CERTIFIED PUBLIC ACCOUNTANTS
CPA IRELAND

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2015

NOTES:
You are required to answer Question 1. You are also required to answer any **three** out of Questions 2 to 5. (If 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 - APRIL 2015

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 key issues that should be covered in a partnership agreement when setting up a partnership.

(10 Marks)

(b) Cosrush Limited is a company involved in the manufacture of toys for the retail industry. The following trial balance was extracted from its books as at 31 December 2014:

	Debit	Credit
	€	€
Inventory at 1 January 2014	124,000	
Admininstrative Expenses	245,800	
Building at Cost at 1 January 2014	1,200,000	
Issued Share Capital		200,000
Accumulated Depreciation - Trucks - 1 January 2014		126,000
Purchases / Revenue	1,248,600	2,146,300
Accumulated Depreciation - Fixtures & Fittings - 1 January 2014		214,600
Long-Term Loan		350,000
Income Tax	23,000	
Trade Receivables / Trade Payables	362,000	145,200
Accumulated Depreciation - Building - 1 January 2014		320,000
Trucks at Cost at 1 January 2014	246,000	
Allowance for Doubtful Debts		11,400
Revaluation Surplus		42,000
Current Tax Payable		23,000
Returns	10,000	6,000
Bank	86,400	
Fixtures & Fittings at Cost at 1 January 2014	386,000	
Distribution Costs	242,000	
Retained Earnings at 1 January 2014		589,300
	4,173,800	4,173,800

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

(i) Inventory at 31 December 2014 is €146,000. This includes obsolete inventory costing €4,240 which will be given away free to a local children's charity.

(ii) Depreciation is to be charged as follows:

Buildings	2% Straight Line on Cost
Fixtures & Fittings	15% Straight Line on Cost
Trucks	25% Reducing Balance

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

(iii) Fixtures & Fittings were sold for €30,000 on 1 December 2014. These were purchased in June 2009 for €80,000. The proceeds from the sale were included (in error) in 'Revenue' on the trial balance.

(iv) The building was revalued to €900,000 on 31 December 2014.

(v) Cosrush Limited sells toys to one of its customers and provides 90 days credit for the customer who has the option of returning the goods without charge up to the due date of payment. At the year-end, this customer owes €120,000 (which is included in the Revenue figure) to Cosrush Limited, having made one purchase in November 2014. Cosrush sells toys to this customer at cost plus a mark-up of 50%.

(vi) The current tax payable amount outstanding from 2013 was paid in full in July 2014. While the transaction was correctly recorded in the firm's bank account, the 'Income Tax' account was debited by mistake. The income tax amount for 2014 is estimated at €28,000.

(vii) The interest of 4% on the loan needs to be provided for.

(viii) Cosrush Limited wrote off additional bad debts of €5,000. The Allowance for Doubtful Debts should be set at 5%.

(ix) Cosrush Limited rented and paid for a storage warehouse for a year with the rental period commencing on 1 March 2014. The amount paid was €24,000.

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

REQUIREMENT:

Prepare, in a form suitable for publication, a Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for Cosrush Limited for the financial year-ended 31 December 2014.

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

[Total: 40 Marks]

2. Mr. Patrick Nolan, a sole trader, has asked you to prepare the receivable and payable control accounts and ensure that the closing balances match to their respective list of balances. Currently, the closing balances at 31 December 2014 are as follows:

	€
Receivables Control Account	126,845
Payables Control Account	103,240
Receivables List of Balances	123,589
Payables List of Balances	104,476

On investigation, the following has been discovered:

(i) A contra entry of €3,250 has not been included in either control account.

(ii) A bad debt of €1,680 has been written off in the list of balances but has not been included in the receivables control account.

(iii) The sales day book has been overcast by €890 and this has not been reflected in the control account.

(iv) Purchase returns to a supplier R. Groake of €256 have not been reflected in the control account.

(v) An invoice amounting to €981 for a customer K. Timmons has been entered in the sales day book as €891.

(vi) A balance due to a supplier J. Shanless amounting to €1,248 was not included in the list of balances.

(vii) A payment received from a customer T. George for €2,864 was posted to a supplier account F. Gorge by mistake. The payment was correctly accounted for in the control account.

(viii) Goods purchased from a supplier M. Whelan amounting to €3,126 have been omitted from the relevant control account.

(ix) A bad debt recovered of €300 relating to J. McKenna has not been updated in the list of balances but has been included in the control account.

REQUIREMENT:

(a) Based on the information provided above:

(i) Prepare the Receivables and Payables Control Accounts for the year-ended 31 December 2014. (10 Marks)

(ii) Prepare a statement reconciling the list of balances with the corrected control accounts for Receivables and Payables for the year-ending 31 December 2014. (7 Marks)

(b) Outline reasons why control accounts are important in a business. (3 Marks)

[Total: 20 Marks]

3.

(a) The objective of IAS 38 – *Intangible Assets* is to prescribe the accounting treatment for intangible assets that are not dealt with specifically in another Standard. IAS 38 requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets.

REQUIREMENT:

Describe:

(i) What is an Intangible Asset?

(ii) When should Intangible Assets be recognised?

(iii) On recognition, the basis for the initial measurement of intangible assets. (6 Marks)

(b) You are a recently qualified Certified Public Accountant working with Faugheen Limited (Faugheen) and you report to the financial controller. The main business of the company is to provide taxi and bus services throughout Ireland. In June 2014, Faugheen was issued 40 taxi licences for the Dublin area. The National Public Transport Authority (which is responsible for the regulation of public bus passenger and taxi services) decided in March 2015 to stop issuing new taxi licences as it was of the opinion that sufficient taxi licences have been issued to cope with the public's taxi requirements.

Initially Faugheen paid €100 for each taxi licence. Due to the National Public Transport Authority's decision, the demand for these licences increased and in April 2015 taxi licences are being freely bought and sold by the public on an online regulated taxi auction website for €500 a licence. The financial controller of Faugheen estimates that the licences will be worth €1,000 each in May 2015. Faugheen has not revalued intangible assets in previous years and the company's year-end is 31 May.

REQUIREMENT:

In planning for the year end accounts process the financial controller has asked you for a memo which addresses the following:

(i) After initial recognition, on what basis can the taxi licences be included in the financial statements for the year ended 31 May 2015?

(ii) What are the criteria for revaluation of an intangible asset?

(iii) On the basis of the information above and assuming that Faugheen will adopt a revaluation policy for intangible assets, calculate the value of the taxi licences that may be included in the financial statements for the year ended 31 May 2015 **AND** show the accounting double entry required to record this transaction.

(9 Marks)

(c) The National Public Transport Authority recently decided that all current taxi licences which previously had an infinite useful life will be valid for only five years, after which they will be invalid.

REQUIREMENT:

Assuming that Faugheen had adopted and applied a revaluation policy as per (b) (iii) above, identify and explain the accounting treatment that is necessary in its financial statements for the year ended 31 May 2015 in relation to the taxi regulator's decision **AND** show the accounting double entry required to record this transaction at the same date.

(5 Marks)

[Total: 20 Marks]

4. Ms. Dora Cooney has approached you to prepare a set of financial statements for her business as she is going to apply to the local country enterprise board for a grant to allow her to expand her confectionary business. Up to now, Dora's bookkeeping has been inadequate but she has provided the following details to you:

(i) Assets and Liabilities

	01/01/2014	**31/12/2014**
	€	**€**
Catering Equipment	10,000	14,000
Delivery Van	15,000	13,000
Inventory	3,000	4,000
Bank	6,800	?
Cash in Hand	400	250
Insurance Prepaid	1,000	1,200
Trade Payables	6,000	8,000
Light & Heat Due	300	350

(ii) Takings for the year were as follows

Cash sales were €10,000 with the balance of sales being credit sales which were all received and lodged to the bank account during 2014.

The business promptly lodges all receipts to the business in its bank account and pays all expenses by cheque except for cash payments to one supplier of €2,400 and casual labour of €1,100. Dora also took cash drawings of €50 a week for herself.

(iii) In relation to sales, Dora charges a mark-up of 50% on all purchases.

(iv) Dora purchased some equipment costing €5,000 on 1 January 2014, which was financed by a three year loan from the local credit union. Dora owes interest on the loan at the year-end. The interest rate on the loan is 5%.

(v) Bank Payments during the year were as follows:

	€
Purchases	26,000
Repairs & Maintenance	3,400
Diesel	1,200
Insurance	2,200
Light & Heat	1,600
General Expenses	400
Labour	2,150

REQUIREMENT:

Prepare:

(a) The Statement of Profit or Loss and Other Comprehensive Income for Ms. Dora Cooney for the year-ended 31 December 2014.

(11 Marks)

(b) The Statement of Financial Position for Ms. Dora Cooney as at 31 December 2014. (9 Marks)

[Total: 20 Marks]

5.

Skelug Limited is involved in the manufacture of concrete products and its financial statements are as follows:

Skelug Limited Statement of Financial Position as at 31 December 2014

	2014	2013
	€'000	€'000
Non-Current Assets		
Property, Plant & Equipment	1,830	1,461
Total Non-Current Assets	**1,830**	**1,461**
Current Assets		
Inventories	262	289
Trade Receivables	161	146
Cash & Cash Equivalents	98	81
Total Current Assets	**521**	**516**
Total Assets	**2,351**	**1,977**
Equity & Liabilities		
Equity		
Share Capital	300	200
Share Premium	50	20
Retained Earnings	1,451	1,277
Revaluation Surplus	74	120
Total Equity	**1,875**	**1,617**
Non-Current Liabilities		
Long Term Loan	280	200
Total Non-Current Liabilities	**280**	**200**
Current Liabilities		
Trade Payables	148	116
Bank Overdraft	10	18
Current Tax Payables	38	26
Total Current Liabilities	**196**	**160**
Total Equity & Liabilities	**2,351**	**1,977**

Skelug Limited Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2014

	€'000
Revenue	4,300
Cost of Sales	(3,600)
Gross Profit	700
Distribution Costs	(176)
Administration Expenses	(124)
Finance Costs	(42)
Profit before Tax	**358**
Income Tax Expense	(46)
Profit for the Year	**312**
Other Comprehensive Income	
Losses on Property Revaluations, net of tax	(46)
Total Comprehensive Income for the year, net of tax	**266**

(Question 5 continued on Next Page)

(Question 5 Continued)

Notes:

(i) Property, Plant & Equipment with a carrying value of €320,000 was sold for €280,000. This asset had originally cost €450,000.

(ii) Depreciation of Property, Plant & Equipment during the year amounted to €356,000.

(iii) Dividends paid during the year amounted to €138,000 and are reported in the Statement of Changes in Equity.

REQUIREMENT:

Prepare a Statement of Cash Flows for the year-ended 31 December 2014 for Skelug Limited in accordance with IAS 7 *Statement of Cash Flows.*

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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SOLUTION 1

(a) Items that should be included in a partnership agreement include the following:

i) **Capital.**
The partnership agreement should state how much each partner is putting into and leaving in the partnership.

ii) **Profit-sharing Ratio**
The partnership agreement should include how any profits are to be split between the various partners.

iii) **Interest on Capital and Drawings**
The agreement should disclose the interest rate that partners are entitled to, based on the amount of capital invested in the partnership, or the interest to be paid to the partnership based on drawings from the partnership. If no interest on capital or drawings is being paid/received, this should be included in the partnership agreement.

iv) **Partners Salaries**
The agreement should state what, if any, and when salaries are to be paid to partners.

v) **Drawings**
The partnership agreement should include details of the amount of drawings allowed by the partnership to partners.

vi) **Goodwill**
The partnership agreement should state whether the business will be valued and goodwill allowed to be brought into the partnership accounts or not.

vii) **Admittance/Amalgamation/Dissolution of Partnership**
The partnership agreement should include details on these three aspects of the partnership.

(10 Marks)

(b) **Cosrush Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2014**

		€	€	€	€	
Revenue	**TB + W1.iii + W1.v**	2,146,300 -	30,000 -	120,000	**1,996,300**	**0.25**
- Revenue Returns	**TB**				- 10,000	**0.25**
Cost of Sales	**W2**				- 1,144,840	
Gross Profit					**841,460**	**0.25**
Profit on Disposal	**W3**			- 10,000		**0.25**
Finance Costs	**W1.vii**			14,000		**0.25**
Distribution Costs	**W2**			292,675		
Administrative Expenses	**W2**			296,475	593,150	**0.25**
Profit/(Loss) before Tax					**248,310**	**0.25**
Income Tax Expense	**TB + W1.vi**	23,000 -	23,000	28,000	28,000	**0.25**
PROFIT/(LOSS) FOR THE YEAR					**220,310**	**0.25**
Other Comprehensive Income						
Revaluation Gain	**W3**				44,000	**0.25**
Other Comprehensive Income for the year, net of tax					**44,000**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					**264,310**	**0.25**

Cosrush Limited Statement of Financial Position as at 31st December 2014

		€	€	€	€	
Property, Plant & Equipment	**W3**				1,095,500	**0.25**
Total Non-Current Assets					**1,095,500**	**0.25**
Current Assets						
Inventories	**W1.i + W1.v**		141,760	80,000	221,760	**0.25**
Trade Receivables	**W1.v + W1.viii**				225,150	**0.50**
Prepayments	**W1.ix**				4,000	**0.25**
Cash & Cash Equivalents	**TB + W1.iii**				86,400	**0.25**
Total Current Assets					**537,310**	**0.25**
TOTAL ASSETS					**1,632,810**	**0.25**
Equity & Liabilities						
Equity						
Share Capital					200,000	**0.25**
Retained Earnings	**W1.ix + W1.viii**		589,300	220,310	809,610	**0.25**
Revaluation Surplus	**W3**		42,000	44,000	86,000	**0.25**
Total Equity					**1,095,610**	**0.25**
Non-Current Liabilities						
Long-term Loan					350,000	**0.25**
Total Non-Current Liabilities					**350,000**	
Current Liabilities						
Trade Payables	**TB + W1.iii**				145,200	**0.25**
Current Tax Payable	**TB + W1.vi**	23,000 -	23,000	28,000	28,000	**0.25**
Accruals	**W1.vii**				14,000	**0.25**
Total Current Liabilities					**187,200**	**0.25**
TOTAL EQUITY & LIABILITIES					**1,632,810**	**0.25**
					TOTAL MARKS	**7.50**

			Working - Journal Entries				
		Working - Closing Inventory	**€**	**€**			
		Total Inventories at Cost per Inventory Count		146,000			
		Damaged Inventories - Cost	4,240				
		NRV - Selling Price less costs to sell	-				
		Inventory Write Down		4,240			
		Value of Closing Inventories		141,760			**0.50**
					€	**€**	
1.i	**Dr.**	Inventory	+ Current Assets	SOFP	141,760		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		141,760	
1.iii	**Dr.**	Revenue	- Income	SOPL & OCI	30,000		
	Cr.	Disposal Account - Fixtures & Fittings				30,000	
	Dr.	Disposal Account - Fixtures & Fittings			80,000		**2.00**
	Cr.	Property, Plant & Equipment (PPE)	- Non-Current Assets	SOFP		80,000	
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	60,000		
	Cr.	Disposal Account - Fixtures & Fittings				60,000	
	Dr.	Disposal Account - Fixtures & Fittings			10,000		
	Cr.	Profit on Disposal		SOPL & OCI		10,000	
1.v		Per IAS 18 Revenue, this is not a sale as the risks and rewards have not been transferred to the customer until the option of the sale or return is finished i.e. after the 90 days. Therefore, the following entries are necessary					
	Dr.	Revenue	- Income	SOPL & OCI	120,000		**1.00**
	Cr.	Trade Receivables	- Current Assets	SOFP		120,000	
	Dr.	Inventory	+ Current Assets	SOFP	80,000		**1.00**
	Cr.	Inventory	- Cost of Sales	SOPL & OCI		80,000	
		Revenue Amount			120,000		
		Mark-up - 50% on Cost		50%	40,000		**1.00**
		Cost			80,000		
1.vi	**Dr.**	Current Tax Payable	- Current Liabilities	SOFP	23,000		
	Cr.	Income Tax	- Expenses	SOPL & OCI		23,000	**1.00**
	Dr.	Income Tax	+ Expenses	SOPL & OCI	28,000		
	Cr.	Current Tax Payable	+ Current Liabilities	SOFP		28,000	**1.00**
1.vii	**Dr.**	Finance Costs	+ Expenses	SOPL & OCI	14,000		
	Cr.	Accruals	+ Current Liabilities	SOFP		14,000	**1.00**
		Loan Amount			350,000		
		Interest on Loan - 4%		4%	14,000		
1.viii	**Dr.**	Bad Debt Write Off	+ Expenses	SOPL & OCI	5,000		**1.00**
	Cr.	Trade Receivables	- Current Assets	SOFP		5,000	
	Dr.	Allowance for Doubtful Debts	+ Expenses	SOFP	450		
	Cr.	Allowance for Doubtful Debts	- Current Assets	SOFP		450	**1.00**
		Trade Receivables	Balance per TB		362,000		
		- Disallowed Revenue		W1.v	- 120,000		
		- Bad Debt Written Off		W1.viii	- 5,000		
					237,000		
		- Allowance for Doubtful Debts - 5%			- 11,850		
		Revised Trade Receivable			**225,150**		**1.00**
		Current Allowance for Doubtful Debts	TB		11,400		
		New Allowance for Doubtful Debts	See Above		11,850		
		Increase in Allowance for Doubtful Debts			450		
1.ix	**Dr.**	Prepayments	+ Current Assets	SOFP	4,000		
	Cr.	Rent	- Expenses	SOPL & OCI		4,000	**1.00**
		Rent - 01.03.14 - 28.02.15			24,000		
		2 Months Prepaid		2/12	4,000		
						CURRENT MARKS	**13.50**

Working 2 - Expenses		Cost of Sales	Distribution Costs	Administration Expenses		
Opening Inventory	**Per TB**	124,000	-	-		**Cost of**
Purchases	**Per TB**	1,248,600	-	-		**Sales**
- Purchases Returns	**Per TB**	- 6,000				
Closing Inventory	**W1.i**	- 141,760	-	-		**1.50**
Write back into inventory of disallowed revenue	**W1.v**	- 80,000				
Expenses	**Per TB**	-	242,000	245,800	487,800	**Distribution**
Bad Debt Write Off	**W1.viii**	-	2,500	2,500	5,000	**Costs**
Allowance for Doubtful Debts	**W1.viii**	-	225	225	450	**1.50**
Rent	**W1.ix**	-	- 2,000	- 2,000	- 4,000	
Depreciation - Buildings	**W3**	-	12,000	12,000	24,000	**Admin.**
Depreciation - Plant & Equipment	**W3**	-	22,950	22,950	45,900	**Expenses**
Depreciation - Office Equipment	**W3**	-	15,000	15,000	30,000	**1.50**
Total		**1,144,840**	**292,675**	**296,475**		

Working 3 - Property, Plant & Equipment		Buildings	Fixtures & Fittings	Trucks	Total	
		€	€	€	€	
Cost	**Per TB**	1,200,000	386,000	246,000	1,832,000	
- Accumulated Depreciation b/d	**Per TB**	- 320,000	- 214,600	- 126,000	- 660,600	
Carrying Value b/d at 1st January 2014		880,000	171,400	120,000	1,171,400	**0.50**
Disposal - Cost	**W1.iii**	-	- 80,000	-	- 80,000	**0.50**
Disposal - Accumulated Depreciation	**Note 1**	-	60,000	-	60,000	**0.50**
		880,000	151,400	120,000	1,151,400	
Depreciation - Buildings - 2% Straight Line		- 24,000	-	-	- 24,000	**0.50**
Depreciation - Fixtures & Fittings - 15% Straight Line		-	- 45,900	-	- 45,900	**0.50**
Depreciation - Trucks - 25% of Reducing Balance		-	-	- 30,000	- 30,000	**0.50**
		856,000	105,500	90,000	1,051,500	
Revaluation Gain	**Note 2**	44,000	-	-	44,000	**0.50**
Carrying Value c/d at 31st December 2014		**900,000**	**105,500**	**90,000**	**1,095,500**	

Note 1 - Disposal of Equipment

Cost		80,000
Accumulated Depreciation - 15% straight line per annum		
Depreciation 2009	12,000	
Depreciation 2010	12,000	
Depreciation 2011	12,000	
Depreciation 2012	12,000	
Depreciation 2013	12,000	
	60,000	- 60,000
Carrying Value of Equipment disposed		20,000

Disposal Account

Cost	80,000	Accumulated Depreciation	60,000
		Disposal Proceeds	30,000
Profit on Disposal	10,000		
	90,000		90,000

Note 2 - Revaluation Gain

Dr.	Property, Plant & Equipment	+ Non-Current Assets	SOFP	44,000		
Cr.	Revaluation Surplus	+ Equity	SOFP		44,000	**1.00**

CURRENT MARKS	**9.00**
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
	€	€	€	€	€	€	€	€
Inventory at 1 January 2014	124,000		80,000	80,000	124,000	221,760	221,760	
Admininstrative Expenses	245,800		52,675	2,000	296,475			
Building at Cost at 1 January 2014	1,200,000		44,000				1,244,000	
Issued Share Capital		200,000						200,000
Accumulated Depreciation - Trucks - 1 January 2014		126,000		30,000				156,000
Purchases / Revenue	1,248,600	2,146,300	150,000		1,248,600	1,996,300		
Accumulated Depreciation - Fixtures & Fittings - 1 January 2014		214,600	60,000	45,900				200,500
Long-Term Loan		350,000						350,000
Income Tax	23,000		28,000	23,000	28,000			
Trade Receivables / Trade Payables	362,000	145,200		125,000			237,000	145,200
Accumulated Depreciation - Building - 1 January 2014		320,000		24,000				344,000
Trucks at Cost at 1 January 2014	246,000						246,000	
Allowance for Doubtful Debts		11,400		450				11,850
Revaluation Surplus		42,000		44,000				86,000
Current Tax Payable		23,000	23,000	28,000				28,000
Returns	10,000	6,000			10,000	6,000		
Bank	86,400						86,400	
Fixtures & Fittings at Cost at 1 January 2014	386,000			80,000			306,000	
Distribution Costs	242,000		52,675	2,000	292,675			
Retained Earnings at 1 January 2014		589,300			220,310			809,610
Profit on Disposal of Fixtures & Fittings				10,000		10,000		
Finance Costs			14,000		14,000			
Accruals				14,000				14,000
Prepayments			4,000				4,000	
	4,173,800	4,173,800	508,350	508,350	2,234,060	2,234,060	2,345,160	2,345,160

SOLUTION 2
(a)
(i)

Mr. M. Nolan Receivables Control Account

Dr.		Cr.		Marks
Balance	126,845			0.50
Sales Day Book Error (981 - 891)	90	Contras	3,250	2.00
		Bad Debt Written Off	1,680	1.00
		Sales Day Book	890	1.00
		Balance C/d	121,115	1.00
	126,935		126,935	
Balance B/d	121,115		-	

Mr. M. Nolan Payables Control Account

Dr.		Cr.		Marks
		Balance	103,240	0.50
Contras	3,250	Purchases - M. Whelan	3,126	2.00
Purchases Returns - R. Groake	256			1.00
Balance C/d	102,860			1.00
	106,366		106,366	
		Balance B/d	102,860	

TOTAL MARKS		**10.00**

(ii) List of Individual Receivable Balances

Original Balance	123,589	0.50
Sales Day Book Error (981 - 891)	90	1.00
Receipt - T. George	- 2,864	1.00
Bad Debt Recovered	300	1.00
Closing Adjusted Balance	**121,115**	0.50

List of Individual Payable Balances

Original Balance	104,476	0.50
J. Shanless Omitted Balance	1,248	1.00
Receipt - T. George	- 2,864	1.00
Closing Adjusted Balance	**102,860**	0.50

TOTAL MARKS		**7.00**

(b)

- Control accounts provide a check on the accuracy of entries made in the personal accounts in the receivables and payables ledger. It is very easy to make a mistake in posting entries, because there might be hundreds of entries to make. Figures can get transposed. Some entries might be omitted altogether so that an invoice or a payment transaction does not appear in a personal account as it should. By comparing the total on the receivables/payables control account with the total of individual balances on the personal accounts in the receivables/payables ledger, it is possible to identify that fact that errors have been made.

- Control accounts also assists in the location of errors where postings are made daily, weekly or even monthly. If a person fails to record an invoice or a payment in a personal account or makes a transposition error, it would be a formidable task to locate the error or errors at the end of a year. By using the control account, a comparison with the individual balances in the receivable or payables ledger can be made for every week or day of the month, and the error found much more quickly that if control accounts did not exist.

- Where there is a separation of duties, the control account provides an internal check. The person posting entries to the control accounts will act as a check on a different person whose job it is to post entries to the receivables/payables ledger accounts.

- To provide total receivables/payables balances more quickly for producing a trial balance or statement of financial position as a single balance is extracted more simply and quickly than many individual balances in the receivable/payables ledger.

(3 Marks)

[Total: 20 Marks]

SOLUTION 3

REPORT
To: Financial Controller – Faugheen Limited
From: Future Financial Accountant
Re: IAS 38 – Intangible Assets
Date: April 2015

(a) i) Paragraph 8 of IAS 38 states that an intangible asset is an identifiable non-monetary asset without physical substance

ii) Per paragraph 21 of IAS 38, intangible assets shall be recognised if, and only if:

a) It is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
b) The cost of the asset can be measured reliably.

iii) On recognition, intangible assets should be measured at cost as per paragraph 24 of IAS 38.

(6 Marks)

(b) i) After initial recognition, an intangible asset shall be carried at it cost loss any accumulated amortisation and any accumulated impairment losses as per paragraph 74 of IAS 38 or as per paragraph 75 of IAS 38, an intangible asset shall be carried at a revalued amount being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

ii) Paragraph 75 of IAS 38 states that revaluations must be at fair value at the date of the revaluation by reference to an active market. Revaluations shall be made with regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value. An active market is a market where all the following conditions exist;

a) The items traded are identical;
b) Willing buyers and sellers can normally be found at any time;
c) Prices are available to the public.

iii) If Faugheen Limited wishes to revalue the taxi licences in its financial statements for the year ended 31 December 2014, it should include the taxi licences at €500 each i.e. 40 x €500 = €20,000. The €500 is the freely available price which any member of the public can avail of on the active market for taxi licences

The double entry is as follows:

Dr.	Intangible Assets – Non-Current Assets - SOFP	€16,000
Cr.	Revaluation Surplus – Equity – SOFP	€16,000

The revaluation surplus on the intangible assets will also be shown in Other Comprehensive Income of the Statement of Profit or Loss and Other Comprehensive Income

(9 Marks)

(c) Per paragraph 97 of IAS 38, the depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use and shall cease at the earlier of the date that the asset is classified as held for sale or when the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity which if this pattern cannot be determined reliably, then the straight line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless this or another standard permits or requires it to be included in the carrying amount of another asset.

Faugheen Limited taxi licences have a useful life of five years and consequently, the licences need to be amortised in its financial statements over the five years. Given the taxi licences have been revalued to €20,000, the licences will be amortised to the amount of €4,000 per annum over the next five years i.e. €20,000/5 years. The double entry is as follows:

Dr.	Amortisation of Intangible Assets – Expenses – P/L – SOPL & OCI	€4,000
Cr.	Intangible Assets – Non-Current Assets – SOFP	€4,000

(5 Marks)

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

Yours sincerely,

Financial Accountant

[Total: 20 Marks]

SOLUTION 4

a) **Ms. Dora Cooney SOPL&OCI for the year-ended 31 December 2014**

		€	€	€	
Revenue	**Note 2**			**45,600**	**1.00**
Cost of Sales					
Opening Inventory			3,000		**0.50**
+ Purchases	**Note 1**		30,400		**2.00**
- Closing Inventory			- 4,000		**0.50**
Cost of Sales Total				29,400	**0.50**
Gross Profit				**16,200**	**0.25**
Expenses					
Repairs & Maintenance			3,400		**0.50**
Diesel			1,200		**0.50**
Insurance	**Note 3**		2,000		**1.00**
Light & Heat	**Note 4**		1,650		**1.00**
General Expenses			400		**0.50**
Depreciation			3,000		**1.00**
Interest on Loan	**(5,000 * 5%)**		250		**0.50**
Labour			3,250		**0.50**
Total Expenses				**15,150**	**0.50**
Net Profit				**1,050**	**0.25**
				SUBTOTAL MARKS	**11.00**

Note 1 - Purchases Calculation

T. Payables Account

Bank Payments	26,000	Balance B/D	6,000
		Purchases - Balancing Figure	28,000
Balance C/D	8,000		
	34,000		34,000
		Balance B/D	8,000

Purchases on Credit	28,000
Cash Purchases	2,400
Overall Purchases	30,400

Note 2 - Revenue Calculation

Mark Up is 50% on Purchases	15,200
Revenue	**45,600**

Note 3 - Insurance Calculation

Insurance Account

Balance B/D	1,000	**Expense - Balancing Figure**	2,000
Bank Payment	2,200	Balance C/D	1,200
	3,200		3,200
Balance B/D	1,200		

Note 4 - Light & Heat Calculation

Light & Heat Account

Bank Payments	1,600	Balance B/D	300
		Expense - Balancing Figure	1,650
Balance C/D	350		
	1,950		1,950
		Balance B/D	350

Bank Lodgments Calculation using Cash Account

Cash Account

Balance B/D	400	Casual Labour	1,100
		Purchases for Resale	2,400
Cash Sales	10,000	Drawings - Bal. Fig.	2,600
		Bank Lodgments - Bal. Fig.	**4,050**
		Balance C/D	250
	10,400		10,400
Balance B/D	250		

Bank Account

Balance B/D	6,800	Purchases	26,000
		Repairs & Maintenance	3,400
		Diesel	1,200
		Insurance	2,200
Bank Lodgments - Credit Sales	35,600	Light & Heat	1,600
Bank Lodgments - Cash	4,050	General Expenses	400
		Labour	2,150
		Balance C/D	9,500
	46,450		46,450
Balance B/D	9,500		

b) **Ms. Dora Cooney Statement of Financial Position as at 31 December 2014**

Non-Current Assets					
PPE	27,000			0.50	
Total Non-Current Assets		**27,000**			
Current Assets					
Inventory	4,000			0.50	
Trade Receivables	-				
Cash & Cash Equivalents	9,750			2.00	
Prepayment	1,200			0.50	
Total Current Assets		**14,950**			
Total Assets			**41,950**	0.50	
Equity & Liabilities					
Capital & Reserves					
Capital	29,900	**Note 1**		2.00	
Drawings	- 2,600			0.50	
Retained Earnings	1,050			0.50	
Total Capital & Reserves		28,350			
Non-Current Liabilities					
Credit Union Loan	5,000			0.50	
Total Non-Current Liabilities		5,000			
Current Liabilities					
Trade Payable	8,000			0.50	
Accruals - Light & Heat Due	350			0.50	
Accruals - Interest on Loan Due	250			0.50	
Total Current Liabilities		8,600			
Total Equity & Liabilities			**41,950**		
			SUBTOTAL MARKS	**9.00**	
			OVERALL MARKS	**20.00**	

Note 1 - Ms. Dora Cooney Statement of Financial Position as at 1 January 2014

Non-Current Assets			
PPE	25,000		
Total Non-Current Assets		**25,000**	
Current Assets			
Inventory	3,000		
Trade Receivables	-		
Cash & Cash Equivalents	7,200		
Prepayment	1,000		
Total Current Assets		**11,200**	
Total Assets			**36,200**
Equity & Liabilities			
Capital & Reserves			
Capital - Balancing Figure	29,900		
Total Capital & Reserves		29,900	
Non-Current Liabilities			
Total Non-Current Liabilities		-	
Current Liabilities			
Trade Payable	6,000		
Accruals	300		
Total Current Liabilities		6,300	
Total Equity & Liabilities			**36,200**

SOLUTION 5

(a)

Skelug Limited Statement of Cash flows for the year ended 31st December 2014

Cash flows from Operating Activities		**€'000**	**€'000**	
Profit before Taxation		358		**1.00**
Adjustments for				
Depreciation		356		**1.00**
Loss on Sale of PPE		40		**1.00**
Interest Expense		42		**1.00**
		796		
Increase in Trade Receivables		- 15		**1.00**
Decrease in Inventory		27		**1.00**
Increase in Trade Payables		32		**1.00**
Cash Generated from Operations		840		
Interest Paid		- 42		**0.50**
Income Taxes Paid		- 34		**1.50**
Net Cash from Operating Activities			**764**	**1.00**
Cash flows from Investing Activities				
Payments to acquire Property, Plant & Equipment		- 1,091		**3.00**
Receipts from sale of Property, Plant & Equipment		280		**1.00**
Net Cash used in Investing Activities			**- 811**	**1.00**
Cash flows from Financing Activities				
Proceeds from Issue of Shares		130		**1.00**
Payments to due to Increase in Long Term Loans		80		**1.00**
Dividends Paid		- 138		**1.00**
			72	**1.00**
Net Increase in Cash & Cash Equivalents			**25**	
Cash & Cash Equivalents at beginning of Year	**Note 1**		**63**	
Cash & Cash Equivalents at end of Year	**Note 1**		**88**	**1.00**
Note 1		**2014**	**2013**	
		€'000	**€'000**	
Cash on hand and balances with bank		98	81	
Bank Overdraft		- 10	- 18	
Cash and Cash Equivalents		88	63	
			TOTAL MARKS	**20.00**

Loss on Sale of PPE		**€'000**
Cost		450
- Accumulated Depreciation	-	130
Carrying Value at date of sale		320
Sales Proceeds		280
Loss on Sale of PPE		**40**

Interest Account

Balance b/d	-	Expense - SOPL & OCI	42
Interest Paid	42	Balance c/d	-
	42		42

Income Tax Account

Corporation Tax Paid	34	Balance b/d	26
Balance c/d	38	Expense - SOPL & OCI	46
	72		72

Share Capital Account

		Balance b/d - S. Capital	200
		Balance b/d - S. Premium	20
Balance c/d - S. Capital	300		
Balance c/d - S. Premium	50	Proceeds from Issue of S. Capital	130
	350		350

Property, Plant & Equipment Account

Balance b/d	1,461	Depreciation	356
		Disposal - carrying value	320
		Revaluation Loss	46
Purchase of PPE	1,091	Balance c/d	1,830
	2,552		2,552

MARKING SCHEME

SOLUTION 1

(a)	Briefing note on any 2 – 2 x 5 marks each	10
(b)	Workings	22.5
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position	7.5
	Total Marks	**40**

SOLUTION 2

(a)	Receivable and Payable Control Account	10
(b)	Reconciling list of balances with control account for receivables and payables	7
(c)	The importance of control accounts in a business	3
	Total Marks	**20**

SOLUTION 3

(a)	Definition of an Intangible Asset	2
	Recognition of an intangible asset	2
	Measurement on recognition of an intangible asset	2
(b)	Basis of inclusion of an intangible asset after initial recognition	2
	Criteria for revaluation of an intangible assets	2
	Value placed on taxi licences	3
	Double Entry	2
(c)	Accounting treatment necessary relating to scenario	3
	Double Entry	2
	Total Marks	**20**

SOLUTION 4

(a)	Statement of Profit or Loss and Other Comprehensive Income	11
(b)	Statement of Financial Position	9
	Total Marks	**20**

SOLUTION 5

Operating Activities	10
Investing Activities	5
Financing Activities	4
Cash & Cash Equivalents	1
Total Marks	**20**