CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 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 - AUGUST 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 main elements of the Statement of Financial Position and the Statement of Profit or Loss and Other Comprehensive Income.

(10 Marks)

(b) The following trial balance was extracted from the books of Hoella Limited (Hoella), a company with a number of retail shops, as at 31 December 2015:

	Debit	**Credit**
	€	**€**
Motor Vehicles	68,000	
Investments - 6%	100,000	
Trade Receivables	324,700	
Intangible Assets	200,000	
Trade Payables		246,807
Fixtures & Fittings	214,900	
Share Premium		20,000
Distribution Costs	265,874	
Share Capital - 100,000 at €1.30 each		130,000
Current Tax Payable		1,200
Revenue		1,687,542
Accumulated Depreciation - Premises at 31.12.14		387,500
Revaluation Surplus		10,520
Investment Income		4,800
Bank		2,413
Accumulated Amortisation of Intangible Assets at 31.12.14		40,000
Retained Earnings at 31.12.14		482,222
Allowance for Bad Debts		12,458
Purchases	897,541	
Administrative Expenses	325,887	
Opening Inventory	78,654	
Accumulated Depreciation - Motor Vehicles at 31.12.14		24,560
Long Term Loan		124,750
Accumulated Depreciation - Fixtures & Fittings at 31.12.14		145,784
Premises	845,000	
	3,320,556	3,320,556

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

(i) Hoella's year-end inventory amounted to €89,120 valued at cost. Included in this amount is some inventory which has been damaged and is beyond repair. The cost of this damaged inventory is €3,250. Hoella can sell it at 70% of the selling price and normally makes a mark-up of 40% on cost.

(ii) Hoella purchased some fixtures and fittings on 1 April 2015 for €60,000 plus import duties of €2,900. The import duties were included in Administrative Expenses and credited to the bank upon payment.

(iii) Depreciation is to be charged as follows:

Premises	2% Straight Line on Cost
Fixtures & Fittings	15% Straight Line on Cost
Motor Vehicles	20% Reducing Balance

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

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

(v) Hoella sold 40,000 shares for €75,000 and lodged the money to the bank.

(vi) The intangible asset has a finite useful life and was reviewed on 1 January 2015. From the review, it was identified that the intangible asset's useful economic life is now 10 years from the date of the review.

(vii) Income tax for 2015 is estimated at €40,200. The company paid €28,200 towards this income tax bill on 30 December 2015.

(viii) The Allowance for Bad Debts should be at 4% of Trade Receivables.

(ix) The balance of the interest that was due on the investments was received in 2016.

REQUIREMENT:

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

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

[Total: 40 Marks]

2. The trial balance of Kafty Limited, a company involved in the manufacturing sector, had a credit suspense balance of €14,400 at its year-end 31 December 2015. Concerned about this, management asked you to investigate and you have uncovered the following issues:

1. An invoice relating to accountancy fees of €3,200 needs to be accounted for.

2. A decrease in the allowance for trade receivables of €4,600 was debited in error to the bad debt recovered account.

3. Included in revenue was the sale of shares at par value amounting to €15,600. The amount was lodged to the bank account.

4. Additions to Property, Plant & Equipment of €8,000 purchased and paid for by cheque on 1 July 2015 had been expensed to the repairs and maintenance account. Kafty Limited's depreciation policy is to depreciate in full in the year of purchase at a rate of 15% per annum.

5. Due to a software problem, credit sales of €7,100 have been debited to trade payables.

6. Rent due of €840 has been posted to the rent prepaid account in error.

7. A dividend paid of €2,300 has been credited to finance costs.

8. Wages paid to Mr. Kafty of €2,200 have been credited to the director's loan account.

REQUIREMENT:

(a) Prepare journal entries for Kafty Limited to record and correct relevant transactions from the above information for the financial statements for the year-ending 31 December 2015.

(15 Marks)

(b) Prepare the suspense account for the year-ending 31 December 2015 (5 Marks)

[Total: 20 Marks]

3. Note: This question consists of two parts; Part 1 and Part 2. Students should note that the companies in each part are separate and are not related to each other.

Part 1

Mr. Toby Jordan, the managing director of Tojo Limited has a number of specific queries in relation to Inventory and has asked you for advice in relation to IAS 2 - *Inventories*. As part of its overall inventory, Tojo Limited has three items of inventories whose costs and net realisable values are as follows:

Item	Cost - €	NRV - €
1	72	80
2	56	48
3	92	96
	220	224

REQUIREMENT:

(a) Calculate the closing value of each item of inventory and hence the total value of closing inventory for these items for Tojo Limited at the year-end.

(4 Marks)

(b) In the context of IAS2 - *Inventories*, prepare a report for Mr. Toby Jordan which:

(i) Outlines the items that comprise inventory.

(ii) Explains how inventories are measured.

(iii) Provides three examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred.

(iv) Briefly discusses three situations in which net realisable value is likely to be less than cost.

(12 Marks)

Part 2

Davis Limited's closing inventory at 31 December 2015 is €347,841. This includes €4,640 for items accidentally destroyed on 31 December 2015 after the count was completed. Also included is €2,980 which relates to the cost of inventory damaged in October 2015, which can be reworked at a cost of €680 and which can then be sold for €2,410.

REQUIREMENT:

Calculate the closing value of inventory at the year-end. (4 Marks)

[Total: 20 Marks]

4. Mr. Ray Dineen is a retailer whose main branch is in Waterford and has a second branch in Kilkenny. The following trial balances have been extracted from his books as at 31 December 2015.

	Waterford		**Kilkenny**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
	€'000	**€'000**	**€'000**	**€'000**
Receivables/Payables	300	270	200	
Drawings	27			
Purchases/Sales	2,700	3,140		1,210
Distribution Expenses	140		37	
Allowance for unrealised profit		9		
Current Accounts	269			205
Current Tax Payable		36		
Income Tax	34		18	
Allowance for doubtful debts		9		4
Capital		87		
Property, Plant & Equipment	970		290	
Bank	245		47	
Inventory sent to branch		936	910	
Administration Expenses	62		34	
Inventory (1 Jan 2015)	60		39	
Accumulated Depreciation (1 Jan 2015)		320		156
	4,807	4,807	1,575	1,575

Additional Information:

1) At 31 December 2015, there was €38,000 cash in transit from Kilkenny to Waterford.
2) Goods invoiced at €26,000 were in transit from Waterford to Kilkenny on 31 December 2015.
3) All goods are purchased by the Waterford branch. Goods are then sent to Kilkenny and are invoiced at cost plus 30%.
4) Closing inventory was valued at 31 December 2015 at cost of €28,000 in Waterford and at invoice price of €39,000 in Kilkenny.
5) The Allowance for Doubtful Debts is to be maintained at a rate of 3%.
6) Depreciation is to be provided for the year on property, plant and equipment at the rate of 10% straight line.

REQUIREMENT:

(a) In adjacent columns, prepare the Statement of Profit or Loss for the year ended 31 December 2015 for Mr. Dineen for:

(i) The Waterford Shop;

(ii) The Kilkenny Shop; and

(iii) The Combined Business.

(b) Prepare a combined Statement of Financial Position for Mr. Dineen as at 31 December 2015.

[Total: 20 Marks]

5. Oakview Limited is involved in the manufacture of soups and its financial statements are as follows:

Oakview Limited Statement of Financial Position as at 31 December 2015

	2015 €'000	2014 €'000
Non-Current Assets		
Property, Plant & Equipment	1,942	1,628
Total Non-Current Assets	**1,942**	**1,628**
Current Assets		
Inventories	196	129
Trade Receivables	187	199
Cash & Cash Equivalents	53	54
Total Current Assets	**436**	**382**
Total Assets	**2,378**	**2,010**
Equity & Liabilities		
Equity		
Share Capital	140	100
Share Premium	45	45
Retained Earnings	1,499	1,014
Revaluation Surplus	48	26
Total Equity	**1,732**	**1,185**
Non-Current Liabilities		
Long Term Loan	512	646
Total Non-Current Liabilities	512	646
Current Liabilities		
Trade Payables	115	146
Bank Overdraft	-	12
Current Tax Payables	19	21
Total Current Liabilities	**134**	**179**
Total Equity & Liabilities	**2,378**	**2,010**

Oakview Limited Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2015

	€'000
Revenue	3,658
Cost of Sales	(2,672)
Gross Profit	986
Distribution Costs	(169)
Administration Expenses	(157)
Finance Costs	(34)
Profit before Tax	**626**
Income Tax Expense	(95)
Profit for the Year	**531**
Other Comprehensive Income	
Gain on Property Revaluations	22
Other Comprehensive Income for the year, net of tax	**22**
Total Comprehensive Income for the year, net of tax	**553**

Notes:

(i) Property, Plant & Equipment with a carrying value of €200,000 was sold for €180,000. This asset had originally cost €250,000.

(ii) Depreciation of Property, Plant & Equipment during the year amounted to €98,000.

(iii) Dividends paid during the year amounted to €46,000 and are reported in the Statement of Changes in Equity.

REQUIREMENT:

Prepare a Statement of Cash Flows for the year-ended 31st December 2015 for Oakview 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

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2016

SOLUTION 1

(a) The elements that relate to financial position of an entity are those that comprise the statement of financial position:

- Assets
- Liabilities; and
- Equity

Those relative to financial performance comprise elements in the statement of profit or loss and other comprehensive income:

- Income
- Expenses

The elements relating to financial position are defined in paragraph 49 of IAS 1 as follows:

Asset - A resource controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity

Liability – A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits

Equity – 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

Income is defined as encompassing both revenue and gains
Revenue arises in the course of ordinary activities i.e. sales, fees, etc.
However, gains may or may not arrive in the course of ordinary activities and include:

that arising on the disposal of non-current assets
and unrealised gains on the revaluation of marketable securities
or increases in the carrying value of long term non-current assets.

Expenses - includes losses as well as those expenses that arise in the course of ordinary activities of the entity
Expenses in the course of ordinary activities include: cost of sales, wages and salaries etc.
Losses would include those arising on the disposal of non-current assets and those arising from disasters

(10 Marks)

(b)

Hoella Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2015								
		€	€	€	€	€		
Revenue						**1,687,542**	**0.25**	
Cost of Sales Total	**W2**					887,140	**0.25**	
Gross Profit						**800,402**	**0.25**	
Other Income	**TB + W1.ix**			1,200	4,800	6,000	**0.25**	
Distribution Costs	**W2**				307,768			
Administrative Expenses	**W2**				364,881	672,649	**0.25**	
Profit/(Loss) before Tax						**133,753**	**0.25**	
Income Tax	**W1.vii**					40,200	**0.25**	
PROFIT/(LOSS) FOR THE YEAR						**93,553**	**0.25**	
Other Comprehensive Income for the year, net of tax						**-**	**0.25**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						**93,553**	**0.25**	

Hoella Limited Statement of Financial Position as at 31st December 2015								
		€	€	€	€	€		
Non-Current Assets								
Property, Plant & Equipment	**W3**					565,698	**0.25**	
Investments	**TB**					100,000	**0.25**	
Intangible Assets	**TB + W1.vi**		200,000 -	40,000 -	16,000	144,000	**0.50**	
Total Non-Current Assets						**809,698**	**0.25**	
Current Assets								
Inventories	**W1.i**					89,055	**0.25**	
Trade Receivables	**W1.viii**					311,712	**0.25**	
Other Receivables	**W1.ix**					1,200	**0.25**	
Cash & Cash Equivalents						-	**0.25**	
Total Current Assets						**401,967**	**0.25**	
TOTAL ASSETS						**1,211,665**	**0.25**	
Equity & Liabilities								
Equity								
Share Capital	**TB + W1.v**			130,000	52,000	182,000	**0.25**	
Share Premium	**TB + W1.v**			20,000	23,000	43,000	**0.25**	
Retained Earnings	**TB**			482,222	93,553	575,775	**0.25**	
Revaluation Surplus	**TB**					10,520	**0.25**	
Total Equity						**811,295**	**0.25**	
Non-Current Liabilities								
Long-term Loan	**TB**					124,750	**0.25**	
Total Non-Current Liabilities						**124,750**	**0.25**	
Current Liabilities								
Trade Payables	**TB**					246,807	**0.25**	
Bank Overdraft	**TB + W1.v+W1.vii**	2,413	60,000 -	75,000	28,200	15,613	**0.50**	
Current Tax Payable	**TB + W1.vii**		1,200	40,200 -	28,200	13,200	**0.50**	
Total Current Liabilities						**275,620**	**0.25**	
TOTAL EQUITY & LIABILITIES						**1,211,665**		
						PRESENTATION	**0.50**	
						TOTAL MARKS	**9.00**	

			Working - Journal Entries					
		Working - Closing Inventory			**€**	**€**		
		Total Inventories at Cost per Inventory Count				89,120		
		Damaged Inventories - Cost			3,250			
		NRV - 50% of Selling Price	***Note 1***	-	3,185			
		Inventory Write Down				65		
		Value of Closing Inventories				89,055		
		Note 1						
		Cost			3,250			
		Markup - 40% of Cost i.e. 40% * €3,250		40%	1,300			
		Selling Price			4,550			
		70% of Selling Price - 3,185 * 70%		70%	3,185			
						€'000	**€'000**	
1.i	**Dr.**	Inventory	+ Current Assets	SOFP		89,055		**2.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI			89,055	
1.ii		Import duties incorrectly included in Administrative Expenses instead of being capitalised						
		What Happened						
	Dr.	Administrative Expenses	+ Expenses	SOPL & OCI		2,900		
	Cr.	Bank	- Current Assets	SOFP			2,900	
		What Should have Happened						
	Dr.	Property, Plant & Equipment	+ Non-Current Assets	SOFP		62,900		**1.00**
	Cr.	Bank	- Expenses	SOPL & OCI			62,900	
		Correct Error						
	Dr.	Property, Plant & Equipment	+ Non-Current Assets	SOFP		62,900		
	Cr.	Administrative Expenses	- Expenses	SOPL & OCI			2,900	**1.50**
	Cr.	Bank	- Current Assets	SOFP			60,000	
1.v	**Dr.**	Bank	+ Current Assets	SOFP		75,000		
	Cr.	Share Capital	+ Equity	SOFP			52,000	**1.00**
	Cr.	Share Premium	+ Equity	SOFP			23,000	
1.vi	**Dr.**	Amortisation of Intangible Assets	+ Expenses	SOPL & OCI		16,000		**2.00**
	Cr.	Accumulated Amoritisation of Intangible Assets	- Non-Current Assets	SOFP			16,000	
1.vii	**Dr.**	Income Tax	+ Expenses	SOPL & OCI		40,200		**1.00**
	Cr.	Current Tax Payable	+ Current Liabilities	SOFP			40,200	
	Dr.	Current Tax Payable	- Current Liabilities	SOFP		28,200		**1.00**
	Cr.	Bank	- Current Assets	SOFP			28,200	
1.viii	**Dr.**	Allowance for Bad Debts	+ Expenses	SOPL & OCI		530		**1.00**
	Cr.	Trade Receivables	- Current Assets	SOFP			530	
		Trade Receivables	Balance per TB			324,700		
		- Allowance for Bad Debts - 4%				12,988		
		Revised Trade Receivable				**311,712**		
		Current Allowance for Bad Debts	TB			12,458		
		New Allowance Bad Debts	See Above			12,988		
		Increase in Allowance for Bad Debts				530		
1.ix	**Dr.**	Other Receivables	+ Current Assets	SOFP		1,200		
	Cr.	Investment Income	+ Other Income	SOPL & OCI			1,200	**1.00**
		Investment	TB			100,000		
		Interest on Investments			6%	6,000		
		Less Investment Income already accounted for	TB			4,800		
		Balance to be accounted for				1,200		
						CURRENT MARKS		**11.50**

Working 2 - Expenses		Cost of Sales	Distribution Costs	Administration Expenses		
Opening Inventory	Per TB	78,654	-	-		Cost of
Purchases	Per TB	897,541	-	-		Sales
Closing Inventory	W1.i	- 89,055	-	-		2.00
Expenses	Per TB	-	265,874	325,887		Distribution
Import Duties	W1.ii	-	-	- 2,900		Costs
Amortisation of Intangible Asset	W1.vi	-	8,000	8,000	16,000	2.00
Allowance for Bad Debts	W1.viii	-	265	265	530	
Depreciation - Premises	W3	-	8,450	8,450	16,900	Admin
Depreciation - Fixtures & Fittings	W3	-	20,835	20,835	41,670	Expenses
Depreciation - Motor Vehicles	W3	-	4,344	4,344	8,688	2.00
Total		**887,140**	**307,768**	**364,881**		

Working 3 - Property, Plant & Equipment		Premises	Equipment	Motor Vehicles	Total	
		€	€	€	€	
Cost		845,000	214,900	68,000	1,127,900	
- Accumulated Depreciation b/d		- 387,500	- 145,784	- 24,560	- 557,844	
Carrying Value b/d at 1st January 2015		457,500	69,116	43,440	570,056	0.50
Addition		-	60,000	-	60,000	0.50
Addition - Import Duties	W1.ii	-	2,900	-	2,900	0.50
Carrying Value		457,500	132,016	43,440	632,956	
Depreciation - Premises - 2% Straight Line		- 16,900	-	-	- 16,900	0.50
Depreciation - Fixtures & Fittings - 15% Straight Line		-	- 41,670	-	- 41,670	0.50
Depreciation - Vehicles - 20% Reducing Balance		-	-	- 8,688	- 8,688	0.50
Carrying Value c/d at 31st December 2015		**440,600**	**90,346**	**34,752**	**565,698**	**0.50**

CURRENT MARKS	**9.50**
TOTAL MARKS	**21.00**

			Adjustment		Statement of Profit or Loss and Other Comprehensive Income		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	€	€	€	€	€	€	€	€
Motor Vehicles	68,000						68,000	
Investments - 6%	100,000						100,000	
Trade Receivables	324,700						324,700	
Intangible Assets	200,000						200,000	
Trade Payables		246,807						246,807
Fixtures & Fittings	214,900		62,900				277,800	
Share Premium		20,000		23,000				43,000
Distribution Costs	265,874		41,894		307,768			
Share Capital - 100,000 at €1.30 each		130,000		52,000				182,000
Current Tax Payable		1,200	28,200	40,200				13,200
Revenue		1,687,542				1,687,542		
Accumulated Depreciation - Premises at 31.12.14		387,500		16,900				404,400
Revaluation Surplus		10,520						10,520
Investment Income		4,800		1,200		6,000		
Bank		2,413	75,000	88,200				15,613
Accumulated Amortisation of Intangible Assets at 31.12.14		40,000		16,000				56,000
Retained Earnings at 31.12.14		482,222			93,553			575,775
Allowance for Bad Debts		12,458		530				12,988
Purchases	897,541				897,541			
Administrative Expenses	325,887		41,894	2,900	364,881			
Opening Inventory	78,654		89,055	89,055	78,654	89,055	89,055	
Accumulated Depreciation - Motor Vehicles at 31.12.14		24,560		8,688				33,248
Long Term Loan		124,750						124,750
Accumulated Depreciation - Fixtures & Fittings at 31.12.14		145,784		41,670				187,454
Premises	845,000						845,000	
Amortisation of Intangible Assets			16,000	16,000				
Income Tax			40,200		40,200			
Allowance for Bad Debts (Expense)			530	530				
Other Receivables			1,200				1,200	
	3,320,556	3,320,556	396,873	396,873	1,782,597	1,782,597	1,905,755	1,905,755

SOLUTION 2

		€	€			€	€	Marks
a)	**Issue 1**							
	Should Have Happened				**Actually Happened**			
Dr.	Accountancy Fees	3,200			Nothing			
Cr.	Accruals		3,200					
	To Correct							
Dr.	Accountancy Fees	3,200						**1.50**
Cr.	Accruals		3,200					
	Issue 2							
	Should Have Happened				**Actually Happened**			
Dr.	Trade Receivables	4,600		**Dr.**	Trade Receivables	4,600		
Cr.	Allowance for Trade Receivables		4,600	**Dr.**	Bad Debt Recovered	4,600		
				Cr.	Suspense		9,200	
	To Correct							
Dr.	Suspense	9,200						
Cr.	Bad Debt Recovered		4,600					**2.00**
Cr.	Allowance for Trade Receivables		4,600					
	Issue 3							
	Should Have Happened				**Actually Happened**			
Dr.	Bank	15,600		**Dr.**	Bank	15,600		
Cr.	Share Capital		15,600	**Cr.**	Revenue		15,600	
	To Correct							
Dr.	Revenue	15,600						**1.50**
Cr.	Share Capital		15,600					
	Issue 4							
	Should Have Happened				**Actually Happened**			
Dr.	Property, Plant & Equipment (PPE)	8,000		**Dr.**	Repairs & Maintenance	8,000		
Cr.	Bank		8,000	**Cr.**	Bank		8,000	
Dr.	Depreciation Expense	1,200						
Cr.	Accumulated Depreciation - PPE		1,200					
	To Correct							
Dr.	Property, Plant & Equipment (PPE)	8,000						
Dr.	Depreciation Expense	1,200						**2.00**
Cr.	Accumulated Depreciation - PPE		1,200					
Cr.	Repairs & Maintenance		8,000					
	Issue 5							
	Should Have Happened				**Actually Happened**			
Dr.	Trade Receivables	7,100		**Dr.**	Trade Receivables	7,100		
Cr.	Revenue		7,100	**Dr.**	Trade Payables	7,100		
				Cr.	Suspense		14,200	
	To Correct							
Dr.	Suspense	14,200						
Cr.	Trade Payables		7,100					**2.00**
Cr.	Revenue		7,100					
	Issue 6							
	Should Have Happened				**Actually Happened**			
Dr.	Rent Expense	840		**Dr.**	Rent Prepaid	840		
Cr.	Rent Due		840	**Cr.**	Rent Expense		840	
	To Correct							
Dr.	Rent Expense	1,680						
Cr.	Rent Due		840					**2.00**
Cr.	Rent Prepaid		840					
	Issue 7							
	Should Have Happened				**Actually Happened**			
Dr.	Retained Earnings	2,300		**Dr.**	Suspense	4,600		
Cr.	Bank		2,300	**Cr.**	Finance Costs		2,300	
				Cr.	Bank		2,300	
	To Correct							
Dr.	Finance Costs	2,300						
Dr.	Retained Earnings	2,300						**2.00**
Cr.	Suspense		4,600					
	Issue 8							
	Should Have Happened				**Actually Happened**			
Dr.	Wages	2,200		**Dr.**	Suspense	4,400		
Cr.	Bank		2,200	**Cr.**	Director's Loan		2,200	
				Cr.	Bank		2,200	
	To Correct							
Dr.	Wages	2,200						
Dr.	Director's Loan	2,200						**2.00**
Cr.	Suspense		4,400					
							SUBTOTAL MARKS	**15.00**

b)

Suspense Account

2 Bad Debt Recovered	4,600	Opening Balance	14,400	**1.00**	
2 Allowance for Trade Receivables	4,600	**7** Retained Earnings	2,300	**1.00**	
5 Trade Payable	7,100	**7** Finance Costs	2,300	**1.00**	
5 Revenue	7,100	**8** Wages	2,200	**1.00**	
		8 Directors Loan	2,200	**0.50**	
	23,400		23,400	**0.50**	
			SUBTOTAL MARKS	**5.00**	
			OVERALL MARKS	**20.00**	

SOLUTION 3

PART 1:

REPORT

To: Mr. Toby Jordan, Managing Director – Tojo Limited
From: Future Financial Accountant
Re: IAS 2 – Inventories
Date: August 2016

(a) The comparison should be made for each item of inventory and thus a value of €212 would be attributed to inventories i.e.

Item	Cost - €	NRV - €	Lower of Cost/NRV - €
1	72	80	72
2	56	48	48
3	92	96	92
	220	224	212

(4 Marks)

(b)
(i) Inventories per IAS 2 comprise

a) Merchandise
b) Production Supplies
c) Materials
d) Work in Progress
e) Finished Goods

(ii) Inventories are measured at the lower of cost or net realisable value (NRV)

(iii) Paragraph 16 of IAS 2 outlines examples of costs which are excluded from the cost of inventories and instead recognised as expenses in the period in which they are incurred i.e.

a) Abnormal amounts of wasted materials, labour or other production costs;
b) Storage costs unless these costs are necessary in the production process before a further production stage;
c) Administrative overheads that do not contribute to bringing inventories to their present location and condition; and
d) Selling costs.

(iv) The principal situations in which net realisable value is likely to be less than cost is where there has been;

a) An increase in costs or a fall in selling price
b) Physical deterioration of inventories
c) Obsolescence of Products
d) A decision as part of a company's marketing strategy to manufacture and sell products at a loss
e) Errors in production or purchasing

(12 Marks)

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

Yours sincerely,

Financial Accountant

PART 2:

(a) **Working - Closing Inventory**

				€	€
	Total Inventories at Cost per Inventory Count				347,841
	Accidentally Destroyed Inventory				4,640
	Damaged Inventories - Cost			2,980	
	NRV - Selling Price less costs to sell (2,410 - 680)			- 1,730	
	Inventory Write Down				1,250
	Value of Closing Inventories				341,951
				€	**€**
Dr.	Inventory	+ Current Assets	SOFP	341,951	
Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		341,951

(4 Marks)

[Total : 20 Marks]

SOLUTION 4

Mr. Dineen's Statement of Profit or Loss for the year-ending 31 December 2015

		Waterford	Kilkenny		Combined		
	€'000	€'000	€'000	€'000	€'000	€'000	
Sales		**3,140.00**		**1,210.00**		**4,350.00**	**0.50**
Less Cost of Sales							
Opening Inventory (W2)	60.00		30.00		90.00		**1.50**
+ Purchases	2,700.00				2,700.00		**1.00**
Goods sent to Branch (W4)	- 700.00		700.00		-		**2.00**
- Closing Inventory (W3)	- 48.00		- 30.00		- 78.00		**2.00**
Total Cost of Sales		**2,012.00**		**700.00**		**2,712.00**	**0.50**
Gross Profit		**1,128.00**		**510.00**		**1,638.00**	**0.50**
Expenses							
Administration Expenses	62.00		34.00		96.00		**0.50**
Distribution Expenses	140.00		37.00		177.00		**0.50**
Allowance for Bad Debts	-		2.00		2.00		**0.50**
Depreciation	97.00		29.00		126.00		**0.50**
Total Expenses		**299.00**		**102.00**		**401.00**	**0.50**
Profit/(Loss) before Tax		**829.00**		**408.00**		**1,237.00**	**0.50**
Income Tax		34.00		18.00		**52.00**	**0.50**
Profit/(Loss) after Tax		**795.00**		**390.00**		**1,185.00**	**0.50**

Mr. Dineen's Statement of Financial Position as at 31 December 2015

Non-Current Assets		**Combined**		
Property, Plant & Equipment		658.00	**(970 - 320 - 97 + 290 - 156 - 29)**	**1.00**
Total Non-Current Assets		**658.00**		
Current Assets				
Closing Inventory	78.00		**(48 + 30)**	**1.00**
Trade Receivables	485.00		**(300 - 9 + 200 - 6)**	**1.00**
Cash & Cash Equivalents	330.00		**(245 + 47 + 38)**	**1.00**
Total Current Assets		**893.00**		**0.50**
Total Assets		**1,551.00**		**0.50**
Equity & Liabilities				
Capital	87.00			**0.50**
-Drawings	- 27.00			**0.50**
Retained Earnings	1,185.00			**0.50**
Total Equity & Liabilities		**1,245.00**		**0.50**
Non-Current Liabilities	-			
Total Non-Current Liabilities		**-**		
Current Liabilities				
Trade Payables	270.00			
Current Tax Payable	36.00			**0.50**
Total Current Liabilities		**306.00**		
Total Equity & Liabilities		**1,551.00**	-	**0.50**

Working 1 - Current Account

		Waterford	Kilkenny	
Current Account Balances		269	205	
Cash in Transit	-	38		
Goods in Transit	-	26		20.00
		205	205	

Working 2 - Unrealised Profit

Opening Inventory for Killarney has been invoiced at
Cost + 30% so there is unrealised profit included in
this inventory figure which needs to be eliminated

	Kilkenny		
Opening Inventory	39	130%	of cost
Cost of Opening Inventory	30	100%	of cost
Unrealised Profit	**9**		

This needs to be eliminated

Dr.	Unrealised Profit - Waterford	9	
Cr.	Opening Inventory - Kilkenny		9

Working 3 - Closing Inventory

Kilkenny's closing inventory is at cost + 30%

Closing Inventory	39	130%	of cost
Cost of Closing Inventory	30	100%	of cost

Waterford's closing inventory is at cost + goods in transit

Cost	28
Goods in Transit - 26*100/130	20
	48

Therefore, Closing Inventory

	Waterford	Kilkenny
Closing Inventory	**48**	**30**

Working 4 - Goods Sent to Branch

		Waterford	Kilkenny
Goods sent to Branch		936	910
Goods in Transit	-	26	
		910	910

The goods sent to branch are invoiced at cost + 30%
We need to calculated the cost, therefore,

Goods sent to Branch	910	130%	of cost
Cost	700	100%	
Cost of Goods Sent to Branch	**700**		

TOTAL MARKS	**20.00**

Oakview Limited Statement of Cash flows for the year ended 31st December 2015

Cash flows from Operating Activities		**€'000**	**€'000**	
Profit before Taxation		626		**1.00**
Adjustments for				
Depreciation		98		**1.00**
Loss on Sale of PPE		20		**1.00**
Interest Expense		34		**1.00**
		778		
Decrease in Trade Receivables		12		**1.00**
Increase in Inventory		- 67		**1.00**
Decrease in Trade Payables		- 31		**1.00**
Cash Generated from Operations		692		
Interest Paid		- 34		**0.50**
Income Taxes Paid		- 97		**1.50**
Net Cash from Operating Activities			**561**	**1.00**
Cash flows from Investing Activities				
Payments to acquire Property, Plant & Equipment		- 590		**3.00**
Receipts from sale of Property, Plant & Equipment		180		**1.00**
Net Cash used in Investing Activities			**- 410**	**1.00**
Cash flows from Financing Activities				
Proceeds from Issue of Shares		40		**1.00**
Payments made due to Decrease in Long Term Loans		- 134		**1.00**
Dividends Paid		- 46		**1.00**
			- 140	**1.00**
Net Increase in Cash & Cash Equivalents			**11**	
Cash & Cash Equivalents at beginning of Year	**Note 1**		**42**	
Cash & Cash Equivalents at end of Year	**Note 1**		**53**	**1.00**

	2015	**2014**
Note 1	**€'000**	**€'000**
Cash on hand and balances with bank	53	54
Bank Overdraft	-	- 12
Cash and Cash Equivalents	53	42

TOTAL MARKS	**20.00**

SOLUTION 5

Loss on Sale of PPE	**€'000**
Cost	250
- Accumulated Depreciation	- 50
Carrying Value at date of sale	200
Sales Proceeds	180
Loss on Sale of PPE	**20**

Interest Account

Balance b/d	-	Expense - SOPL & OCI	34
Interest Paid	34	Balance c/d	-
	34		34

Income Tax Account

Corporation Tax Paid	97	Balance b/d	21
Balance c/d	19	Expense - SOPL & OCI	95
	116		116

Share Capital Account

		Balance b/d - S. Capital	100
		Balance b/d - S. Premium	45
Balance c/d - S. Capital	140		
Balance c/d - S. Premium	45	Proceeds from Issue of S. Capital	40
	185		185

Property, Plant & Equipment Account

Balance b/d	1,628	Depreciation	98
Revaluation Gain	22	Disposal - carrying value	200
Purchase of PPE	590	Balance c/d	1,942
	2,240		2,240

Workings

MARKING SCHEME

SOLUTION 1

(a)	Define and explain the elements of financial statements	10
(b)	Workings	21
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position	9
	Total Marks for Solution 1	**40**

SOLUTION 2

(a)	Suspense Journal Entries	15
(b)	Suspense Account	5
	Total Marks for Solution 2	**20**

SOLUTION 3

PART 1

(a)	Calculation of closing inventory using individual lower or cost and NRV		4
(b)	(i)	Items comprising Inventory	2
	(ii)	How Inventory is measured	2
	(iii)	3 Costs excluded from Inventory and expensed instead	4
	(iv)	2 Situations where cost is less than NRV	4

Part 2

(a)	Calculation of closing inventory using lower of cost and NRV	4
	Total Marks for Solution 3	**20**

SOLUTION 4

(a)	Statement of Profit or Loss and Other Comprehensive Income	12
(b)	Statement of Financial Position	8
	Total Marks for Solution 4	**20**