Dr.	Trade Receivables	€120,000	
Cr.	Revenue		€120,000.

Period 01.07.17 – 30.12.17
On the basis that Femphr Limited believes that the customer will reach its target its accounts for its transactions with the customer as follows:

Order of 500 units x €150 = €75,000

Dr.	Trade Receivables	€75,000	
Cr.	Revenue		€75,000.

Order of 200 units x €150 = €30,000

Dr.	Trade Receivables	€30,000	
Cr.	Revenue		€30,000.

Recalculating the sales value of the original 600 units sold in the first six months at €150 per unit instead of €200 per unit i.e. €50 selling price per unit of a difference i.e. 600 units x €50 per unit difference = €12,000 as follows:

Dr.	Revenue	€12,000	
Cr.	Trade Receivables		€12,000.

(7 Marks)

If you have any further queries, please do not hesitate to contact me.

Yours sincerely,

Financial Accountant

[Total: 20 Marks]

Solution 4

a)

		€	€			€	€	Marks
	Issue 1							
	Should Have Happened				**Actually Happened**			
Dr.	Drawings	1,000		**Dr.**	Insurance	964		
Cr.	Bank		1,000	**Dr.**	Bank	964		
	To Correct							
Dr.	Drawings	1,000						**1.00**
Cr.	Insurance		1,000					**1.00**
	Issue 2							
	Should Have Happened				**Actually Happened**			
Dr.	Trade Payables	600		**Dr.**	Trade Payables	600		
Cr.	Purchase Returns		600	**Dr.**	Sales Returns	600		
				Cr.	Suspense		1,200	
	To Correct							
Dr.	Suspense	1,200						**0.50**
Cr.	Sales Returns		600					**0.50**
Cr.	Purchase Returns		600					**0.50**
	Issue 3							
	Should Have Happened				**Actually Happened**			
Dr.	Trade Receivables	840		**Dr.**	Trade Receivables	840		
Cr.	Bad Debt Recovered		840	**Cr.**	Bad Debt Written Off		840	
	To Correct							
Dr.	Bad Debt Written Off	840						**1.00**
Cr.	Bad Debt Recovered		840					**1.00**
	Issue 4							
	Should Have Happened				**Actually Happened**			
Dr.	Bank	2,000		**Dr.**	Bank	2,000		
Cr.	Capital Introduced		2,000	**Cr.**	Revenue		2,000	
	To Correct							
Dr.	Revenue	2,000						**0.50**
Cr.	Capital Introduced		2,000					**0.50**
	Issue 5							
	Should Have Happened				**Actually Happened**			
Dr.	Government Grant	2,000			Cost of Sales	4,000		
Cr.	Amortisation of Govt. Grant - P/L		2,000		Property, Plant & Equipment		4,000	
	To Correct							
Dr.	Government Grant	2,000						**0.50**
Dr.	Property, Plant & Equipment	4,000						**0.50**
Cr.	Cost of Sales		4,000					**0.50**
Cr.	Amortisation of Govt. Grant - P/L		2,000					**0.50**
	Issue 6							
	Should Have Happened				**Actually Happened**			
Dr.	Bank	800		**Dr.**	Finance Costs	800		
Cr.	Investment Income		800	**Dr.**	Bank	800		
				Cr.	Suspense		1,600	
	To Correct							
Dr.	Suspense	1,600						**0.50**
Cr.	Investment Income		800					**0.50**
Cr.	Finance Costs		800					**0.50**
	Issue 7							
	Should Have Happened				**Actually Happened**			
Dr.	Repairs & Maintenance	3,000		**Dr.**	Property, Plant & Equipment	3,000		
Cr.	Trade Payables/Accruals		3,000	**Cr.**	Trade Payables/Accruals		3,000	
				Dr.	Depreciation Expense	300		
				Cr.	Property, Plant & Equipment		300	
	To Correct							
Dr.	Repairs & Maintenance	3,000						**0.50**
Dr.	Property, Plant & Equipment	300						**0.50**
Cr.	Depreciation Expense		300					**0.50**
Cr.	Property, Plant & Equipment		3,000					**0.50**
							TOTAL MARKS	**12.00**

b)

		€			€	Marks
	Original Gross Profit	**65,600**		**Original Net Profit**	**26,400**	**0.50**
2	**Revenue Returns**	600		Adjustment to Gross Profit	3,200	**1.00**
2	**Purchases Returns**	600	1	Insurance	1,000	**1.00**
4	**Revenue**	- 2,000	3	Bad Debt Written Off	- 840	**1.00**
5	**Cost of Sales**	4,000	3	Bad Debt Recovered	840	**1.00**
			5	Amortisation of Government Grant	2,000	**0.50**
			6	Investment Income	800	**0.50**
			6	Finance Costs	800	**0.50**
			7	Repairs & Maintenance	- 3,000	**0.50**
			7	Depreciation Expense	300	**0.50**
	Adjusted Gross Profit	**68,800**		**Adjusted Net Profit**	**31,500**	**1.00**
	Net Adjustment to Gross Profit	3,200				
					SUBTOTAL MARKS	**8.00**
					OVERALL MARKS	**20.00**

Solution 5

Franfie Limited Statement of Cash flows for the year ended 31 December 2017

Cash flows from Operating Activities		**€'000**	**€'000**	
Profit before Taxation		480		**1.00**
Adjustments for				
Depreciation		400		**1.00**
Profit on Sale of PPE		- 10		**1.00**
Interest Expense		50		**1.00**
		920		
Increase in Trade Receivables		- 120		**1.00**
Decrease in Inventory		20		**1.00**
Decrease in Trade Payables		- 30		**1.00**
Cash Generated from Operations		790		
Interest Paid		- 50		**0.50**
Income Taxes Paid		- 70		**1.50**
Net Cash from Operating Activities			**670**	**1.00**
Cash flows from Investing Activities				
Payments to acquire Property, Plant & Equipment		- 1,280		**3.00**
Receipts from sale of Property, Plant & Equipment		290		**1.00**
Net Cash used in Investing Activities			**- 990**	**1.00**
Cash flows from Financing Activities				
Proceeds from Issue of Shares		300		**1.00**
Receipts from Increase in Long Term Loans		150		**1.00**
Dividends Paid		- 50		**1.00**
			400	**1.00**
Net Increase in Cash & Cash Equivalents			**80**	
Cash & Cash Equivalents at beginning of Year	**Note 1**		**- 70**	
Cash & Cash Equivalents at end of Year	**Note 1**		**10**	**1.00**
Note 1		**2017**	**2016**	
		€'000	**€'000**	
Cash on hand and balances with bank		30	50	
Bank Overdraft		- 20	- 120	
Cash and Cash Equivalents		10	- 70	
			TOTAL MARKS	**20.00**

Profit on Sale of PPE	**€'000**
Cost	450
- Accumulated Depreciation	- 170
Carrying Value at date of sale	280
Sales Proceeds	290
Profit on Sale of PPE	**- 10**

Interest Account

Balance b/d	-	Expense - SOPL & OCI	50
Interest Paid	50	Balance c/d	-
	50		50

Income Tax Account

Corporation Tax Paid	70	Balance b/d	50
Balance c/d	40	Expense - SOPL & OCI	60
	110		110

Share Capital Account

		Balance b/d - S. Capital	900
		Balance b/d - S. Premium	100
Balance c/d - S. Capital	1,100		
Balance c/d - S. Premium	200	Proceeds from Issue of S. Capital	300
	1,300		1,300

Property, Plant & Equipment Account

Balance b/d	2,050	Depreciation	400
Revaluation Surplus	200	Disposal - carrying value	280
Purchase of PPE	1,280	Balance c/d	2,850
	3,530		3,530

MARKING SCHEME

Q1		
(a)	Discuss the advantages and limitations of ratios	10
(b)	Workings	21.5
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position	8.5
	Total Marks – Q1	**40**
Q2		
(a)	Trade Receivables and Trade Payables Control Accounts	8
(b)	Journal Entries	12
	Total Marks – Q2	**20**
Q3	IFRS 15 Revenue from Contracts with Customers	
(a)		
(i)	5 steps	5
(ii)	Performance Obligations	2
(iii)	Good/Service Distinct	2
(b)	Identify Goods/Services as Distinct in a Contract	4
(c)	Journal Entries re Accounting for Revenue to Customer	7
	Total Marks – Q3	**20**
Q4		
(a)	Journal Entries	12
(b)	Amendments to Gross and Net Profit	8
	Total Marks – Q4	**20**
Q5	Operating Activities	10
	Investing Activities	5
	Financing Activities	4
	Cash & Cash Equivalents	1
	Total Marks – Q5	**20**