CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2018

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

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

Provided are pro-forma:

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

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

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

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

Start your answer to each question on a new page.

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

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

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

FINANCIAL ACCOUNTING

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

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

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

1.

(a) What is meant by the following terms? You should provide an example of each to support your answer.

(i) A Prepayment
(ii) An Accrual
(iii) Capital Expenditure
(iv) Equity. (10 Marks)

(b) Ragela Limited is a company involved in the manufacture of heating systems for the construction industry. You have been appointed as the company's financial accountant and the following trial balance was extracted from its books as at 31 December 2017:

	Debit	Credit
	€	€
Accumulated Depreciation - Premises - 1 January 2017		682,000
Admininstrative Expenses	457,200	
Trade Receivables / Trade Payables	146,000	188,700
Retained Earnings at 1 January 2017		153,320
Purchases / Revenue	3,645,200	4,875,200
Allowance for Bad & Doubtful Debts		11,200
Long-Term Loan - 5%		240,000
Bank		68,500
Issued Share Capital - €2 shares each		200,000
Premises at Cost at 1 January 2017	1,240,000	
Inventory at 1 January 2017	245,720	
Current Tax Payable at 1 January 2017		21,200
Accumulated Depreciation - Vehicles - 1 January 2017		104,600
Distribution Costs	298,600	
Finance Costs	6,000	
Accumulated Depreciation - Equipment - 1 January 2017		347,000
Government Grants		200,000
Equipment at Cost at 1 January 2017	867,000	
Vehicles at Cost at 1 January 2017	186,000	
	7,091,720	7,091,720

Your role was previously held by an unqualified person. The following information, based on your investigations, has also come to your attention:

(i) Inventory was counted and valued at 3 January 2018 at €246,800. On 2 January 2018, inventory was sold at a sales price of €30,000. Ragela Limited makes a margin on 20% on its sales. The sales transaction is accounted for in the 2018 financial statements.

(ii) Depreciation is to be charged as follows:

Premises	2% Straight Line on Cost
Equipment	15% Reducing Balance
Vehicles	25% Straight Line on Cost

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

(iii) New vehicles costing €90,000 were purchased and paid by cheque in May 2017. An existing vehicle was involved in a car accident on 1 November 2017 and had to be written off. The vehicle was purchased for €30,000 in June 2014. Ragela Limited claimed €15,000 on an insurance policy which the insurance company agreed to pay in December 2017. The insurance company paid this amount in January 2018.

(iv) The premises as per the trial balance was revalued to €600,000 on 31 December 2017. A professional valuer estimates the residual value will be €200,000 and that its remaining useful life is forty years.

(v) In December 2017, Ragela Limited issued 10,000 shares and received €25,000. This had not been accounted for in the books of the company.

(vi) Tax payments were made in March 2017 and December 2017 amounting to €26,400 and €16,400, respectively. The income tax expense for the year is estimated at €18,300.

(vii) The grants received on 1 January 2017 are amortised over twenty years. Ragela Limited uses the deferred income method for accounting for government grants.

(viii) Ragela Limited wrote off a bad debt of €6,200 in December 2017. The Allowance for Bad & Doubtful Debts should be set at 5%.

(ix) On 1 July 2017, a new long term loan of €100,000 (5% interest per annum) was received by the company. The above trial balance has not been adjusted in respect of this new loan. Provide for the interest due on the long term loans.

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

REQUIREMENT:

Prepare, in a form suitable for publication, based on International Financial Reporting Standards, a Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for Ragela Limited for the financial year-ended 31 December 2017.

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

[Total: 40 Marks]

2. The bank account of Firblad Limited for the month of December 2017 was as follows:

Bank Account of Firblad Limited

Dr.						**Cr.**
Date	**Receipts**	**€**	**Date**	**Payments**	**Cheque No.**	**€**
01/12/17	Balance b/d	10,263	01/12/17	Bank Charges	D.D.	42
05/12/17	J. O'Mahony	2,211	03/12/17	T. Roche	4312	2,213
10/12/17	T. Foley	5,373	05/12/17	J. Ryan	4313	368
14/12/17	Cash Lodgement	534	09/12/17	Energia	D.D.	1,028
22/12/17	R. Kissane	6,188	13/12/17	T. Moran	4314	618
29/12/17	Lodgement	4,868	16/12/17	B. Nolan	4315	186
			19/12/17	T. McSherry	S.O.	102
			22/12/17	J. Leydon	4316	678
			26/12/17	F. Devon	4317	488
			29/12/17	J. Richmond	4318	6,884
			31/12/17	Balance c/d		16,830
		29,437				29,437
01/01/18	Balance b/d	16,830				

The following is the bank statement for Firblad Limited for the month of December 2017.

Bank Statement for Firbald Limited for December 2017

Date	**Description**		**Payments €**	**Lodgment €**	**Balance €**
01/12/17	Balance				11,001
02/12/17	Bank Charges		42		10,959
03/12/17	Cheque	4310	324		10,635
04/12/17	Cheque	4312	2,123		8,512
05/12/17	Lodgement			2,211	10,723
07/12/17	Cheque	4311	414		10,309
09/12/17	Cheque	4313	368		9,941
10/12/17	Energia D.D.		1,028		8,913
11/12/17	Credit Transfer			5,373	14,286
15/12/17	Bank Charges		160		14,126
16/12/17	Lodgement			543	14,669
18/12/17	Cheque	4315	186		14,483
20/12/17	T. McSherry S.O.		102		14,381
21/12/17	124578			632	15,013
23/12/17	Lodgement			6,188	21,201
25/12/17	Cheque	4316	678		20,523
26/12/17	Meteor D.D.		425		20,098
28/12/17	Insurance S.O.		652		19,446
29/12/17	Credit Transfer			3,457	22,903

The bank has confirmed to Firblad Limited that it made an error in Firblad's bank account on the 21 December 2017 amounting to €632 by lodging this amount to Firblad's bank account even though the lodgement related to a different customer of the bank's.

REQUIREMENT:

(a) Prepare a bank reconciliation statement for Firblad Limited as at 31 December 2017. (16 Marks)

(b) Discuss three benefits of preparing bank reconciliation statements. (4 Marks)

[Total: 20 Marks]

3.

Part A:

Exchangeit Limited imports goods from various countries abroad and has asked you, a trainee financial accountant, for advice on how to account for the effects of changes in foreign exchange rates. Exchangeit Limited's year-end is 31 December and its reporting or functional currency is the euro (€).

REQUIREMENT:

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

(a) In accordance with IAS 21 – *The Effect of Changes in Foreign Exchange Rates*, describe what is meant by the following:

(i) A foreign currency transaction.

(ii) An exchange difference. (4 Marks)

(b) Outline how the following items denominated in a foreign currency are restated to presentation currency. (The functional currency is not the currency of a hyperinflationary economy).

(i) Assets and liabilities;

(ii) Income and expenses;

(iii) Any resulting exchange differences. (6 Marks)

Part B:

Exchangeit Limited made a credit sale to a US customer on 1 October 2017 for US$100,000. This transaction was incorrectly recorded by Exchangeit Limited as a sale of €100,000. Exchangeit Limited received part payment on 30 November 2017 of US$50,000 and this again was incorrectly recorded as €50,000 in its records.

The following exchange rates applied during the financial year:

1 October 2017	€ 1 = US $ 1.25
30 November 2017	€ 1 = US $ 1.20
31 December 2017	€ 1 = US $ 1.10

REQUIREMENT:

(a) Prepare journal entries to show how the above transactions should be recorded in the books of Exchangeit Limited for the year ended 31 December 2017.

(8 Marks)

(b) Calculate the foreign exchange gain or loss at the 31 December 2017 for Exchangeit Limited. (2 Marks)

[Total: 20 Marks]

4. Robin, Sienna and Teagan are in partnership sharing profits and losses in the ratio of 2:2:1 respectively. At the 1 January their capital and current account balances were:

	Capital Account	Current Account
	€	€
Robin	32,000	2,400 Credit
Sienna	40,000	1,100 Debit
Teagan	48,000	1,900 Credit

The partners are entitled to interest on capital at the rate of 5% per annum.

On 1 July, Robin increased her capital by paying a further €6,000 into the partnership bank account, while Sienna reduced her capital to €26,000 and left the value of her withdrawn capital in the partnership as a loan bearing interest at 5% per annum.

Partners are allowed to withdraw from current accounts at any time during the financial year but are charged interest on the amounts involved.

Details of drawings made and interest chargeable in respect of each partner for the financial year ended 31 December are:

	Drawings	Interest on Drawings
	€	€
Robin	6,900	270
Sienna	5,700	220
Teagan	8,100	330

Sienna is paid an annual salary of €18,000. The trading profit (before interest) for the year ended 31 December was €56,420.

REQUIREMENT:

(a) Prepare the profit and loss appropriation account for the partnership. (10 Marks)

(b) From the above information, post the appropriate entries to each of the partner's capital and current accounts and balance each account for each partner as at 31 December.

(10 Marks)

[Total: 20 Marks]

5. Glamgra Limited is involved in the manufacture of building products and its financial statements are as follows:

Glamgra Limited Statement of Financial Position as at 31 December 2017

	2017	**2016**
	€'000	**€'000**
Non-Current Assets		
Property, Plant & Equipment	7,680	5,910
Total Non-Current Assets	**7,680**	**5,910**
Current Assets		
Inventories	2,070	1,830
Trade Receivables	1,170	1,020
Cash & Cash Equivalents	75	168
Total Current Assets	**3,315**	**3,018**
Total Assets	**10,995**	**8,928**
Equity & Liabilities		
Equity		
Share Capital	360	300
Share Premium	90	75
Retained Earnings	5,697	3,603
Revaluation Surplus	180	120
Total Equity	**6,327**	**4,098**
Non-Current Liabilities		
Long Term Loan	2,250	2,400
Total Non-Current Liabilities	**2,250**	**2,400**
Current Liabilities		
Trade Payables	2,208	2,250
Bank Overdraft	60	90
Current Tax Payables	150	90
Total Current Liabilities	**2,418**	**2,430**
Total Equity & Liabilities	**10,995**	**8,928**

Notes:

(i) Glamgra Limited's 2017 profit for the year before tax amounted to €2,243,000.

(ii) Glamgra Limited's income tax expense for 2017 was €63,000.

(iii) The cost of Property, Plant & Equipment (PPE) at 1 January 2017 amounted to €7,290,000. The company's depreciation policy is to depreciate all assets at 10% straight line on cost from the date of purchase to the date of sale. On 1 October 2017, Glamgra Limited sold PPE which had a carrying value of €520,000. This PPE had originally cost Glamgra Limited €800,000 and the company made a loss of €20,000 on the sale of this PPE. The additions to PPE for Glamgra Limited occurred on 31 December 2017.

(iv) Glamgra Limited's finance cost for the year amounted to €48,000. This was paid in full.

(v) Glamgra Limited paid a dividend of €86,000 in 2017.

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

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

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SOLUTION 1

(a) Explain what is meant by the following terms and provide an example of each to help support your answer
(i) Prepayment
(ii) Accrual
(iii) Capital Expenditure
(iv) Equity

Prepayments are items of expense that relate to future periods but which have already been paid for and are shown in expenses of the current period. They must be excluded from this year's expenses as they relate to a future period.

Examples of Prepayments could include Rent Prepaid, Phone Credit Prepaid etc.

Accruals are expenses which have not been included in expenses in this period as they have not been paid for in this period but which must be included as they have been incurred in this period as per the accruals concept.

Examples of Accruals could include Wages owing at the end of a period, Light & Heat Due etc.

Capital expenditure are funds that a company uses to acquire or upgrade physical assets such as property, industrial buildings or equipment to allow the company produce products or provide services.

Examples of Capital Expenditure include money spent on property, plant, equipment, vehicles, trucks, fixtures and fittings, office equipment etc.

Equity is the residual interest in the assets of an entity after deducting all its liabilities
The above form the accounting equation i.e. Assets – Liabilities = Equity

Examples of Equity include ordinary share capital, share premium, retained earnings and revaluation surplus.

(10 Marks)

(b)

Ragela Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2017

		€	€	€	€	€	€		
Revenue	**TB**						**4,875,200**	**0.25**	
Cost of Sales	**W2**						- 3,620,120		
Gross Profit							**1,255,080**	**0.25**	
Amortisation of Government Grants	**W1.vii**					10,000		**0.25**	
Gain on Disposal	**W1.iii**					7,500		**0.25**	
Finance Costs	**TB + W1.ix**			6,000	8,500	14,500		**0.25**	
Distribution Costs	**W2**					381,745		**0.25**	
Administrative Expenses	**W2**					540,345	919,090	**0.50**	
Profit/(Loss) before Tax							**335,990**		
Income Tax Expense	**TB**						18,300	**0.25**	
PROFIT/(LOSS) FOR THE YEAR							**317,690**		
Other Comprehensive Income									
Revaluation Gain	**W3**						66,800	**0.25**	
Other Comprehensive Income for the year, net of tax							**66,800**		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR							**384,490**	**0.25**	

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

		€	€	€	€	€	€		
Property, Plant & Equipment	**W3**						1,144,400	**0.25**	
Total Non-Current Assets							**1,144,400**		
Current Assets									
Inventories	**W1.i**						270,800	**0.25**	
Trade Receivables	**W1.viii**						132,810	**0.50**	
Current Tax Asset	**W1.vi**		- 21,200	26,400	16,400	- 18,300	3,300	**0.25**	
Other Receivables	**W1.iii**						15,000	**0.25**	
Cash & Cash Equivalents							-	**0.25**	
Total Current Assets							**421,910**		
TOTAL ASSETS							**1,566,310**		
Equity & Liabilities									
Equity									
Share Capital	**TB + W1.v**				200,000	20,000	220,000	**0.25**	
Share Premium	**W1.v**						5,000	**0.25**	
Retained Earnings	**TB + SOPL**				153,320	317,690	471,010	**0.25**	
Revaluation Surplus	**W3**						66,800	**0.25**	
Total Equity							**762,810**		
Non-Current Liabilities									
Long-term Loan	**TB + W1.iii**				240,000	100,000	340,000	**0.25**	
Government Grants	**TB + W1.vii**				200,000	- 10,000	190,000	**0.25**	
Total Non-Current Liabilities							**530,000**		
Current Liabilities									
Trade Payables	**TB + W1.iii**						188,700	**0.25**	
Accruals	**W1.ix**						8,500	**0.25**	
Bank	**TB + W1.iii + W1.v**	68,500	90,000	- 25,000	42,800	- 100,000	76,300	**0.25**	
Total Current Liabilities	**+ W1.vi + W1.ix**						**273,500**	**0.25**	
TOTAL EQUITY & LIABILITIES							**1,566,310**		
							PRESENTATION	**1.00**	
							TOTAL MARKS	**8.00**	

			Working - Journal Entries				
			€	€	€	€	
1.i		Total Inventories at Cost per Inventory Count				246,800	
		Add Cost of Goods Sold	See Below			24,000	
		Value of Closing Inventories				270,800	
		Goods Sold				30,000	
		Margin - 20%				6,000	
		Inventory at cost				24,000	
	Dr.	Inventory	+ Current Assets	SOFP	270,800		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		270,800	
1.iii	**Dr.**	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP	90,000		
	Cr.	Bank	+ Current Liabilities	SOFP		90,000	
	Dr.	Disposal Account - Vehicles			30,000		
	Cr.	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP		30,000	**2.00**
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	22,500		
	Cr.	Disposal Account - Vehicles				22,500	
	Dr.	Insurance - Other Receivables	+ Current Assets	SOFP	15,000		
	Cr.	Disposal Account - Vehicles				15,000	
	Dr.	Disposal Account - Vehicles			7,500		
	Cr.	Gain on Disposal	+ Other Income	SOPL & OCI		7,500	
1.iv		See Working 3 - Property, Plant & Equipment					
1.v	**Dr.**	Bank	+ Current Liabilities	SOFP	25,000		
	Cr.	Share Capital - 10,000 shares @ €2 each	+ Equity	SOFP		20,000	**1.00**
	Cr.	Share Premium	+ Equity	SOFP		5,000	
1.vi	**Dr.**	Current Tax Asset	+ Current Assets	SOFP	26,400		
	Dr.	Current Tax Asset	+ Current Assets	SOFP	16,400		**1.00**
	Cr.	Bank	+ Current Liabilities	SOFP		42,800	
	Dr.	Income Tax Expense	+ Expenses	SOPL & OCI	18,300		**1.00**
	Cr.	Current Tax Asset	- Current Assets	SOFP		18,300	
1.vii	**Dr.**	Government Grants - Deferred Income	- Non-Current Liabilities	SOFP	10,000		
	Cr.	Amortisation of Government Grants	+ Other Income	SOPL & OCI		10,000	**1.00**
1.viii	**Dr.**	Bad Debt Written Off	+ Expenses	SOPL & OCI	6,200		
	Cr.	Trade Receivables	- Current Assets	SOFP		6,200	**1.00**
	Dr.	Allowance for Doubtful Debts	+ Current Assets	SOFP	4,210		
	Cr.	Allowance for Doubtful Debts	- Expenses	SOPL & OCI		4,210	**1.00**
		Trade Receivables	TB		146,000		
		- Bad Debt Written Off			- 6,200		
					139,800		
		- Allowance for Bad & Doubtful Debts - 5%			- 6,990		
		Revised Trade Receivable			**132,810**		**1.00**
		Current Allowance for Bad & Doubtful Debts	TB		11,200		
		New Allowance for Bad & Doubtful Debts	See Above		6,990		
		Decrease in Allowance for Bad & Doubtful Debts			4,210		
1.ix	**Dr.**	Bank	- Current Liabilities	SOPL & OCI	100,000		
	Cr.	Long Term Loan	+ Non-Current Liabilities	SOFP		100,000	**1.00**
	Dr.	Finance Costs	+ Expenses	SOPL & OCI	8,500		
	Cr.	Accruals	+ Current Liabilities	SOFP		8,500	**1.00**
		Current Long Term Loan	TB		240,000		
		5% interest		5%	12,000		
		Interest already included in Finance Costs			6,000		
		Amount to be accrued			6,000		**0.50**
		New Long Term Loan	W1.ix		100,000		
		5% interest for 6 months		5%	2,500		
		Amount to be accrued			2,500		**0.50**
		Total Amount to be accrued			8,500		
						CURRENT MARKS	**12.00**

			Cost of Sales	Distribution Costs	Administration Expenses		
	Working 2 - Expenses						
	Opening Inventory	**Per TB**	245,720	-	-		**Cost of Sales**
	Purchases	**Per TB**	3,645,200	-	-		
	Closing Inventory	**W1.i**	- 270,800	-	-		**1.00**
	Expenses	**Per TB**	-	298,600	457,200		
	Allowance for Bad & Doubtful Debts	**W1.viii**	-	- 2,105	- 2,105	- 4,210	**Distribution Costs**
	Bad Debt Write Off	**W1.viii**	-	3,100	3,100	6,200	**2.00**
	Depreciation - Premises	**W3**	-	12,400	12,400	24,800	
	Depreciation - Equipment	**W3**	-	39,000	39,000	78,000	
	Depreciation - Vehicles	**W3**	-	30,750	30,750	61,500	**Admin. Expenses**
	Total		**3,620,120**	**381,745**	**540,345**		**2.00**

			Premises	Equipment	Vehicles	Total	
	Working 3 - Property, Plant & Equipment		€	€	€	€	
	Cost	**Per TB**	1,240,000	867,000	186,000	2,293,000	
-	Accumulated Depreciation b/d	**Per TB**	- 682,000	- 347,000	- 104,600	- 1,133,600	
	Carrying Value b/d at 1st January 2017		558,000	520,000	81,400	1,159,400	**0.50**
	Addition	**W1.iii**	-	-	90,000	90,000	**0.50**
	Disposal - Cost	**W1.iii + Note 2**	-	-	- 30,000	- 30,000	**0.50**
	Disposal - Accumulated Depreciation	**W1.iii + Note 2**	-	-	22,500	22,500	**0.50**
			558,000	520,000	163,900	1,241,900	
	Depreciation - Premises - 2% Straight Line on Cost	**Note 3**	- 24,800	-	-	- 24,800	**0.50**
	Depreciation - Equipment - 15% Reducing Balance		-	- 78,000	-	- 78,000	**0.50**
	Depreciation - Vehicles - 20% Straight Line on Cost		-	-	- 61,500	- 61,500	**0.50**
			533,200	442,000	102,400	1,077,600	
	Revaluation Gain	**Note 1**	66,800	-	-	66,800	**0.50**
	Carrying Value c/d at 31st December 2017		**600,000**	**442,000**	**102,400**	**1,144,400**	

Note 1 - Revaluation Gain

Dr.	Property, Plant & Equipment	+ Non-Current Assets	SOFP	66,800		
Cr.	Revaluation Surplus	+ Equity	SOFP		66,800	**1.00**

Note 2 - Disposal of Equipment

Cost		30,000
Accumulated Depreciation - 25% straight line per annum		
Depreciation 2014	7,500	
Depreciation 2015	7,500	
Depreciation 2016	7,500	
	22,500	- 22,500
Carrying Value of Equipment disposed		7,500

Disposal Account

Cost	30,000	Accumulated Depreciation	22,500
		Insurance Claim	15,000
Gain on Disposal	**7,500**		
	37,500		37,500

CURRENT MARKS	**10.00**
TOTAL MARKS	**22.00**

			Adjustment		Statement of Profit or Loss and Other Comprehensive Income		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	€	€	€	€	€	€	€	€
Accumulated Depreciation - Premises - 1 January 2017		682,000		24,800				706,800
Admininstrative Expenses	457,200		85,250	2,105	540,345			
Trade Receivables / Trade Payables	146,000	188,700		6,200			139,800	188,700
Retained Earnings at 1 January 2017		153,320			317,690			471,010
Purchases / Revenue	3,645,200	4,875,200			3,645,200	4,875,200		
Allowance for Bad & Doubtful Debts		11,200	4,210					6,990
Long-Term Loan - 5%		240,000		100,000				340,000
Bank		68,500	125,000	132,800				76,300
Issued Share Capital - €2 shares each		200,000		20,000				220,000
Premises at Cost at 1 January 2017	1,240,000		66,800				1,306,800	
Inventory at 1 January 2017	245,720				245,720			
Current Tax Payable at 1 January 2017		21,200	42,800	18,300			3,300	
Accumulated Depreciation - Vehicles - 1 January 2017		104,600	22,500	61,500				143,600
Distribution Costs	298,600		85,250	2,105	381,745			
Finance Costs	6,000		8,500		14,500			
Accumulated Depreciation - Equipment - 1 January 2017		347,000		78,000				425,000
Government Grants		200,000	10,000					190,000
Equipment at Cost at 1 January 2017	867,000						867,000	
Vehicles at Cost at 1 January 2017	186,000		90,000	30,000			246,000	
Inventory at 31 December 2017			270,800	270,800		270,800	270,800	
Insurance Claim - Other Receivables			15,000				15,000	
Gain on Disposal				7,500		7,500		
Share Premium				5,000				5,000
Income Tax Expense			18,300		18,300			
Amortisation of Government Grants				10,000		10,000		
Accruals				8,500				8,500
Revaluation Surplus				66,800				66,800
	7,091,720	7,091,720	844,410	844,410	5,163,500	5,163,500	2,848,700	2,848,700
				-		-		-

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 - 01/12/2017		**10,263**					
Add Items not yet Debited		-					
		10,263					**0.50**
Balance per Bank Account - 01/12/2017		**11,001**				-	
Less Unpresented Cheques							
Cheque	4310 -	324					**1.00**
Cheque	4311 -	414					**1.00**
		10,263					**0.50**

Adjusted Bank Account

December		€	December		€	
31	Balance	16,830	15	Bank Charges	160	**1.00**
31	Cheque 4312 - Difference	90	31	Meteor D.D.	425	**1.00**
31	Lodgement - Unrecorded	3,457	31	Insurance S.O.	652	**1.00**
31	Lodgement (14/12/17) - Difference	9				**0.50**
			31	**Closing Balance**	**19,149**	**1.00**
		20,386			20,386	**0.50**

Bank Reconciliation Statement

Closing Balance per Bank Statement - 31/12/2017			**22,903**	**1.00**
Less Unpresented Cheques				
Cheque 4314		618		**1.00**
Cheque 4317		488		**1.00**
Cheque 4318		6,884	- **7,990**	**2.00**
Add Lodgement not yet Cleared				
Lodgement - 30/12/2017		4,868	**4,868**	**1.00**
Bank Errors				
124578 - 21/12/2017	-	632	- **632**	**1.00**
Balance as per Adjusted Bank Account			**19,149**	**1.00**
			MARKS	**16.00**

(b)

Any three of the following **Errors can be identified and corrected at an early stage** **Reduces the risk of fraud and theft** **Stale cheques can be identified** **Ensures that the bank account in the financial statements of the company is correct**	**4.00**
TOTAL MARKS	**20.00**

Solution 3

REPORT
To: Financial Controller, Exchangeit Limited
From: Financial Accountant
Re: IAS 21 – Changes in Foreign Exchange Rates
Date: April 2018

PART A

(a) (i) Per paragraph 20 of IAS 21, a foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity;

(a) Buys or sells goods or services whose price is denominated in a foreign currency;
(b) Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
(c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

(2 Marks)

(ii) Per paragraph 8 of IAS 21, an exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

(2 Marks)

(b) The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

(i) Assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;

(2 Marks)

(ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and

(2 Marks)

(iii) All resulting exchange differences shall be recognised in other comprehensive income. (2 Marks)

PART B

(a) The accounting treatment for the transactions for the year-ending 31 December 2017 are as follows:

01.10.2017	Dr. Revenue – SOPL & OCI	€100,000	
	Cr. Trade Receivables – SOFP		€100,000
	Being reversal of incorrect journal		
01.10.2017	Dr. Trade Receivables – SOFP	€80,000	
	Cr. Revenue – SOPL & OCI		€80,000
	Being inclusion of correct journal – exchange rate €1 = US€1.25		
30.11.2017	Dr. Trade Receivables – SOFP	€50,000	
	Cr. Bank – SOFP		€50,000
	Being reversal of incorrect journal		
30.11.2017	Dr. Bank – SOFP	€41,667	
	Cr. Trade Receivables – SOFP		€41,667
	Accounting for receipt at foreign exchange rate of €1 = US€1.20		
31.12.2017	Dr. Trade Receivables – SOFP (See Below)	€7,122	
	Cr. Foreign Exchange Gain – SOPL & OCI		€7,122

(8 Marks)

(b) Calculation of Foreign Exchange Gain at 31.12.2017

Balance per Trade Receivables	€38,333
Balance due in US$ (100,000 – 50,000 = 50,000)	€45,455
@ 31.12.2017 €1 = US€1.10	
Foreign Exchange Gain	€7,122

(2 Marks)

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

								Marks
Net Profit less loan interest		Note 1		56,420	(350)		56,070	1.00
Add Interest on Drawings				(270+220+330)			820	1.00
							56,890	
Less Sienna salary							(18,000)	1.00
							38,890	
Less Interest on Capital								
Robin	Note 2					1,750		1.00
Sienna	Note 2					1,650		1.00
Teagan			5%	48,000		2,400		1.00
							(5,800)	
Residual Profits							**33,090**	1.00
Residual Profits Split								
Robin		2		33,090 * 2 /5		13,236		1.00
Sienna		2		33,090 * 2 /5		13,236		1.00
Teagan		1		33,090 * 1 /5		6,618		1.00
		5					33,090	

Note 1 - Interest on Loan

Amount of Loan	14,000
Interest on Loan	5%
No. of Months of Interest on Loan	6
Interest on Loan	**350**

Note 2 - Interest on Capital

Robin	32,000	*	6 \	12 *	5%	800		
	38,000	*	6 \	12 *	5%	950	**1,750**	
Sienna	40,000	*	6 \	12 *	5%	1000		
	26,000	*	6 \	12 *	5%	650	**1,650**	

SUBTOTAL MARKS **10.00**

Partners Current Account

	Robin	Sienna	Teagan		Robin	Sienna	Teagan	Marks
	€	€	€		€	€	€	
Balance B/F	-	1,100	-	Balance B/F	2,400	-	1,900	0.50
Interest on Drawings	270	220	330	Interest on Capital	1,750	1,650	2,400	2.00
Drawings	6,900	5,700	8,100	Salary	-	18,000	-	1.50
Balance C/F	10,216	26,216	2,488	Residual Profits	13,236	13,236	6,618	2.00
				Loan Interest	-	350	-	1.00
	17,386	33,236	10,918		17,386	33,236	10,918	
				Balance B/F	10,216	26,216	2,488	

Partners Capital Account

	Robin	Sienna	Teagan		Robin	Sienna	Teagan	Marks
	€	€	€		€	€	€	
Capital Withdrawn	-	14,000	-	Balance b/d	32,000	40,000	48,000	1.50
Balance c/d	38,000	26,000	48,000	Capital Introduced	6,000	-	-	1.50
	38,000	40,000	48,000		38,000	40,000	48,000	
				Balance b/d	**38,000**	**26,000**	**48,000**	

SUBTOTAL MARKS **10.00**

OVERALL MARKS **20.00**

SOLUTION 5

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

Cash flows from Operating Activities		**€'000**	**€'000**	
Profit before Taxation		2,243		**1.00**
Adjustments for				
Depreciation		709		**1.00**
Loss on Sale of PPE		20		**0.50**
Interest Expense		48		**1.00**
		3,020		
Increase in Inventories		- 240		**1.00**
Increase in Trade Receivables		- 150		**1.00**
Decrease in Trade Payables		- 42		**1.00**
Cash Generated from Operations		2,588		
Interest Paid		- 48		**0.50**
Income Taxes Paid		- 3		**1.50**
Net Cash from Operating Activities			**2,537**	**1.00**
Cash flows from Investing Activities				
Payments to acquire Property, Plant & Equipment		- 2,939		**5.00**
Receipts from sale of Property, Plant & Equipment		500		**1.00**
Net Cash used in Investing Activities			**- 2,439**	**1.00**
Cash flows from Financing Activities				
Proceeds from Issue of Shares		75		**1.00**
Payments due to dividends		- 86		**1.00**
Payments due to decrease in Long Term Loan		- 150		**1.00**
			- 161	**0.50**
Net Increase in Cash & Cash Equivalents			**- 63**	
Cash & Cash Equivalents at beginning of Year	**Note 1**		**78**	
Cash & Cash Equivalents at end of Year	**Note 1**		**15**	**0.50**

Note 1	**2017**	**2016**
	€'000	**€'000**
Cash on hand and balances with bank	75	168
Bank Overdraft	- 60	- 90
Cash and Cash Equivalents	15	78

TOTAL MARKS	**20.00**

Loss on Sale of PPE	**€'000**
Carrying Value at date of sale	520
Sales Proceeds	500
Loss on Sale of PPE	**20**

Interest Account

Balance b/d	-	Expense - SOPL & OCI	48
Interest Paid	48	Balance c/d	-
	48		48

Income Tax Account

Corporation Tax Paid	3	Balance b/d	90
Balance c/d	150	Expense - SOPL & OCI	63
	153		153

Share Capital Account

		Balance b/d - S. Capital	300
		Balance b/d - S. Premium	75
Balance c/d - S. Capital	360		
Balance c/d - S. Premium	90	Proceeds from Issue of S. Capital	75
	450		450

Property, Plant & Equipment Account

Balance b/d	5,910	Depreciation	709
Revaluation Gain	60	Disposal - carrying value	520
Purchase of PPE	2,939	Balance c/d	7,680
	8,909		8,909

MARKING SCHEME

Q1			
(a)	Define and discuss the qualitative characteristics of financial statements		10
(b)	Workings		22
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position		8
	Total Marks – Q1		**40**
Q2			
(a)	Bank Reconciliation		16
(b)	Advantages of a Bank Reconciliation		4
	Total Marks – Q2		**20**
Q3	IAS 21 – *The Effects of Changes in Foreign Exchange Rates*		
Part A			
(a)	**(i)**	Foreign Currency Transaction	2
	(ii)	An Exchange Difference	2
	Restatement of Foreign Currency to Presentation Currency		
(b)	**(i)**	Assets and Liabilities	2
	(ii)	Income and Expenses	2
	(iii)	Any Resulting Exchange Differences	2
Part B			
(a)	Journal Entries		8
(b)	Foreign Exchange Gain/(Loss)		2
	Total Marks – Q3		**20**
Q4			
(a)	Profit and Loss Appropriation Account		10
(b)	Current and Capital Accounts		10
	Total Marks – Q4		**20**
Q5	Operating Activities		9.5
	Investing Activities		7
	Financing Activities		3.5
	Cash & Cash Equivalents		0.5
	Total Marks – Q5		**20**