CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2016

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 - APRIL 2016

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 fundamental differences between a company and a partnership. (10 Marks)

(b) Rubroc Limited is a company involved in the distribution of quarry material for the construction and agricultural industries. The following trial balance was extracted from their books as at 31 December 2015:

	Debit	**Credit**
	€	**€**
Accumulated Depreciation - Building - 1 January 2015		34,750
Accumulated Depreciation - Office Equipment - 1 January 2015		26,840
Accumulated Depreciation - Trucks - 1 January 2015		350,000
Admininstrative Expenses	103,510	
Allowance for Trade Receivables		10,574
Bank	267,410	
Building at Cost at 1 January 2015	241,020	
Current Tax Payable		16,500
Distribution Costs	754,210	
Income Tax	13,640	
Inventory at 1 January 2015	nil	
Issued Share Capital - 100,000 at €1.50 each		150,000
Land	240,000	
Office Equipment at Cost at 1 January 2015	42,400	
Purchases / Purchase Returns	1,236,570	10,869
Retained Earnings at 1 January 2015		593,119
Revenue Returns / Revenue	14,570	2,478,560
Revaluation Surplus		64,851
Share Premium		30,000
Trade Payables		324,867
Trade Receivables	487,600	
Trucks at Cost at 1 January 2015	690,000	
	4,090,930	4,090,930

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

(i) Expenses are to be allocated evenly between Distribution Costs and Administrative Expenses unless otherwise stated. Interest on loans is to be included in Finance Costs.

(ii) There is no closing inventory.

(iii) Depreciation is to be charged as follows:

Land	Not Depreciated
Buildings	See Part v below
Office Equipment	20% Reducing Balance
Trucks	25% Straight Line on Cost

Depreciation is calculated monthly from date of purchase to the date of sale.

(iv) A truck was involved in an accident on 1 May 2015 and had to be scrapped. €15,000 was received for the scrappage of this truck. This amount was lodged to the bank account. The truck had originally cost €75,000 on 1 September 2013. Rubroc Limited replaced the truck by purchasing a new truck costing €80,000 on 1 July 2015.

(v) The new truck in part (iv) above was partially paid for by Rubroc Limited by cheque and by taking out a long term loan of €60,000 carrying interest at 6% per annum which was not paid for by year-end.

(vi) The building was revalued on 1 January 2015 by a professional valuer who valued the building at €200,000. The valuer places a useful economic life of twenty years from 1 January 2015 and that the residual value of the building in twenty year's time would be €50,000.

(vii) A customer of Rubroc Limited is suing the company, claiming that incorrect material was delivered. Rubroc Limited's solicitor has advised that it is more likely than not the company will be found liable. This would result in Rubroc Limited being required to pay court and legal fees of €15,000. The judge in the case will decide on damages. There is an 80% chance that the damages would be €100,000 whereas there is a 20% chance the damages would be €60,000. Rubroc Limited intends to sue the quarry which it purchased the material from for €80,000. The quarry disputes this claim by Rubroc Limited.

(viii) The income tax amount for the 2015 year included in the above trial balance is incorrect and should be €18,900. This amount was paid in March 2016.

(ix) A VAT refund of €6,000 relating to purchases has not been accounted for. This amount was received in February 2016.

(x) Rubroc Limited wrote off bad debts of €7,200. The Allowance for Doubtful Debts should be set at 4%.

(xi) Rubroc Limited had amounts owing at the year-end for Administrative Expenses and Distribution Costs of €2,860 and €14,520 respectively.

REQUIREMENT:

Prepare, in a form suitable for publication, a Statement of Profit or Loss and Other Comprehensive Income and a Statement of Financial Position for Rubroc Limited for the financial year-ended 31 December 2015.

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

[Total: 40 Marks]

2. The bank account of Collatc Limited for the month of December 2015 was as follows:

Dr.		**Bank Account of Collatc Limited**				**Cr.**
Date	**Receipts**	**€**	**Date**	**Payments**	**Cheque No.**	**€**
01/12/2015	Balance b/d	28,754	01/12/2015	T. O'Sullivan	8754	147
05/12/2015	R. Green	1,540	07/12/2015	P. Condon	8755	548
07/12/2015	D. Lynch	8,754	09/12/2015	Electricity	D.D.	249
14/12/2015	Cash Lodgement	1,500	10/12/2015	T. White	8756	457
19/12/2015	Rach Limited	3,245	14/12/2015	Bank Charges	D.D.	30
31/12/2015	T. O'Carroll	890	16/12/2015	B. Purcell	8757	1,654
			21/12/2015	G. Foley	8758	290
			22/12/2015	Maheraly Limited	S.O.	620
			25/12/2015	T. Brennan	8759	1,499
			30/12/2015	K. Houlihan	8760	2,147
			31/12/2015	Balance c/d		37,042
		44,683				44,683
01/01/2016	Balance b/d	37,042				

	Bank Statement for Collatc Limited for December 2015				
Date	**Description**	**Details**	**Payments**	**Lodgment**	**Balance**
			€	**€**	**€**
01/12/2015	Balance				28,471
02/12/2015	Lodgement			670	29,141
07/12/2015	Lodgement			1,450	30,591
08/12/2015	Cheque	8751	245		30,346
09/12/2015	Cheque	8754	147		30,199
09/12/2015	Electricity	D.D.	249		29,950
11/12/2015	Lodgement			8,754	38,704
13/12/2015	Cheque	8753	142		38,562
14/12/2015	Bank Charges	D.D.	30		38,532
16/12/2015	Cheque	8756	475		38,057
18/12/2015	Lodgement			1,500	39,557
20/12/2015	Lodgement			3,254	42,811
21/12/2015	Cheque	8758	290		42,521
22/12/2015	Maheraly Limited	S.O.	620		41,901
23/12/2015	1245785621			999	42,900
26/12/2015	Gas	D.D.	486		42,414
28/12/2015	Rates	D.D.	1,600		40,814
31/12/2015	Credit Transfer			2,451	43,265

Due to a computer glitch, the bank has admitted that it made an error in the account of Collatc Limited on the 23 December 2015.

REQUIREMENT:

(a) Prepare the bank reconciliation statement for Collatc Limited at the 31 December 2015. (18 Marks)

(b) Explain why the bank statement is usually taken as being more accurate than the details that appear in the company's own records.

(2 Marks)

[Total: 20 Marks]

3.

(A) Durine Limited is a company involved in building wind farms in Ireland. The financial controller has asked you, a newly qualified CPA for some help in correctly accounting for property, plant and equipment (PPE) within the company for the financial year ending 31 December 2015.

The following costs have occurred on a wind farm site:

	€
Preparation of Site	80,000
Annual maintenance once operational	30,000
VAT on materials (recoverable)	120,000
Staff training on correctly operating the wind farm once operational	25,000
Import Duty on materials purchased	28,000
Initial Surveying of site	40,000
Project manager's salary to build and manage the wind farm	140,000
Wages of employees to build the wind farm	300,000
Annual wages of employees once the wind farm is operating	100,000
Testing costs	60,000
Materials purchased for wind farm net of VAT	250,000
Discount received on materials purchased	33,000

REQUIREMENT:

(a) Calculate the amount that should be capitalised as property, plant and equipment for the above wind farm. (5 Marks)

(b) In accordance with IAS 16 – *Property, Plant & Equipment* explain the accounting treatment allowed for the measurement of PPE:

(i) At recognition;

(ii) After recognition. (3 Marks)

(c) In the context of IAS 16 – *Property, Plant & Equipment*:

(i) Discuss what is meant by the term 'Fair Value';

(ii) How can the fair value of a building be determined? (3 Marks)

(B) Durine Limited's head office building is the only building it owns. Using professional valuers, it revalued this building on 1 January 2015, at €2,100,000. Durine Limited has adopted a revaluation policy for buildings from this valuation date and has decided that the original useful life of buildings has not changed as a result of the revaluation. The building was acquired on 1 January 2005. The cost of the building on acquisition was €2,500,000 and the accumulated depreciation to the 31 December 2014 amounted to €500,000. The depreciation up to 1 January 2015 was depreciated evenly since acquisition. The professional valuer believes that the residual value on the building would be €600,000 at the end of its useful life.

REQUIREMENT:

In accordance with IAS 16 – *Property, Plant & Equipment*:

(i) How should the depreciable amount of an asset be allocated? (1 Mark)

(ii) How often should the residual value and the useful life of an asset be reviewed? (1 Mark)

(iii) Calculate the depreciation amount of the building for the year ending 31 December 2015 based on the information provided in the above scenario. (7 Marks)

[Total: 20 Marks]

4. Terry and Thomas are in partnership sharing profits and losses 2:1. They had originally invested €50,000 and €40,000, respectively. Their current account balances on 1 January 2015 were €14,000 credit for Terry and €9,900 debit for Thomas.

The partnership agreement specifies the following:

1) The payment of interest on drawings and receipt of interest on capital at the rate of 5% per annum and 3% per annum, respectively.
2) The partners take drawings in the same proportion as they share profits or losses. Terry takes drawings of €2,400 a month with Thomas taking the amount of drawings as allowed by the partnership rules.
3) Thomas is entitled to take a salary of €2,000 a month.
4) The interest on drawings is calculated as if the drawings for the six month period had been taken in full on the first day of the period.

On 1 July 2015, Terry decides to retire. Both partners agree to have the partnership valued and bring in the resultant goodwill into the partnership. Terry agrees to leave €30,000 of his capital as a loan to the business earning interest at the rate of 4% per annum and to withdraw the balance of what is owing to him. An independant expert values the goodwill on 1 July at €90,000.

On 1 July, Thomas decides to enter a new partnership with Toby where they share profits or losses 3:1. They decided to keep the same interest rates from the previous partnership agreement in relation to drawings and capital. Thomas's salary was changed to €2,200 a month. From this period to the year-end, Thomas took drawings of €10,000 and Toby took drawings of €5,000. Toby introduced capital of €25,000 on his admission to the partnership. The goodwill was cancelled in the same proportion as they share profits or losses.

The profits for the year amounted to €108,000 and these profits occurred evenly throughout the year.

REQUIREMENT:

For the year ended 31 December 2015:

(a) Prepare the Profit & Loss Appropriation Accounts. (12 Marks)

(b) Post to and balance the Current Account of all the individual partners. (8 Marks)

[Total: 20 Marks]

5. Redona Limited operates a hotel in Dublin and the following is its results for the last three years with its year end being 31 December.

	2013	**2014**	**2015**
Revenue increase / (decrease)	(5%)	4%	12%
Non-Current Assets increase / (decrease)	40%	10%	2%
Gross Profit	60%	61%	66%
Net Profit	23%	25%	21%
Return on Capital Employed	12%	15%	10%
Current Ratio	1.4:1	1.6:1	1.8:1
Acid Ratio	0.6:1	1.0:1	0.9:1
Debt to Equity Ratio	50%	44%	43%
Dividend Cover	4 times	8 times	10 times

REQUIREMENT:

(a) Using all of the above information, comment on the performance of Redona Limited from 2013 to 2015.

(12 Marks)

(b) Identify and explain the main advantages of ratio analysis as a means of assessing the financial performance of a business.

(5 Marks)

(c) Comment on the use of the Gross Profit ratio to the service industry. (3 Marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

(a) Discuss the differences that exist between a company and a partnership.

Name – A partnership cannot use the word “limited” in its name.

No separate legal personality – a partnership has no separate legal personality, separate from its partners/members of the partnership. However, a company does have a separate personality from its shareholders. A company owns its property, not the shareholders. Partners own the partnership property.

Unlimited Personal Liability– a partnership has unlimited liability for all the debts of the firm (except under the Limited Partnership Act 1907) whereas shareholders in a company have liability limited.

Succession – when one partner dies, the partnership is dissolved unless the partnership agreement provides otherwise. However, a company has “perpetual succession”. Shareholders may die but the company continues until it is wound up.

Management – a partnership is managed by the partners together – they are the shareholders, managers and workers. A company is managed by the directors not the shareholders.

Shares – partners have a share in a partnership as agreed between them. A partner’s share cannot be transferred without the consent of the other partners. In reality there is not a substantial difference in the definition of a share between a company and a partnership.

Size – a partnership can have between 2 and 20 partners, except solicitors and accountants. A private company can have more and a public company can have 7 or more shareholders.

Regulation – a company has Memorandum & Articles of Association and a partnership usually has a Partnership Agreement to regulate its affairs.

Legislation – The Partnership Act, 1890 is the primary piece of law (legislation) which governs partnerships (and the Limited Partnership Act, 1907). Companies are governed by the Companies Acts 1963 – to date, and various EU Regulations.

Taxation – it is often said that partnerships are tax-transparent. Tax is paid by the partners on the profits each partner makes at the usual income tax levels for an individual. A company, being a separate legal personality, pays corporation tax (currently at 12.5%) but in addition to this, the shareholders will pay tax on any dividends received from the company.

Accounts – Partnerships are not required to file accounts in the Company Records Office. Companies must file accounts at the Company Records Office. Therefore while a lot of a company’s financial details are a matter of public record, Partnerships financial details are kept private.

Withdrawal of Capital – Technically speaking, partners may withdraw their capital contributions without any restrictions (unless regulated by the partnership agreement). A shareholder cannot, generally, withdraw his/her capital under the capital maintenance rules of the Companies Acts.

In Court – A company cannot represent itself in court, it must do so through a solicitor. Any of the partners in a partnership can represent themselves in court.

(10 Marks)

(b) **Rubroc Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2015**

		€	€	€	€	
Revenue	**TB**				**2,478,560**	**0.25**
- Revenue Returns	**TB**				- 14,570	**0.25**
Cost of Sales	**W2**				- 1,219,701	
Gross Profit					**1,244,289**	**0.25**
Finance Costs	**W1.v**			1,800		**0.25**
Distribution Costs	**W2**			938,832		
Administrative Expenses	**W2**			276,472	1,217,104	**0.25**
Profit/(Loss) before Tax					**27,185**	**0.25**
Income Tax Expense	**TB + W1.viii**		13,640	5,260	18,900	**0.25**
PROFIT/(LOSS) FOR THE YEAR					**8,285**	**0.25**
Other Comprehensive Income						
Revaluation Loss	**W3**				- 6,270	**0.25**
Other Comprehensive Income for the year, net of tax					**- 6,270**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					**2,015**	**0.25**

Rubroc Limited Statement of Financial Position as at 31st December 2015

		€	€	€	€	
Property, Plant & Equipment	**W3**				651,198	**0.25**
Total Non-Current Assets					**651,198**	**0.25**
Current Assets						
Inventories	**W1.ii**				-	
Trade Receivables	**W1.x**				461,184	**0.50**
Other Receivables	**W1.ix**				6,000	**0.25**
Cash & Cash Equivalents	**TB + W1.iv + W1.v**	267,410	15,000	- 20,000	262,410	**0.25**
Total Current Assets					**729,594**	**0.25**
TOTAL ASSETS					**1,380,792**	**0.25**
Equity & Liabilities						
Equity						
Share Capital					150,000	**0.25**
Share Premium					30,000	**0.25**
Retained Earnings	**TB + SOPL**		593,119	8,285	601,404	**0.25**
Revaluation Surplus	**W3**		64,851	- 6,270	58,581	**0.25**
Total Equity					**839,985**	**0.25**
Non-Current Liabilities						
Long-term Loan	**W1.v**				60,000	**0.25**
Total Non-Current Liabilities					**60,000**	
Current Liabilities						
Trade Payables	**TB**				324,867	**0.25**
Current Tax Payable	**TB + W1.viii**		16,500	5,260	21,760	**0.25**
Provisions	**W1.vii**				115,000	**0.25**
Accruals	**W1.v + W1.xi**	1,800	2,860	14,520	19,180	**0.25**
Total Current Liabilities					**480,807**	**0.25**
TOTAL EQUITY & LIABILITIES					**1,380,792**	**0.25**
					SUBTOTAL MARKS	**7.50**

Working - Journal Entries

					€	€	Marks
1.ii		No Closing Inventory at year-end					
1.iv	**Dr.**	Bank	+ Current Assets	SOFP	15,000		
	Cr.	Disposal Account - Trucks				15,000	
	Dr.	Disposal Account - Trucks			75,000		
	Cr.	Property, Plant & Equipment (PPE)	- Non-Current Assets	SOFP		75,000	**2.00**
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	31,250		
	Cr.	Disposal Account - Trucks				31,250	
	Dr.	Loss on Disposal	+ Expenses	SOPL & OCI	28,750		
	Cr.	Disposal Account - Trucks				28,750	
1.v	**Dr.**	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP	80,000		
	Cr.	Long-term Loan	+ Non-Current Liabilities	SOFP		60,000	**1.00**
	Cr.	Bank	- Current Assets	SOFP		20,000	
	Dr.	Finance Costs	+ Expenses	SOPL & OCI	1,800		**1.00**
	Cr.	Accruals	+ Current Liabilities	SOFP		1,800	
		Loan			60,000		
		Loan Interest		6%	3,600		
		Time Apportion		6 Months	**1,800**		
1.vi	**Dr.**	Revaluation Loss **(W3)**	- Equity	SOFP	6,270		**1.00**
	Cr.	Property, Plant & Equipment (PPE)	- Non-Current Assets	SOFP		6,270	
	Dr.	Depreciation - Administrative Expenses	+ Expenses	SOPL & OCI	3,750		
	Dr.	Depreciation - Distribution Costs	+ Expenses	SOPL & OCI	3,750		**1.00**
	Cr.	Accumulated Depreciation - PPE	- Non-Current Assets	SOFP		7,500	

Calculation of Depreciation on Buildings

$$\frac{\text{Revalued Amount - Residual Value}}{\text{Remaining Useful Life}} = \frac{200{,}000 - 50{,}000}{20}$$

Depreciation for the year **7,500**

1.vii IAS 37 Provisions, Contingent Liabilities & Contingent Assets

Given more likely than not that Rubroc will be found guilty, a present obligation is assumed to exist - IAS 37, para 15-16
Given that a single obligation is being measured, a provision is made for the outflow of the most likely outcome, IAS 37 para 40.
Consequently, a provision is recognised for €15,000 and €100,000 i.e. €115,000

					€	€	Marks
	Dr.	Administrative Expenses	+ Expenses	SOPL & OCI	57,500		
	Dr.	Distribution Costs	+ Expenses	SOPL & OCI	57,500		**2.00**
	Cr.	Provisions	+ Current Liabilities	SOFP		115,000	

Rubroc suing its supplier may give rise to a contingent asset.
A contingent asset is a possible asset arising from past events whose existence will only be confirmed by the occurence of one or more uncertain future events not wholly within the control of the entity.
However, a contingent asset is not recognised in the financial statements and therefore, the €80,000 cannot be recognised in Rubroc's financial statements for the year-ended 31 December 2015. **1.00**

					€	€	Marks
1.viii	**Dr.**	Income Tax	+ Expenses	SOPL & OCI	5,260		
	Cr.	Current Tax Payable	+ Current Liabilities	SOFP		5,260	**1.00**
1.ix	**Dr.**	Other Receivables	+ Current Assets	SOFP	6,000		
	Cr.	Purchases	- Expenses	SOPL & OCI		6,000	**1.00**
1.x	**Dr.**	Bad Debt Write Off	+ Expenses	SOPL & OCI	7,200		
	Cr.	Trade Receivables	- Current Assets	SOFP		7,200	**1.00**
	Dr.	Allowance for Doubtful Debts	+ Expenses	SOPL & OCI	8,642		
	Cr.	Allowance for Doubtful Debts	- Current Assets	SOFP		8,642	**1.00**
		Trade Receivables	Balance per TB		487,600		
		- Bad Debt Written Off		W1.viii	- 7,200		
					480,400		
		- Allowance for Trade Receivables - 4%			- 19,216		
		Revised Trade Receivable			**461,184**		
		Current Allowance for Trade Receivables	TB		10,574		
		New Allowance for Trade Receivables	See Above		19,216		
		Increase in Allowance for Trade Receivables			8,642		
1.xi	**Dr.**	Administrative Expenses	+ Expenses	SOPL & OCI	2,860		
	Dr.	Distribution Costs	+ Expenses	SOPL & OCI	14,520		**1.00**
	Cr.	Accruals	+ Current Liabilities	SOFP		17,380	
						SUBTOTAL MARKS	**14.00**

Working 2 - Expenses		**Cost of Sales €**	**Distribution Costs €**	**Administration Expenses €**		
Opening Inventory	**Per TB**	-	-	-		**Cost of**
Purchases	**Per TB**	1,236,570	-	-		**Sales**
- Purchases Returns	**Per TB**	- 10,869				
Closing Inventory	**W1.ii**	-	-	-		**0.50**
Vat Refund	**W1.ix**	- 6,000				
Expenses	**Per TB**	-	754,210	103,510		**Distribution**
Loss on Disposal	**W1.iv**	-	14,375	14,375	28,750	**Costs**
Provision	**W1.vii**	-	57,500	57,500	115,000	**2.00**
Bad Debt Write Off	**W1.x**	-	3,600	3,600	7,200	
Allowance for Doubtful Debts	**W1.x**	-	4,321	4,321	8,642	
Accruals	**W1.xi**	-	14,520	2,860	17,380	
Depreciation - Buildings	**W3**	-	3,750	3,750	7,500	**Admin.**
Depreciation - Plant & Equipment	**W3**	-	1,556	1,556	3,112	**Expenses**
Depreciation - Office Equipment	**W3**	-	85,000	85,000	170,000	**2.00**
Total		**1,219,701**	**938,832**	**276,472**		

Working 3 - Property, Plant & Equipment		**Land** €	**Buildings** €	**Office Equipment** €	**Trucks** €	**Total** €	
Cost	**Per TB**	240,000	241,020	42,400	690,000	1,213,420	
Accumulated Depreciation b/d	**Per TB**	-	- 34,750	- 26,840	- 350,000	- 411,590	
Carrying Value b/d at 1st January 2013		240,000	206,270	15,560	340,000	801,830	**0.50**
Revaluation Loss		-	- 6,270	-	-	- 6,270	**0.50**
		240,000	200,000	15,560	340,000	795,560	
Disposal - Cost	**W1.iv**	-	-	-	- 75,000	- 75,000	**0.50**
Disposal - Accumulated Depreciation	**Note 1**	-	-	-	31,250	31,250	**0.50**
		240,000	200,000	15,560	296,250	751,810	
Addition	**W1.iv**	-	-	-	80,000	80,000	**0.50**
		240,000	200,000	15,560	376,250	831,810	
Depreciation - Buildings	**W1.vi**	-	- 7,500	-	-	- 7,500	**0.50**
Depreciation - Office Equipment - 20% Reducing Balance		-	-	- 3,112	-	- 3,112	**0.50**
Depreciation - Trucks - 25% Straight Line		-	-	-	- 170,000	- 170,000	**0.50**
Carrying Value c/d at 31st December 2015		**240,000**	**192,500**	**12,448**	**206,250**	**651,198**	

Note 1 - Disposal of Truck	**€**	**€**
Cost		75,000
Accumulated Depreciation - 25% straight line per annum		
Depreciation 2013 - 4 Months	6,250	
Depreciation 2014	18,750	
Depreciation 2015 - 4 Months	6,250	
	31,250	- 31,250
Carrying Value of Equipment disposed		43,750

Disposal Account

Cost	75,000	Accumulated Depreciation	31,250
		Disposal Proceeds	15,000
		Loss on Disposal	**28,750**
	75,000		75,000

SUBTOTAL MARKS	**8.50**
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 - Building - 1 January 2015		34,750	7,500	15,000				42,250
Accumulated Depreciation - Office Equipment - 1 January 2015		26,840	3,112	6,224				29,952
Accumulated Depreciation - Trucks - 1 January 2015		350,000	201,250	340,000				488,750
Admininstrative Expenses	103,510		172,962		276,472			
Allowance for Trade Receivables		10,574		8,642				19,216
Bank	267,410		15,000	20,000			262,410	
Building at Cost at 1 January 2015	241,020			6,270			234,750	
Current Tax Payable		16,500		5,260				21,760
Distribution Costs	754,210		184,622		938,832			
Income Tax	13,640		5,260		18,900			
Inventory at 1 January 2015	-							
Issued Share Capital - 100,000 at €1.50 each		150,000						150,000
Land	240,000						240,000	
Office Equipment at Cost at 1 January 2015	42,400						42,400	
Purchases / Purchase Returns	1,236,570	10,869		6,000	1,230,570	10,869		
Retained Earnings at 1 January 2015		593,119			8,285			601,404
Revenue Returns / Revenue	14,570	2,478,560			14,570	2,478,560		
Revaluation Surplus		64,851	6,270					58,581
Share Premium		30,000						30,000
Trade Payables		324,867						324,867
Trade Receivables	487,600			7,200			480,400	
Trucks at Cost at 1 January 2015	690,000		80,000	75,000			695,000	
Loss on Sale of Truck			75,000	75,000				
Long Term Loan				60,000				60,000
Finance Costs			1,800		1,800			
Accruals				19,180				19,180
Provisions				115,000				115,000
Other Receivables			6,000				6,000	
Bad Debt Write Off			7,200	7,200				
	4,090,930	4,090,930	765,976	765,976	2,489,429	2,489,429	1,960,960	1,960,960

SOLUTION 2

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

		€	Marks
Balance per Bank Account - 01/12/2015		**28,754**	
Add Items not yet Debited		-	
		28,754	**1.00**
Balance per Bank Account - 01/12/2015		**28,471**	
Add Unpresented Lodgements		**670**	**1.00**
Less Unpresented Cheques			
Cheque	8751 -	245	**1.00**
Cheque	8753 -	142	**1.00**
		28,754	**1.00**

Adjusted Bank Account

December		€	December		€	Marks
31	Balance	37,042	31	Lodgement (05/12/15) - Difference	90	**1.50**
31	Lodgement (19/12/15) - Difference	9	31	Cheque 8756 - Difference	18	**1.50**
31	Lodgement	2,451	31	Gas	486	**1.50**
			31	Rates	1,600	**0.75**
			31	**Closing Balance**	**37,308**	**0.75**
		39,502			39,502	

Bank Reconciliation Statement

				Marks
Closing Balance per Bank Statement - 31/12/2015			**43,265**	**0.75**
Less Unpresented Cheques				
Cheque 8755		548		**0.75**
Cheque 8757		1,654		**0.75**
Cheque 8759		1,499		**0.75**
Cheque 8760		2,147	- **5,848**	**1.50**
Add Lodgement not yet Cleared				
Lodgement - 31/12/2015		890	**890**	**0.75**
Bank Errors				
1245785621 - 23/12/2015	-	999	- **999**	**0.75**
Balance as per Adjusted Bank Account			**37,308**	**1.00**
			SUBTOTAL MARKS	**18.00**

(b) **Human Error - There is more chance of errors happening in the bank account details in a company due to human error in inputting details.** **2.00**

TOTAL MARKS **20.00**

SOLUTION 3

(A)
REPORT
To: Financial Controller – Durine Limited
From: Future Financial Accountant
Re: IAS 16 – Property, Plant & Equipment (PPE)
Date: April 2016

(a) The amount that can be capitalised for this wind farm is as follows:

	€		€
Preparation of Site	80,000	Yes	80,000
Annual maintenance once operational	30,000	No	
Vat on materials (recoverable)	120,000	No	
Staff training on correctly operating the wind farm once operational	25,000	No	
Import Duty on materials purchased	28,000	Yes	28,000
Initial Surveying of site	40,000	Yes	40,000
Project manager salary to build and manage the wind farm	140,000	Yes	140,000
Wages of employees to build the wind farm	300,000	Yes	300,000
Annual wages of employees once the wind farm is operating	100,000	No	
Testing costs	60,000	Yes	60,000
Materials purchased for wind farm net of vat	250,000	Yes	250,000
Discount received on materials purchased	33,000	Yes	-33,000
Amount to be Capitalised			865,000

(5 Marks)

(b)
(i) Per paragraph 15 of IAS 16, at initial recognition, all items of PPE are recognised at cost.

(ii) Per paragraph 29 of IAS 16, two methods of valuing PPE after initial recognition are allowed i.e.

a) Cost Model i.e. PPE is carried at cost less accumulated depreciation and impairment losses
b) Revaluation Model i.e. PPE is carried at a revalued amount

The revalued amount is equal to the fair value at date of revaluation less subsequent accumulated depreciation and impairment losses.

(3 Marks)

(c)
(i) Per paragraph 6 of IAS 16, fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(ii) From market based evidence by appraisal by professionally qualified valuers. (3 Marks)

(B)

(i) Per paragraph 6 of IAS 16, it should be allocated over its useful life (1 Mark)

(ii) Per paragraph 51 of IAS 16, the residual value and the useful life of an asset shall be eviewed at least at each financial year end and if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

(1 Mark)

(iii) The depreciation amount is as follows:

Working - Property, Plant & Equipment	**Buildings**	**Total**
	€	€
Cost	2,500,000	2,500,000
- Accumulated Depreciation	-500,000	-500,000
Carrying Value b/d at 1st January 2015	2,000,000	2,000,000
Revaluation Gain	100,000	100,000
	2,100,000	2,100,000
Depreciation - Buildings - Note 1	-37,500	-37,500
Carrying Value c/d at 31st December 2015	2,062,500	2,062,500

Note 1

Buildings - Original Cost	2,500,000
Buildings - Original Accumulated Depreciation	500,000
Accumulated Depreciation / Cost = 20%	

Building has been depreciated by 20% over 10 years (01.01.05 - 31.12.14) so annual rate ofdepreciation has been 2% i.e. 20% / 10 years as asset has been depreciated evenly since acquistion. Therefore the original useful life is 50 years i.e. 100% / 2% and the remaining useful life is 40 years. Therefore, the remaining useful life is 10 years

To Calculate the new depreciation amount, we use the following depreciation formula

$$\frac{\text{Revalued Cost of Asset – Residual Value}}{\text{Expected Useful Life of Asset}} \quad \text{i.e.} \quad \frac{2{,}100{,}000 - 600{,}000}{40 \text{ Years}}$$

Depreciation = 37,500 (7 Marks)

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

Yours sincerely,

Financial Accountant

[Total: 20 Marks]

SOLUTION 4

		Old P'ship	New P'ship	
		€	€	
Net Profit	108,000 split evenly per month	54,000	54,000	**1.00**
Less Loan Interest		-	- 600	**1.00**
Add Interest on Drawings	**Note 1**			
Terry		360	-	**1.00**
Thomas		180	250	**1.00**
Toby		-	125	**1.00**
Less Salary - Thomas - 2,000*6 Mths : 2,200*6 Mths		(12,000)	- 13,200	**1.00**
Less Interest on Capital	**Note 2**			
Terry		(750)	-	**0.50**
Thomas		(600)	- 600	**1.00**
Toby		-	- 375	**0.50**
Residual Profits		**41,190**	**39,600**	**1.00**
Residual Profits Split				
Terry	**2:1**	27,460	-	**1.00**
Thomas	**1:2 in 1st Partnership and 3:1 in 2nd Partnership**	13,730	29,700	**1.00**
Toby	**1:3**	-	9,900	**1.00**
		41,190	**39,600**	

Note 1 - Interest on Drawings

	Amount	No. of Mths	Interest	Interest on Drawings	
	€			€	
Terry					
01.01.15 - 30.06.15	14,400	6	5%	360	
01.07.15 - 31.12.15	-	6	5%	-	360
	14,400				
Thomas					
01.01.15 - 30.06.15	7,200	6	5%	180	
01.07.15 - 31.12.15	10,000	6	5%	250	430
	17,200				
Toby					
01.01.15 - 30.06.15	-	6	5%	-	
01.07.15 - 31.12.15	5,000	6	5%	125	125
	5,000				
Total Interest on Drawings					**915**

Note 2 - Interest on Capital

	Terry	Thomas	Toby	
	€	€	€	€
50,000 x 3% x 6 / 12	750			
- x 3% x 6 / 12	-			
40,000 x 3% x 6 / 12		600		
40,000 x 3% x 6 / 12		600		
- x 3% x 6 / 12			-	
25,000 x 3% x 6 / 12			375	
	750	1,200	375	**2,325**

SUBTOTAL MARKS	**12.00**

(b)

Partners Current Account

	Terry €	Thomas €	Toby €		Terry €	Thomas €	Toby €	
Balance B/D	-	9,900	-	Balance B/D	14,000	-	-	**1.00**
				Interest on Capital	750	1,200	375	**0.50**
				Salary	-	25,200	-	**0.50**
				Residual Profits	27,460	43,430	9,900	**0.50**
				Interest on Loan	600	-	-	**0.50**
				Goodwill	60,000	30,000	-	**1.00**
Goodwill	-	67,500	22,500					**1.00**
Interest on Drawings	360	430	125					**0.50**
Drawings	14,400	17,200	5,000					**0.50**
Bank	88,050							**1.00**
Balance C/D	-	4,800		Balance C/D	-		17,700	**1.00**
	102,810	99,830	27,625		102,810	99,830	27,975	
Balance B/D	-	-	17,700	Balance B/D	-	4,800	-	
							SUBTOTAL MARKS	**8.00**
							TOTAL MARKS	**20.00**

Solution 5

(a) Commentary on Performance of Redona Limited from 2013 to 2015

Revenue increase / (decrease)
The decrease and increase in Redona Limited revenue appears to be in line with how the hotel sector has performed in the recession and coming out of the recession in 2014. The hotel sector in Dublin has shown a noticeable improvement in revenue in 2015 so Redona Limited has displayed a decent performance with its revenue over the period.

Non-Current Assets increase / (decrease)
Redona Limited appears to have carried out a sizeable capital improvement programme in 2013 with some residue of this spend rolling over to 2014. The 2015 spend is small and is consistent with the hotel not needing much capital spend given the refurbishment in 2013 and 2014.

Gross Profit Percentage
A good performance by Redona Limited in capitalising on improving market conditions in 2015 by increasing its rates and thereby increasing its gross margin. Again the results are in line with the hotel sector in Dublin.

Net Profit Percentage
Redona Limited performed poorly in this ratio. As Dublin gradually came out of recession in 2014, Redona Limited net profit percentage increased and showed the hotel was performing well. However, there has been a sizeable decrease in the net profit percentage from 2014 to 2015 which is very disappointing especially in light of the increase in the gross profit percentage. This is an area that the hotel management and shareholders needs to examine closely to identify and correct the reasons for the decrease in net profit percentage from 2014 to 2015.

Return on Capital Employed
Again a disappointing return and the decrease in profit is the significant reason for the decrease in the ratio. Underneath the line, the capital employed would have increased year on year which would also help to decrease the ratio but the change in profit from 2014 to 2015 has been the main driver for the decrease in the ratio from 2014 to 2015.

Current Ratio
The company has struggled with this ratio particularly in 2013 and 2014 but it is improving and 2015 is getting closer to the norm of 2:1. Overall, the result from 2013 to 2015 has been decent and continued focus on this ratio can ensure that it gets to a satisfactory level in the years ahead.

Acid Ratio
Again this ratio has improved from 2013 to 2015 but it is disappointing to see that it decreased from the 2014 level. Therefore, management need to find the reasons for the decrease and work to ensure that it gets back to the norm of 1:1 at a minimum. The 2013 ratio shows that the hotel was carrying a sizeable quantity of inventory which then decreased in 2014 and increased again in 2015. This is surprisingly high for a hotel and needs serious investigation as normally inventory would not be at this level in a hotel.

Debt to Equity Ratio
It is pleasing to note the improvement in this ratio from 2013 to 2015 as the company has paid down its debt and improved its reserves. The decrease has slowed down in 2015 which is probably due to decreased profits leading to decreased cash flow to pay back debt as well as the company trying to improve its current ratio by holding on to more of its cash.

Dividend Cover
This ratio is going in the right direction as increased profits due to higher revenue are helping to increase the cover. It also appears as if a decision was made to reduce the amount of the dividend and leave more of the profit in the hotel to be used for future investment. Management need to ensure that the shareholders are happy with the decrease in the level of the dividend given the increased profits despite lower profit margins, the hotel is enjoying.

Overall, the hotel is performing well with management's main focus to ensure that inventory levels are reduced to hotel norms and to remedy the decrease in net profits for 2015 while ensuring that the hotel improves its ratios overall due to a more buoyant hotel market existing in Dublin.

(12 Marks)

(b) **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.

(5 Marks)

(c) It depends on the service industry. For example, an accountancy practice will usually not have any cost of sales and therefore, the gross profit ratio is meaningless as all its costs are under expenses. However, a hotel while providing a service will have a cost of sales for its food and beverage operations and therefore, the gross profit ratio is relevant.

(3 Marks)

[Total: 20 Marks]

MARKING SCHEME

SOLUTION 1

(a)	Differences – 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)	Bank Reconciliation	18
(b)	Explanation	2
	Total Marks	**20**

SOLUTION 3

(a)	Calculation of amount to be capitalised	5
(b)	Accounting treatment at recognition	1.5
	Accounting treatment after recognition	1.5
(c)	Fair Value	1.5
	How should Fair Value be determined	1.5
(d)	Depreciable amount of an asset be allocated	1
	How often residual value and useful life be reviewed	1
	Depreciation amount	7
	Total Marks	**20**

SOLUTION 4

(a)	Profit & Loss Appropriation Account	11
(b)	Preparation of Partners Current Accounts	7
(c)	Journal Entries for Introduction and Removing of Goodwill	2
	Total Marks	**20**

SOLUTION 5

(a)	Commentary on performance of Redona Limited	12
(b)	Advantages of Ratio Analysis	5
(c)	Gross Profit applicable to a service industry	3
	Total Marks	**20**