IRELAND

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 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. **Please read each Question carefully.**

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 2019

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 potential limitations associated with financial accounting as maybe considered by possible investors.

(10 Marks)

(b) Walbar Ltd. is a company involved in the manufacture of equipment for the hotel industry. The following trial balance was extracted from its books as at 31 December 2018:

	Debit	**Credit**
	€	€
Accumulated Depreciation - Premises - 1 January 2018		124,000
Admininstrative Expenses	126,200	
Trade Receivables	142,600	
Retained Earnings at 1 January 2018		737,720
Purchases	687,300	
Allowance for Bad & Doubtful Debts		6,780
Debenture Loan		150,000
Bank	180,400	
Issued Share Capital - €1 shares each		100,000
Premises at Cost at 1 January 2018	648,200	
Inventory at 1 January 2018	126,430	
Current Tax Payable at 1 January 2018		6,840
Accumulated Depreciation - Vehicles - 1 January 2018		38,500
Distribution Costs	245,200	
Finance Costs	12,400	
Accumulated Depreciation - Plant & Machinery - 1 January 2018		64,750
Trade Payables		102,140
Revaluation surplus		25,000
Revenue		1,245,100
Plant & Machinery at Cost at 1 January 2018	245,700	
Vehicles at Cost at 1 January 2018	186,400	
	2,600,830	2,600,830

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

(i) Inventory was counted and valued at 31 December 2018 at €132,600. Included in this figure is €2,500 of slow moving inventories at cost. The post year-end sales register shows that these were subsequently sold just after the year-end for 80% of cost price.

(ii) During January 2018, the company realised that the closing inventory at 31 December 2017 was overstated by €3,100.

(iii) Depreciation is to be charged as follows:

Premises	2% Straight Line on Cost
Plant & Machinery	10% Straight Line on Cost
Vehicles	24% Reducing Balance

Depreciation for the year is charged in full in the year of purchase and none in the year of sale.

(iv) Included in wages (as part of distribution costs) is an amount of €20,000 paid to Walbar Ltd.'s own staff who built a extension to the premises during the year. The cost of materials for the extension amounted to €70,000.

(v) Premises were revalued to €575,000 on 31 December 2018.

(vi) Shortly, prior to year-end the company received a government grant of €50,000 towards an item of plant and machinery. Walbar Ltd. was unsure how to account for the grant so it debited bank and credited revenue. The company then decided to follow the deferred income approach to accounting for government grants. Walbar Ltd. will amortise grants in line with the depreciation rate on plant and machinery.

During 2018, Walbar Ltd. paid €100,000 gross for additional plant and machinery. This payment included a vat recoverable amount of €12,000.

(vii) In October 2018, Walbar Ltd. paid a taxation bill of €12,000. The tax expense for the current year is estimated at €7,000.

(viii) A customer of Walbar Ltd. has gone into liquidation and the balance on the customer's account of €5,600 has been written off. The Allowance for Doubtful Debts should be set at 5%.

(ix) Walbar Ltd. sells goods with a warranty covering the cost of repairs of any defects that are discovered within the first two months after purchase. Past experience suggests that 85% of the goods sold will have no defects, 10% will have minor defects and 5% will have major defects. Past experience with sales of these goods indicate that if minor defects were detected in all products sold the cost of repairs would be €40,000 and if major defects were detected in all products sold, the cost would be €180,000.

(x) Expenses are to be allocated evenly between Distribution Costs and Administrative Expenses unless otherwise stated.

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 Walbar Ltd. for the financial year-ended 31 December 2018.

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

[Total: 40 Marks]

2. The bank account of Keinen Ltd. for the month of December 2018 was as follows:

Bank Account of Keinen Ltd.

Dr.						**Cr.**
Date	**Receipts**	**€**	**Date**	**Payments**	**Cheque No.**	**€**
09/12/18	J. Lynch	12,475	01/12/18	Balance b/d		2,682
18/12/18	L. O'Callaghan	2,451	02/12/18	G. Leyton	8215	451
23/12/18	T. Dollard	4,125	04/12/18	J. Harte	8216	1,425
28/12/18	R. Creed	6,581	06/12/18	R. Nolan	8217	326
30/12/18	Credit Transfer	2,314	10/12/18	Rent	D.D.	1,000
			14/12/18	O. Murphy	8218	214
			17/12/18	Bank Charges	D.D.	26
			20/12/18	P. Nicholls	8219	124
			23/12/18	N. Henderson	8220	541
			27/12/18	D. Francis	8221	1,482
			30/12/18	M. Linnane	8222	2,481
			31/12/18	Balance c/d		17,194
		27,946				27,946
01/01/19	Balance b/d	17,194				

Bank Statement for Keinen Ltd. for December 2018

Date	**Description**		**Payments** €	**Lodgment** €	**Balance** €
01/12/18	Balance				-2,182
02/12/18	Cheque	8213	300		-2,482
03/12/18	Cheque	8214	200		-2,682
06/12/18	Cheque	8215	415		-3,097
08/12/18	Cheque	8216	1,425		-4,522
10/12/18	Lodgement			12,475	7,953
11/12/18	Rent S.O.		1,000		6,953
15/12/18	Cheque	8218	214		6,739
16/12/18	TV D.D.		82		6,657
18/12/18	Bank Charges		26		6,631
20/12/18	Credit Transfer			2,451	9,082
24/12/18	Lodgement			4,152	13,234
26/12/18	Cheque	8220	541		12,693
27/12/18	41574		632		12,061
29/12/18	Lodgement			6,581	18,642
30/12/18	Cheque	8221	1,482		17,160
31/12/18	Phone D.D.		124		17,036
31/12/18	Insurance S.O.		540		16,496
31/12/18	Credit Transfer			1,411	17,907

The bank has confirmed to Keinen Ltd. that it made an entry error in its bank account on the 27 December 2018 amounting to €632.

REQUIREMENT:

(a) Prepare a bank reconciliation statement for Keinen Ltd. for the month ending 31 December 2018.

(14 Marks)

(b) Identify and explain three potential reasons why accounting information reported in a company's bank account may be different to that reported in its bank statement for the same period.

(6 Marks)

[Total: 20 Marks]

3. Buildarama Ltd. is involved in the building of commercial property and has asked you, a trainee financial accountant, for advice on how to account for Property, Plant and Equipment.

PART A

Buildarama Ltd. purchased equipment on 1 July 2018 and had the following costs:

	€
List price	20,000
Trade discount	(1,000)
Delivery costs	200
Set up costs incurred	800
Staff Training	1,000
Vat	2,000
Total	23,000

(i) Buildarama Ltd. is registered for vat and can recover vat on purchases.

(ii) The equipment has a useful life of ten years and a residual value of €2,000.

(iii) Buildarama Ltd.'s depreciation policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

REQUIREMENT:

The financial controller of Buildarama Ltd. has asked you to prepare a report which addresses the following:

(a) Calculate the carrying value of the equipment as at 31 December 2018. (4 Marks)

(b) In accordance with IAS 16 – *Property, Plant & Equipment*, describe the criteria for the recognition of property, plant and equipment in the financial statements.

(3 Marks)

(c) Explain the accounting treatment allowed for the measurement of property, plant and equipment:

(i) At recognition;

(ii) After recognition. (5 Marks)

PART B

Buildarama Ltd. purchased a property costing €500,000 on 1 January 2010 with a useful life of fifty years. It has a residual value of €100,000. At 31 December 2016, the property was valued at €559,000 resulting in a revaluation gain of €115,000. At this date, there was no change to the useful life of the building but the estimated residual value was zero. On 31 December 2018, the building was sold for €600,000.

REQUIREMENT:

Provide journal entries to show how the disposal on this revalued property should be treated in the financial statements for the year-ended 31 December 2018. (8 Marks)

[Total: 20 Marks]

4.

REQUIREMENT:

(a) Outline two key differences between FRS102 and IFRS. (4 Marks)

(b) Describe and discuss the four main qualitative characteristics of financial statements as identified in the Conceptual Framework for Financial Reporting for the preparation and presentation of financial statements.

(16 Marks)

[Total: 20 Marks]

5. Hashua Ltd. is involved in the manufacture of plastic products and its financial statements are as follows:

Hashua Ltd. Statement of Financial Position as at 31 December 2018

	2018 €'000	2017 €'000
Non-Current Assets		
Property, Plant & Equipment	86,300	74,600
Intangible Assets	4,560	1,200
Total Non-Current Assets	**90,860**	**75,800**
Current Assets		
Inventories	14,320	11,300
Trade Receivables	2,170	1,200
Cash & Cash Equivalents	8,900	9,200
Total Current Assets	**25,390**	**21,700**
Total Assets	**116,250**	**97,500**
Equity & Liabilities		
Equity		
Share Capital	50,000	40,000
Share Premium	8,000	5,000
Retained Earnings	26,220	23,590
Revaluation Surplus	2,800	800
Total Equity	**87,020**	**69,390**
Non-Current Liabilities		
Long Term Loan	20,000	18,000
Total Non-Current Liabilities	**20,000**	**18,000**
Current Liabilities		
Trade Payables	7,730	8,910
Current Tax Payables	1,500	1,200
Total Current Liabilities	**9,230**	**10,110**
Total Equity & Liabilities	**116,250**	**97,500**

Hashua Ltd. Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31 December 2018

Revenue	26,200
Cost of Sales	20,200
Gross Profit	**6,000**
Administrative Expenses	1,100
Distribution Costs	1,600
Finance Costs	200
Profit/(Loss) before Tax	**3,100**
Income Tax Expense	380
Profit/(Loss) for the year	**2,720**
Other Comprehensive Income	
Revaluation Gain	2,000
Other Comprehensive Income for the year, net of tax	**2,000**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**4,720**

Notes:

(i) Hashua Ltd. sold a property with a carrying value of €1,400,000 for €1,500,000 during the financial year ended 31 December 2018. Depreciation for the same financial year amounted to €320,000.

(ii) Hashua Ltd. paid a dividend of €90,000 in 2018.

REQUIREMENT:

(a) Prepare a Statement of Cash Flows for the year-ended 31 December 2018 for Hashua Ltd. in accordance with IAS 7 - *Statement of Cash Flows.*

(16 marks)

(b) Briefly discuss the usefulness of Statements of Cash Flows in financial reporting. (4 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

FINANCIAL ACCOUNTING

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SOLUTION 1

(a) Identify and explain the potential limitations associated with financial accounting

Possible limitations include;

(i) Historical in Nature
Financial accounting present financial statements at the end of a period which normally covers a year in length and fails to provide day-to-day information for an entity. These financial statements present an account of the past performance of an entity and therefore, financial statements can offer limited insight into the future prospects of an entity

(ii) Lack of Detail
Financial accounting aggregates financial transactions that occurred during the course of a period i.e. income, expenses, assets, liabilities etc. It does not provide adequate breakdown of these important aspects to help management in dealing with the business of running an entity.

(iii) Lack of Information on Efficiency
Financial statements do not provide information as regards how efficient an entity is in relation to usage of labour, materials, overhead costs etc.

(iv) No Classification of Expenses
Expenses are not classified as either direct or indirect or fixed or variable or controllable or uncontrollable.

(v) Financial Accounting ignores important non-monetary information
Financial accounting does not generally consider those transactions that are non-monetary in nature. Therefore, important aspects of business such as employee loyalty, extent of competition faced by the entity, technical innovations owned by the entity etc. are not reflected by using financial accounting.

(vi) No strong guidance to management for proper planning, control and decision-making in an entity.

[Total: 10 Marks]

(b)

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

		€	€	€	€	€	
Revenue	**TB**			1,245,100	- 50,000	**1,195,100**	**0.25**
Cost of Sales	**W2**					- 691,530	
Gross Profit						**503,570**	**0.25**
Amortisation of Government Grants	**W1.vii**				5,000		**0.25**
Finance Costs	**TB**				12,400		**0.25**
Distribution Costs	**W2**				269,850		**0.25**
Administrative Expenses	**W2**				170,850	448,100	**0.25**
Profit/(Loss) before Tax						**55,470**	
Income Tax Expense	**W1.vii**					7,000	**0.25**
PROFIT/(LOSS) FOR THE YEAR						**48,470**	
Other Comprehensive Income							
Revaluation Loss	**W3**					- 24,436	**0.25**
Other Comprehensive Income for the year, net of tax						**- 24,436**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						**24,034**	**0.25**

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

		€	€	€	€	€	
Property, Plant & Equipment	**W3**					922,984	**0.25**
Total Non-Current Assets						**922,984**	
Current Assets							
Inventories	**W1.i**					132,100	**0.25**
Trade Receivables	**W1.viii**					130,150	**0.50**
Other Receivables	**W1.vi**					12,000	**0.25**
Cash & Cash Equivalents						-	**0.25**
Total Current Assets						**274,250**	
TOTAL ASSETS						**1,197,234**	
Equity & Liabilities							
Equity							
Share Capital	**TB**					100,000	**0.25**
Retained Earnings	**TB + W1.ii + SOPL**		737,720	- 3,100	48,470	783,090	**0.25**
Revaluation Surplus	**W3**			25,000	- 24,436	564	**0.25**
Total Equity						**883,654**	
Non-Current Liabilities							
Debenture Loan	**TB**					150,000	**0.25**
Government Grants	**TB + W1.vii**			50,000	- 5,000	45,000	**0.25**
Total Non-Current Liabilities						**195,000**	
Current Liabilities							
Trade Payables	**TB**					102,140	**0.25**
Provisions	**W1.ix**					13,000	**0.25**
Current Tax Payable	**TB + W1.vii**		6,840	- 12,000	7,000	1,840	**0.25**
Bank	**TB + W1.iv + W1.vi**	- 180,400	70,000	100,000	12,000	1,600	**0.75**
Total Current Liabilities	**+ W1.vii**					**118,580**	
TOTAL EQUITY & LIABILITIES						**1,197,234**	
						PRESENTATION	**1.00**
						TOTAL MARKS	**7.50**

Working - Journal Entries

					€	€	€	€	
1.i		Total Inventories at Cost per Inventory Count						132,600	
		Slow Moving Inventories - Cost				2,500			
		NRV - 80% of Cost Price				- 2,000			
		Inventory Write Down						500	
		Value of Closing Inventories						132,100	
	Dr.	Inventory	+ Current Assets	SOFP			132,100		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI				132,100	
1.ii	**Dr.**	Retained Earnings	- Equity	SOFP			3,100		**1.00**
	Cr.	Opening Inventory	- Cost of Sales	SOPL & OCI				3,100	
1.iv	**Dr.**	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP			20,000		**1.00**
	Cr.	Wages - Distribution Costs	- Expenses	SOPL & OCI				20,000	
	Dr.	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP			70,000		**1.00**
	Cr.	Bank	- Current Assets	SOFP				70,000	
1.v		See Working 3 - Property, Plant & Equipment							
1.vi	**Dr.**	Revenue	- Income	SOPL & OCI			50,000		**1.00**
	Cr.	Government Grants - Deferred Income	+ Non-Current Liabilities	SOFP				50,000	
	Dr.	Government Grants - Deferred Income	- Non-Current Liabilities	SOFP			5,000		**1.00**
	Cr.	Amortisation of Government Grants	+ Income	SOPL & OCI				5,000	
	Dr.	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP			88,000		
	Dr.	Vat Receivable	+ Current Assets	SOFP			12,000		**1.00**
	Cr.	Bank	- Current Assets	SOFP				100,000	
1.vii	**Dr.**	Current Tax Liability	- Current Liabilities	SOFP			12,000		**0.50**
	Cr.	Bank	- Current Assets	SOFP				12,000	
	Dr.	Income Tax Expense	+ Expenses	SOPL & OCI			7,000		**0.50**
	Cr.	Current Tax Liability	+ Current Liabilities	SOFP				7,000	
1.viii	**Dr.**	Bad Debt Written Off	+ Expenses	SOPL & OCI			5,600		**1.00**
	Cr.	Trade Receivables	+ Current Liabilities	SOFP				5,600	
	Dr.	Allowance for Doubtful Debts	+ Expenses	SOPL & OCI			70		**1.00**
	Cr.	Allowance for Doubtful Debts	- Current Assets	SOFP				70	
		Trade Receivables	TB				142,600		
		- Bad Debt Written Off					- 5,600		
							137,000		
		- Allowance for Bad & Doubtful Debts - 5%					- 6,850		
		Revised Trade Receivable					**130,150**		**1.00**
		Current Allowance for Bad & Doubtful Debts	TB				6,780		
		New Allowance for Bad & Doubtful Debts	See Above				6,850		
		Increase in Allowance for Bad & Doubtful Debts					70		
1.ix	**Dr.**	Cost of Sales	+ Expenses	SOPL & OCI			13,000		
	Cr.	Provisions	+ Current Liabilities	SOFP				13,000	**1.00**
		The expected value of the cost of repairs is €13,000 i.e. 10% x €40,000 + 5% x €180,000.							
								CURRENT MARKS	**12.00**

Working 2 - Expenses		Cost of Sales	Distribution Costs	Administration Expenses		
Opening Inventory	**Per TB**	126,430	-	-		**Cost of**
Purchases	**Per TB**	687,300	-	-		**Sales**
Closing Inventory	**W1.i**	- 132,100	-	-		**2.00**
Opening Inventory Overstated	**W1.ii**	- 3,100				
Provisions	**W1.ix**	13,000				
Expenses	**Per TB**	-	245,200	126,200		
Property, Plant & Equipment included incorrectly in wages	**W1.iv**	-	- 20,000	-	- 20,000	
Allowance for Bad & Doubtful Debts	**W1.viii**	-	35	35	70	**Distribution**
Bad Debt Write Off	**W1.viii**	-	2,800	2,800	5,600	**Costs**
Depreciation - Premises	**W3**	-	7,382	7,382	14,764	**2.00**
Depreciation - Equipment	**W3**	-	16,685	16,685	33,370	
Depreciation - Vehicles	**W3**	-	17,748	17,748	35,496	**Admin.**
Total		**691,530**	**269,850**	**170,850**		**Expenses**
						2.00

Working 3 - Property, Plant & Equipment		Premises	Plant & Machinery	Vehicles	Total	
		€	€	€	€	
Cost	**Per TB**	648,200	245,700	186,400	1,080,300	
- Accumulated Depreciation b/d	**Per TB**	- 124,000	- 64,750	- 38,500	- 227,250	
Carrying Value b/d at 1st January 2018		524,200	180,950	147,900	853,050	**0.50**
Addition	**W1.iv**	90,000	88,000		178,000	**1.00**
		614,200	268,950	147,900	1,031,050	
Depreciation - Premises - 2% Straight Line on Cost	**Note 3**	- 14,764	-	-	- 14,764	**0.50**
Depreciation - Equipment - 15% Reducing Balance		-	- 33,370	-	- 33,370	**0.50**
Depreciation - Vehicles - 20% Straight Line on Cost		-	-	- 35,496	- 35,496	**0.50**
		599,436	235,580	112,404	947,420	
Revaluation Gain	**Note 1**	- 24,436	-	-	- 24,436	**0.50**
Carrying Value c/d at 31st December 2018		**575,000**	**235,580**	**112,404**	**922,984**	

Note 1 - Revaluation Gain

Dr.	Revaluation Surplus	- Equity	SOFP	24,436		**1.00**
Cr.	Property, Plant & Equipment	- Non-Current Assets	SOFP		24,436	

CURRENT MARKS	**10.50**
TOTAL MARKS	**22.50**

			Adjustment		Statement of Profit or Loss and Other Comprehensive Income		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	€	€	€	€	€	€	€	€
Accumulated Depreciation - Premises - 1 January 2018		124,000		14,764				138,764
Admininstrative Expenses	126,200		44,650		170,850			
Trade Receivables	142,600			5,600			137,000	
Retained Earnings at 1 January 2018		737,720	3,100		48,470			783,090
Purchases	687,300		13,000		700,300			
Allowance for Bad & Doubtful Debts		6,780		70				6,850
Debenture Loan		150,000						150,000
Bank	180,400			182,000				1,600
Issued Share Capital - €1 shares each		100,000						100,000
Premises at Cost at 1 January 2018	648,200		90,000	24,436			713,764	
Inventory at 1 January 2018	126,430			3,100	123,330			
Current Tax Payable at 1 January 2018		6,840	12,000	7,000				1,840
Accumulated Depreciation - Vehicles - 1 January 2018		38,500		35,496				73,996
Distribution Costs	245,200		44,650	20,000	269,850			
Finance Costs	12,400				12,400			
Accumulated Depreciation - Plant & Machinery - 1 January 2018		64,750		33,370				98,120
Trade Payables		102,140						102,140
Revaluation surplus		25,000	24,436					564
Revenue		1,245,100	50,000			1,195,100		
Plant & Mahcinery at Cost at 1 January 2018	245,700		88,000				333,700	
Vehicles at Cost at 1 January 2018	186,400						186,400	
Inventory at 31 December 2018			132,100	132,100		132,100	132,100	
Government Grants			5,000	50,000				45,000
Amortisation of Government Grants				5,000		5,000		
Other Receivables			12,000				12,000	
Income Tax Expense			7,000		7,000			
Provisions				13,000				13,000
	2,600,830	2,600,830	525,936	525,936	1,332,200	1,332,200	1,514,964	1,514,964

SOLUTION 2

(a) Step 1: Reconcile the opening balance in the bank account with the opening balance on the bank statements

Balance per Bank Account - 01/12/2018		**-**	**2,682**	
Add Items not yet Debited			-	
		-	**2,682**	**0.50**
Balance per Bank Account - 01/12/2018		**-**	**2,182**	
Less Unpresented Cheques				
Cheque	8213	-	300	**1.00**
Cheque	8214	-	200	**1.00**
		-	**2,682**	**0.50**

Adjusted Bank Account

December		€	December		€	
31	Balance	17,194	16	TV D.D.	82	**1.00**
31	Cheque 8215 - Difference	36	31	Phone D.D.	124	**1.00**
31	Lodgement - Unrecorded	1,411	31	Insurance S.O.	540	**1.00**
31	Lodgement (23/12/18) - Difference	27				**0.50**
			31	**Closing Balance**	**17,922**	**1.00**
		18,668			18,668	**0.50**

Bank Reconciliation Statement

Closing Balance per Bank Statement - 31/12/2018			**17,907**	**1.00**
Less Unpresented Cheques				
Cheque 8217	326			**0.50**
Cheque 8219	124			**0.50**
Cheque 8222	2,481	**-**	**2,931**	**1.00**
Add Lodgement not yet Cleared				
Lodgement - 30/12/2018	2,314		**2,314**	**1.00**
Bank Errors				
41574 - 27/12/2018	632		**632**	**1.00**
Balance as per Adjusted Bank Account			**17,922**	**1.00**
			MARKS	**14.00**

(b) **Timing Differences**

This happens as it takes the bank 2 to 3 days to draw the cheques/lodgements through the system. Therefore, there is a timing delay between the time the company write a cheque/receive a lodgement and the cheque/lodgement appearing in the bank statements. However, the cheque/lodgement appears immediately in the company's bank account as they enter it in their accounting system.

Errors

The person entering the data in the company may make errors in their posting of the data to the bank account of the company for example, the wrong cheque amount posted or an amount not entered at all etc. **6.00**

Bank Account not Updated

The bank account may not be updated to reflect the current situation i.e. the bank account needs to take into account any unrecorded items that have gone through the bank statement i.e. Direct Debits, Standing Orders, Returned Cheques etc.

TOTAL MARKS **20.00**

SOLUTION 3

REPORT

To: **Financial Controller, Buildarama Limited**
From: **Financial Accountant**
Re: **IAS 16 – Property, Plant & Equipment (PPE)**
Date: **August 2019**

PART A

(a) The carrying value of the equipment for the year-ending 31 December 2018 is as follows:

	€	
Cost	20,000	
Less Trade discount	(1,000)	
Delivery costs	200	
Set up costs	800	
Amount to be capitalised	20,000	(2 Marks)

Annual depreciation

Depreciation Formula	(Cost – Residual Value)/Estimated Useful Life	
	(20,000 – 2,000)/10 years	
	1,800	(1 Mark)

Carrying value at 31 December 2018

	€	
Cost	20,000	
Accumulated Depreciation	(1,800)	
Carrying value	**18,200**	(1 Mark)

(b) Property, plant and equipment are recognised when the Framework recognition criteria are met i.e. it is probable that future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be reliably measured.

(3 Marks)

(c) **(i)** All items of property, plant and equipment are recognised at cost. (2 Marks)

(ii) After recognition, property, plant and equipment can be recognised using either the cost model or the revaluation model.

The Cost model is where PPE is carried at cost less accumulated depreciation and impairment losses.

The Revaluation model is where PPE is carried at revalued amount with the revalued amount equal to the fair value at date of revaluation less subsequent accumulated depreciation and impairment losses.

(3 Marks)

PART B

(d) Accounting treatment of disposal of revalued property as at 31.12.2018

	€		
Carrying value at 31.12.2016	559,000		(0.5 Marks)
Depreciation for 2017 + 2018	(26,000)		
(€559,000 – 0) / (43 years***) * 2 Years			(1 Mark)
Carrying value at 31.12.2018	533,000		(1 Mark)
Disposal value	600,000		(0.5 Marks)
Profit on disposal	67,000		(1 Mark)

*** 7 years of useful life used from 01.01.2010 – 31.12.2016

Debit	Disposal Account	559,000		
Credit	PPE		559,000	
Debit	PPE – Accumulated Depreciation	26,000		
Credit	Disposal Account		26,000	
Debit	Bank	600,000		(2 Marks)
Credit	Disposal Account		600,000	
Debit	Disposal Account	67,000		
Credit	Profit on Disposal – Income – SOPL & OCI		67,000	

On disposal, the previous revaluation gain can be taken to retained earnings i.e.

Debit	Revaluation Surplus – Equity	115,000		
Credit	Retained Earnings – Equity		115,000	(2 Mark)

I hope that the above responses clarify and answer your queries. If you have any further queries, please do not hesitate to contact me.

Yours sincerely,

Financial Accountant

[Total: 20 Marks]

SOLUTION 4

(a) Key differences between FRS 102 and IFRS (4 Marks)

Some key differences between FRS 102 and IFRS are as follows;

Property, plant & equipment
IFRS – Capitalisation of borrowing costs required during period it takes to make or construct a qualifying asset
FRS 102 – Choice of capitalising or expensing borrowing costs during period it takes to make or construct a qualifying asset.

Investment property
IFRS – Accounting policy choice:
- measured at fair with changes in profit or loss or
- at depreciated cost.

FRS 102 –
- Measurement is at fair value, if reliably determinable, with changes in profit or loss
- Otherwise measured at depreciated cost.

Intangible assets
IFRS – Development costs must be capitalised if specific criteria are met. Otherwise they are expensed.
FRS 102 – Choice of capitalising or writing off development costs. Specific criteria must be met in order to capitalise.

IFRS – An intangible asset may have an indefinite life, in which case it is not amortised but subject to annual impairment reviews, or a definite life over which it is amortised.
FRS 102 – If a reliable estimate of the UEL cannot be made the life should not exceed 10 years.

IFRS – Software costs that are not an integral part of related hardware are classified as intangible fixed assets.
FRS 102 – Classification of software costs not addressed. Therefore appropriate accounting policy should be with regard to sections 10.4 to 10.6 of FRS 102 to classify as either a tangible fixed asset or an intangible asset.

(b) The four principal qualitative characteristics as per the Framework are
Understandability,
Relevance
Reliability; and
Comparability

Understandability
Users must be able to understand financial statements. They are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information properly. Complex matters, if relevant for decision-making, should not be left out of financial statements simply due to its difficulty in being understood.

Relevance
To be useful information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. In other cases, both the nature and materiality are important. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Reliability
To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent. Information may be relevant but so unreliable in nature or representation that its recognition may be potentially misleading. Key elements of reliability include the following:

i) Faithful Representation
ii) Substance over Form
iii) Neutrality
iv) Prudence
v) Completeness

Comparability

Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities. The need for comparability should not be confused with mere uniformity. It is inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist. It is important that the financial statements should corresponding information for the preceding periods.

(16 Marks)

[Total: 20 Marks]

SOLUTION 5

(a) Hashua Limited Statement of Cash flows for the year ended 31 December 2018

Cash flows from Operating Activities		**€'000**	**€'000**	
Profit before Taxation		3,100		**0.50**
Adjustments for				
Depreciation		320		**0.50**
Gain on Sale of PPE		- 100		**0.50**
Interest Expense		200		**1.00**
		3,520		
Increase in Inventories		- 3,020		**0.50**
Increase in Trade Receivables		- 970		**1.00**
Increase in Trade Payables		- 1,180		**0.50**
Cash Generated from Operations		- 1,650		
Interest Paid		- 200		**0.50**
Income Taxes Paid		- 80		**1.00**
Net Cash from Operating Activities			**- 1,930**	**0.50**
Cash flows from Investing Activities				
Payments to acquire Property, Plant & Equipment		- 11,420		**4.00**
Payments to acquire Intangible Assets		- 3,360		**1.00**
Receipts from sale of Property, Plant & Equipment		1,500		**1.00**
Net Cash used in Investing Activities			**- 13,280**	**0.50**
Cash flows from Financing Activities				
Proceeds from Issue of Shares		13,000		**0.50**
Payments due to dividends		- 90		**0.50**
Proceeds from increase in Long Term Loan		2,000		**0.50**
			14,910	**0.50**
Net decrease in Cash & Cash Equivalents			**- 300**	**0.50**
Cash & Cash Equivalents at beginning of Year	**Note 1**		**9,200**	
Cash & Cash Equivalents at end of Year	**Note 1**		**8,900**	
Note 1		**2018**	**2017**	
		€'000	**€'000**	
Cash on hand and balances with bank		8,900	9,200	**0.50**
Bank Overdraft		-	-	
Cash and Cash Equivalents		8,900	9,200	
			TOTAL MARKS	**16.00**

Gain on Sale of PPE	**€'000**	**€'000**
Carrying Value at date of sale	1,400	
Sales Proceeds	1,500	
Gain on Sale of PPE	**- 100**	

Interest Account

Balance b/d	-	Expense - SOPL & OCI	200
Interest Paid	200	Balance c/d	-
	200		200

Income Tax Account

Corporation Tax Paid	80	Balance b/d	1,200
Balance c/d	1,500	Expense - SOPL & OCI	380
	1,580		1,580

Share Capital Account

		Balance b/d - S. Capital	40,000
		Balance b/d - S. Premium	5,000
Balance c/d - S. Capital	50,000		
Balance c/d - S. Premium	8,000	Proceeds from Issue of S. Capital	13,000
	58,000		58,000

Property, Plant & Equipment Account

Balance b/d	74,600	Depreciation	320
Revaluation Gain	2,000	Disposal - carrying value	1,400
Purchase of PPE	11,420	Balance c/d	86,300
	88,020		88,020

(b) The statement of cash flows is a useful document because it shows how much actual cash a company has generated, helps to predict future cash inflows and outflows and allows management and a company plan for the future which helps users see the positives and negatives of a company. The purpose of the statement of cash flows is to provide information about cash receipts, cash payments, and the net change in cash resulting from the operating, investing, and financing activities of a company during the period.

MARKING SCHEME

1	**(a)**	Define and discuss the qualitative characteristics of financial statements	10
	(b)	Workings	22.5
		Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position	7.5
	Total Marks – Solution1		**40**
2	**(a)**	Bank Reconciliation	16
	(b)	Differences that may occur between a bank account and a bank statement	4
	Total Marks – Solution2		**20**
3	IAS 16 – Property, Plant and Equipment (PPE)		
	Part A		
	(a)	Carrying value of Equipment	4
	(b)	Recognition of PPE	3
	(c)	(i) Accounting treatment of PPE at recognition	2
		(ii) Accounting treatment of PPE after recognition	3
	Part B		
	(b)	Accounting treatment and journal entries of a disposal of a revalued property	8
	Total Marks – Solution3		**20**
4	**(a)**	Outline 2 key differences between FRS 102 and IFRS	4
	(b)	4 main Qualitative Characteristics	16
	Total Marks – Solution 4		**20**
5	**(a)**	Operating Activities	6.5
		Investing Activities	6.5
		Financing Activities	2.0
		Cash & Cash Equivalents	0.5
		Cash on hand and balances with bank	0.5
	(b)	Briefly discuss the usefulness of Statements of Cash Flows in financial reporting	4
	Total Marks – Solution 5		**20**