CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

# FINANCIAL ACCOUNTING

## FORMATION 2 EXAMINATION - AUGUST 2017

**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 2017

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)** Discuss the advantages of, and the obstacles to, the harmonisation of accounting standards internationally.

(10 Marks)

**(b)** The following trial balance was extracted from the books of Cantelaow Limited, a manufacturing company, as at 31 December 2016:

| | Debit | Credit |
|---|---|---|
| | € | € |
| Trade Receivables | 425,600 | |
| Trade Payables | | 314,526 |
| Share Capital - 100,000 at €1.00 each | | 100,000 |
| Revenue | | 2,458,752 |
| Revaluation Surplus | | 10,000 |
| Retained Earnings at 31.12.15 | | 1,716,925 |
| Purchases | 1,457,823 | |
| Premises | 1,624,000 | |
| Office Equipment | 186,000 | |
| Motor Vehicles | 240,000 | |
| Long Term Loan | | 350,000 |
| Inventory at 31.12.15 | 235,800 | |
| Distribution Costs | 457,820 | |
| Bank | 521,450 | |
| Allowance for Bad Debts | | 18,600 |
| Administrative Expenses | 489,610 | |
| Accumulated Depreciation - Premises at 31.12.15 | | 458,700 |
| Accumulated Depreciation - Motor Vehicles at 31.12.15 | | 86,000 |
| Accumulated Depreciation - Office Equipment at 31.12.15 | | 124,600 |
| | 5,638,103 | 5,638,103 |

**The following information, based on your investigations, has also come to light;**

(i) Cantelaow Limited's inventory was counted on 29 December 2016 and amounted to €246,200 at cost. On 31 December 2016, there were credit sales of €40,000 that still needed to be accounted for in its financial statements. Cantelaow Limited typically makes a profit margin of 25% on its sales.

(ii) Cantelaow Limited sold a motor vehicle on 1 April 2016 for €10,000. It purchased the motor vehicle on 1 January 2014 for €24,000.

(iii) Depreciation is to be charged as follows:

| | |
|---|---|
| Premises | 2% Straight Line on Cost |
| Office Equipment | 25% Reducing Balance |
| Motor Vehicles | 20% Straight Line on Cost |

Depreciation is charged from the date of purchase to the date of sale.

(iv) Cantelaow Limited received a government grant of €100,000 during the year. This was in relation to an extension completed on 1 July 2016 to its premises that cost €400,000 and was paid in full. The grant should be amortised on the same basis as the premises is to be depreciated.

(v) Cantelaow Limited purchased goods on credit on 30 November 2016, that cost £45,000 sterling. On that date, it mistakenly entered this amount as €45,000 in its records. Cantelow Limited made a payment of £30,000 sterling to the trade payable on 15 December 2016 which has not yet been recorded in its accounts. The exchange rates on the relevant dates were as follows:

| | |
|---|---|
| 30 November 2016 | €1 = £ 0.90 |
| 15 December 2016 | €1 = £ 0.80 |
| 31 December 2016 | €1 = £ 0.85 |

(vi) During the year Cantelaow Limited wrote off a bad debt of €3,600. This has yet to be included in its financial statements. In addition, the closing balance for the Allowance for Bad Debts should be at 5% of Trade Receivables.

(vii) There were accruals to Administrative Expenses and Distribution Costs of €2,400 and €1,600 respectively at the year end.

(viii) All of the relevant expenses in the trial balance are to be split evenly between Administrative Expenses and Distribution Costs. Losses on disposal of Property, Plant & Equipment and exchange losses on foreign exchange are to be included as separate line items on the face of the Statement of Profit or Loss and Other Comprehensive Income.

**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 Cantelaow Limited for the financial year-ending 31 December 2016.

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

**[Total: 40 Marks]**

**2.** The statement of financial position for Montag Soccer Club as at 31 December 2015 is as follows:

| | € | € |
|---|---|---|
| **Non-Current Assets** | | |
| Land and clubhouse at cost | 140,000 | |
| Equipment (Cost = €50,000) | 36,000 | |
| **Total Non-Current Assets** | | **176,000** |
| **Current Assets** | | |
| Bar Inventory | 6,100 | |
| Cash & Cash Equivalents | 4,300 | |
| Subscriptions Owing | 2,090 | |
| **Total Current Assets** | | **12,490** |
| **Total Assets** | | **188,490** |
| **Equity** | | |
| Accumulated Fund | 81,540 | |
| **Total Equity** | | **81,540** |
| **Non-Current Liabilities** | | |
| Non-Current Loan | 96,000 | |
| **Total Non-Current Liabilities** | | **96,000** |
| **Current Liabilities** | | |
| Trade Payables re Club Bar | 8,400 | |
| Subscriptions in Advance | 1,550 | |
| Accruals for Bar Wages | 1,000 | |
| **Total Current Liabilities** | | **10,950** |
| **Total Equity & Liabilities** | | **188,490** |

The Montag Soccer clubs bank account for 2016 is as follows:

| | € | | € |
|---|---|---|---|
| Balance at 1 January | 4,300 | Bar Purchases | 60,360 |
| Subscriptions | 82,460 | Bar Expenses | 8,420 |
| Bar Sales | 93,700 | Bar Wages | 26,380 |
| Competition Entries | 10,830 | Rates | 3,200 |
| | | Loan Repayments | 7,500 |
| | | Competition Expenses | 3,900 |
| | | Purchase of Equipment | 15,000 |
| | | Sundry Expenses | 1,020 |
| | | Balance at 31 December | 65,510 |
| | 191,290 | | 191,290 |

*Other information to note:*

1. Closing balances at 31 December 2016 are

| | € |
|---|---|
| Bar Inventory | 5,900 |
| Subscriptions Owing | 1,700 |
| Subscriptions in Advance | 1,960 |
| Trade Payables – Bar | 8,600 |
| Accruals - Wages | 1,500 |

2. The rate of interest on the loan is 5% based on the closing balance of the previous year.

3. Depreciation on Equipment is 10% straight line on cost. There is no depreciation on the Land & Clubhouse. The depreciation policy is to provide a full year's depreciation in the year of purchase and none in the year of sale.

**REQUIREMENT:**

Prepare the following accounts for Montag Soccer Club:

**(a)** A Bar Trading Account for the year ended 31 December 2016; (11 marks)

**(b)** An Income and Expenditure Account for the year ended 31 December 2016. (9 marks)

**[Total: 20 Marks]**

**3.** The financial controller of Octwon Limited, (a technology company) has asked you, a trainee financial accountant within the company, for advice on how to account for various transactions that occurred after the financial year end date of 31 December 2016.

**REQUIREMENT:**
Octwon Limited has asked you to prepare a report which addresses the following:

**Part A:**

**(a)** Outline the possible reasons why a company would not prepare its financial statements on a going concern basis.

(3 marks)

**(b)** In accordance with IAS 10 – *Events after the Reporting Period*, describe what is meant by '*event after the reporting period*'.

(3 marks)

**(c)** If a company receives information after the reporting period about conditions that existed at the end of the reporting period, explain how this information should be dealt with in the financial statements.

(2 marks)

**Part B:**
The following issues have arisen in Octwon Limited during the financial year ended 31 December 2016

(i) The company had an investment valued at €200,000 in its financial statements for the year ended 31 December 2016. Due to fears over Brexit, the investment reduced in value to €180,000 by 10 January 2017.

(ii) It purchased a motor vehicle on 30 December 2016 and paid a non-refundable deposit of €5,000 on that date. It also wrote a cheque on that date for the balance of €20,000 which it posted to the seller. The seller received and cashed the cheque on 3 January 2017.

(iii) Octwon Limited was sued by a customer who was unhappy with the quality of product delivered to it in June 2016. The court case was heard in late October 2016 but it was not until 8 January 2017 that the judge ruled in favour of Octwon Limited and awarded it legal costs of €20,000 to cover its solicitor's fees. The legal costs were paid by its customer to Octwon Limited on 12 January 2017. Octwon Limited was unsure of winning the case and it had previously included a provision in its financial statements for the year ended 31 December 2016 for compensation and legal costs as follows:

| | € | € |
|---|---|---|
| Dr Legal Fees – Administrative Expenses | 25,000 | |
| Dr Cost of Sales | 35,000 | |
| Cr Provisions – Current Liabilities | | 60,000 |

(iv) One of Octwon's Limited customers was declared bankrupt on 5 January 2017, owing €4,000 to Octwon Limited.

**REQUIREMENT:**

Advise the management of Octwon Limited on the proper accounting treatment of each of the above issues so as to ensure that the financial statements are prepared in accordance with IFRS.

(12 marks)

**[Total: 20 Marks]**

**4.** The trial balance for Mr. Roger Kissane, a shop owner in Dublin, for the year ended 31 December 2016 does not balance. Mr. Kissane had identified the following issues but is unsure how to account for these and has approached you for assistance in rectifying the following:

1. Purchase returns of €964 have been debited to the purchases account in error.

2. A non-current loan received of €10,000 has been credited to equity by mistake.

3. A payment of €1,000 paid to 'Trade Payables T Casey' was credited to 'Trade Receivable R. Casey' by mistake.

4. In reviewing his cheque journal, Roger realised that he accidently recorded repairs and maintenance of €900 as insurance.

5. Mr. Kissane took purchases of €1,000 from his shop home for a personal party. No adjustment has been included in the financial statements for this transaction.

6. Deposit interest of €400 that relates to a personal deposit account has been included in the business trial balance by debiting bank interest expense and crediting suspense.

**REQUIREMENT:**

**(a)** Prepare journal entries for Mr. Roger Kissane to record and correct relevant transactions from the above information for the financial statements for the year-ending 31 December 2016.

(13 marks)

**(b)** Prepare the suspense account and calculate the opening balance on the suspense account. (4 marks)

**(c)** Identify which accounting errors can be detected by preparing a trial balance. (3 marks)

**[Total: 20 Marks]**

**5.** Bohermaw Limited is a company which is involved in the retail trade. The following are their results for the last two years.

**Bohermaw Limited**
**Statement of Profit or Loss and Other Comprehensive Income**
**for the year ended 31 December 2016**

| | **2016** | **2015** |
|---|---|---|
| | **€'000** | **€'000** |
| Sales | 5,800 | 3,990 |
| Cost of Sales | (4,123) | (2,863) |
| Gross Profit | 1,677 | 1,127 |
| Distribution Costs | (193) | (177) |
| Administration Costs | (218) | (126) |
| Profit before Interest & Tax | 1,266 | 824 |
| Interest | (188) | (194) |
| Taxation | (108) | (120) |
| Profit for the Year | 970 | 510 |

**Bohermaw Limited Statement of Financial Position for the year ended 31 December 2016**

| | **2016** | **2016** | **2015** | **2015** |
|---|---|---|---|---|
| | **€'000** | **€'000** | **€'000** | **€'000** |
| **Non-Current Assets** | | 3,610 | | 3,225 |
| **Current Assets** | | | | |
| Inventory | 580 | | 460 | |
| Trade Receivables | 460 | | 280 | |
| Cash & Cash Equivalents | 200 | | 160 | |
| **Total Current Assets** | | 1,240 | | 900 |
| **Total Assets** | | **4,850** | | **4,125** |
| **Equity & Liabilities** | | | | |
| **Equity** | | | | |
| Share Capital | 1,000 | | 1,000 | |
| Retained Earnings | 1,525 | | 555 | |
| **Total Equity** | | 2,525 | | 1,555 |
| **Non-Current Liabilities** | | | | |
| Long-term Debt | 1,700 | | 2,000 | |
| **Total Non-Current Liabilities** | | 1,700 | | 2,000 |
| **Current Liabilities** | | | | |
| Trade Payables | 400 | | 320 | |
| Bank Overdraft | 147 | | 30 | |
| Taxation | 108 | | 120 | |
| Accruals | 47 | | 100 | |
| **Total Current Liabilities** | | 702 | | 570 |
| **Total Equity & Liabilities** | | **4,927** | | **4,125** |

**Notes:**

(i) The Opening Inventory for 2015 was €500,000.

(ii) The number of shares in issue is 1,000,000 for both years.

| | **2016** | **2015** |
|---|---|---|
| (iii) Market price per share at year-end | €12.00 | €6.20 |

**REQUIREMENT:**

**(a)** Calculate for both years the following ratios in relation to Bohermaw Limited. (8 marks)

1) Gross Profit Percentage
2) Net Profit Percentage
3) Current Ratio
4) Trade Receivable Days
5) Trade Payable Days
6) Return on Capital Employed
7) Earnings Per Share
8) Price Earnings Ratio.

**(b)** Draft a report to the Board of Directors of Bohermaw Limited in which you provide a commentary on the company's position and performance. Use the ratios calculated at (a) above as the basis for your commentary.

(10 Marks)

**(c)** Discuss whether or not you would recommend to the Directors to sell the company for €15m as offered by a third party.

(2 marks)

**[Total: 20 Marks]**

**END OF PAPER**

**SUGGESTED SOLUTIONS**

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

# FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - AUGUST 2017

**SOLUTION 1**

**(a)** Discuss the advantages and obstacles to the harmonisation of accounting internationally.

**Advantages of International Harmonisation**

i) Investors have greater comparability of financial statements which enables easier investment decisions. This is important in the context of global investing which has become more significant in the last decade;

ii) Governments will have reduced funding requirements as they will not have to develop accounting standards for their own country;

iii) Accounting firms with international practices will find it easier to deal with staff resourcing in countries experiencing boom or recessionary times due to common accounting standards allowing staff transferability between countries with no major impact on services delivered;

iv) Companies

- Management control of foreign subsidiaries will be easier;
- Consolidation of financial statements of subsidiaries will be easier as they will operate under the same standards;
- Easier to comply with stock exchange reporting requirements;
- Investment more likely as investors will have greater knowledge and reliance on the financial statements.

(5 Marks)

**Obstacles to International Harmonisation**

i) Different purposes of financial statements i.e. IFRS's aimed at investment decision making whereas many countries use financial statements for tax purposes;

ii) Nationalism – possible unwillingness to accept another countries standards;

iii) Different legal systems whereby some countries require certain accounting practices and policies and other countries do not;

iv) Different users of financial statements. Countries vary in the importance they place on users groups

v) Lack of strong accountancy bodies. Many accountancy bodies in various countries are not independent or strong enough to press for harmonisation of accounting standards in their jurisdiction;

vi) Language and cultural differences. Both of these can cause difficulties in the adoption of standards accounting standards.

(5 Marks)

## (b)

**Cantelaow Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2016**

| | | € | € | € | € | € | € | |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | 2,458,752 | 40,000 | **2,498,752** | **0.25** |
| Cost of Sales Total | **W2** | | | | | | 1,482,423 | **0.25** |
| **Gross Profit** | | | | | | | **1,016,329** | **0.25** |
| Amortisation of Government Grant | **W1.v** | | | | | | 1,000 | **0.25** |
| Loss on Disposal of PPE | **W1.ii** | | | | | 3,200 | | **0.25** |
| Exchange Loss | **W1.vi** | | | | | 250 | | **0.25** |
| Distribution Costs | **W2** | | | | | 512,385 | | **0.25** |
| Administrative Expenses | **W2** | | | | | 543,375 | 1,059,210 | **0.25** |
| **Profit/(Loss) before Tax** | | | | | | | **(41,881)** | **0.25** |
| Income Tax | | | | | | | - | **0.25** |
| **PROFIT/(LOSS) FOR THE YEAR** | | | | | | | **(41,881)** | **0.25** |
| **Other Comprehensive Income for the year, net of tax** | | | | | | | **-** | **0.25** |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | | | | | | **(41,881)** | **0.25** |

**Cantelaow Limited Statement of Financial Position as at 31st December 2016**

| | | € | € | € | € | € | € | |
|---|---|---|---|---|---|---|---|---|
| **Non-Current Assets** | | | | | | | | |
| Property, Plant & Equipment | **W3** | | | | | | 1,671,270 | **0.25** |
| **Total Non-Current Assets** | | | | | | | **1,671,270** | **0.25** |
| **Current Assets** | | | | | | | | |
| Inventories | **W1.i** | | | | | | 216,200 | **0.25** |
| Trade Receivables | **W1.viii** | | | | | | 438,900 | **0.25** |
| Cash & Cash Equivalents | **TB + W1.ii + W1.iii** | 521,450 | 10,000 - | 400,000 | 100,000 - | 37,500 | 193,950 | **0.25** |
| **Total Current Assets** | **+ W1.vi** | | | | | | **849,050** | **0.25** |
| **TOTAL ASSETS** | | | | | | | **2,520,320** | **0.25** |
| **Equity & Liabilities** | | | | | | | | |
| **Equity** | | | | | | | | |
| Share Capital | **TB** | | | | | | 100,000 | **0.25** |
| Retained Earnings | **TB + SOPL** | | | | 1,716,925 - | 41,881 | 1,675,044 | **0.25** |
| Revaluation Surplus | **TB** | | | | | | 10,000 | **0.25** |
| **Total Equity** | | | | | | | **1,785,044** | **0.25** |
| **Non-Current Liabilities** | | | | | | | | |
| Long-term Loan | **TB** | | | | | | 350,000 | **0.25** |
| Government Grant | **W1.iii** | | | | 100,000 - | 1,000 | 99,000 | |
| **Total Non-Current Liabilities** | | | | | | | **449,000** | **0.25** |
| **Current Liabilities** | | | | | | | | |
| Trade Payables | **W1.vi** | | | | | | 282,276 | **0.25** |
| Accruals | **W1.viii** | | | | | | 4,000 | **0.50** |
| **Total Current Liabilities** | | | | | | | **286,276** | **0.25** |
| **TOTAL EQUITY & LIABILITIES** | | | | | | | **2,520,320** | |
| | | | | | | | **PRESENTATION** | **1.00** |
| | | | | | | | **TOTAL MARKS** | **8.50** |

| | | | Working - Journal Entries | | €'000 | €'000 | |
|---|---|---|---|---|---|---|---|
| 1.i | | Total Inventories at Cost per Inventory Count | | | | 246,200 | |
| | | Less Goods Sold | See Below | | | (30,000) | |
| | | Value of Closing Inventories | | | | 216,200 | |
| | Dr. | Trade Receivables | + Current Assets | SOFP | 40,000 | | |
| | Cr. | Revenue | + Income | SOPL & OCI | | 40,000 | 1.00 |
| | Cr. | Closing Inventory | + Cost of Sales | SOPL & OCI | 30,000 | | |
| | Dr. | Inventory | - Current Assets | SOFP | | 30,000 | |
| | Dr. | Inventory | + Current Assets | SOFP | 216,200 | | 1.00 |
| | Cr. | Closing Inventory | - Cost of Sales | SOPL & OCI | | 216,200 | |
| 1.ii | Dr. | Bank | + Current Assets | SOFP | 10,000 | | |
| | Cr. | Disposal Account | | | | 10,000 | |
| | Dr. | Disposal Account | | | 24,000 | | |
| | Cr. | Motor Vehicles - Property, Plant & Equipment (PPE) | - Non-Current Assets | SOFP | | 24,000 | |
| | Dr. | Accumulated Depreciation - PPE | + Non-Current Assets | SOFP | 10,800 | | |
| | Cr. | Disposal Account | | | | 10,800 | |
| | Dr. | Loss on Disposal of PPE | + Expenses | SOPL & OCI | 3,200 | | 1.00 |
| | Cr. | Disposal Account | | | | 3,200 | |
| 1.v | Dr. | Premises - PPE | + Non-Current Assets | SOFP | 400,000 | | |
| | Cr. | Bank | - Current Assets | SOFP | | 400,000 | 0.50 |
| | Dr. | Bank | + Current Assets | SOFP | 100,000 | | |
| | Cr. | Government Grant - Deferred Income | - Non-Current Liabilities | SOFP | | 100,000 | 1.00 |
| | Dr. | Government Grant - Deferred Income | + Non-Current Liabilities | SOFP | 1,000 | | |
| | Cr. | Amortisation of Government Grant | + Income | SOPL & OCI | | 1,000 | 1.00 |
| 1.vi | | What Happened - 30.11.16 | | | | | |
| | Dr. | Purchases | + Cost of Sales | SOPL & OCI | 45,000 | | |
| | Cr. | Trade Payables | + Current Liabilities | SOFP | | 45,000 | 0.50 |
| | | What Should Have Happened - 30.11.16 | | | | | |
| | Dr. | Purchases | + Cost of Sales | SOPL & OCI | 50,000 | | |
| | Cr. | Trade Payables | + Current Liabilities | SOFP | | 50,000 | 0.50 |
| | | To Correct - 30.11.16 | | | | | |
| | Dr. | Purchases | + Cost of Sales | SOPL & OCI | 5,000 | | |
| | Cr. | Trade Payables | + Current Liabilities | SOFP | | 5,000 | 1.00 |
| | | Payment - 15.12.16 | | | | | |
| | Dr. | Trade Payables | - Current Liabilities | SOFP | 37,500 | | |
| | Cr. | Bank | - Current Assets | SOFP | | 37,500 | 1.00 |
| | | Closing Balance of Trade Payable - 31.12.16 | | **Sterling** | **Euro** | | |
| | | Purchase | | 45,000 | 50,000 | | |
| | | - Payment | | (30,000) | (37,500) | | |
| | | Closing Balance - 31.12.16 | | 15,000 | 12,500 | | |
| | | Exchange Rate | | 0.85 | | | |
| | | Converted Into Euro | | 12,750 | 12,500 | | |
| | | Exchange Difference - Loss | | | | 250 | |
| | Dr. | Exchange Loss | + Cost of Sales | SOPL & OCI | 250 | | |
| | Cr. | Trade Payables | + Current Liabilities | SOFP | | 250 | 1.00 |
| | | Trade Payables | TB | | 314,526 | | |
| | | Error in Entry | W1.vi | | 5,000 | | |
| | | Payment | W1.vi | | (37,500) | | |
| | | Exchange Loss | W1.vi | | 250 | | |
| | | Revised Trade Payables | | | 282,276 | | 0.50 |
| 1.vii | Dr. | Bad Debt Write Off | + Expenses | SOFP | 3,600 | | 0.50 |
| | Cr. | Trade Receivables | - Current Assets | SOFP | | 3,600 | |
| | Dr. | Allowance for Bad & Doubtful Debts | + Expenses | SOPL & OCI | 4,500 | | 0.50 |
| | Cr. | Trade Receivables | - Current Assets | SOFP | | 4,500 | |
| | | Trade Receivables | Balance per TB | | 425,600 | | |
| | | Revenue | W1.1 | | 40,000 | | |
| | | - Bad Debt Write Off | | | (3,600) | | |
| | | | | | 462,000 | | |
| | | - Allowance for Bad Debts - 5% | | | 23,100 | | |
| | | **Revised Trade Receivable** | | | **438,900** | | |
| | | Current Allowance for Bad & Doubtful Debts | TB | | 18,600 | | |
| | | New Allowance for Bad & Doubtful Debts | See Above | | 23,100 | | |
| | | Increase in Allowance for Bad & Doubtful Debts | | | 4,500 | | |
| 1.viii | Dr. | Adminstrative Expenses | + Expenses | SOPL & OCI | 2,400 | | |
| | Dr. | Distribution Costs | + Expenses | SOPL & OCI | 1,600 | | |
| | Cr. | Accruals | + Current Liabilities | SOFP | | 4,000 | 0.50 |
| | | | | | | **CURRENT MARKS** | **11.50** |

| Working 2 - Expenses | | Cost of Sales | Distribution Costs | Administration Expenses | | |
|---|---|---|---|---|---|---|
| Opening Inventory | **Per TB** | 235,800 | - | - | | **Cost of** |
| Purchases | **Per TB** | 1,457,823 | - | - | | **Sales** |
| Closing Inventory | **W1.i** | (216,200) | - | - | | **2.00** |
| Expenses | **Per TB** | - | 457,820 | 489,610 | | **Distribution** |
| Purchases | **W1.vi** | 5,000 | | | | **Costs** |
| Bad Debt Write Off | **W1.vii** | - | 1,800 | 1,800 | 3,600 | **2.00** |
| Allowance for Bad & Doubtful Debts | **W1.vii** | - | 2,250 | 2,250 | 4,500 | |
| Accruals | **W1.viii** | | 2,400 | 1,600 | | |
| Depreciation - Premises | **W3** | - | 18,240 | 18,240 | 36,480 | **Admin** |
| Depreciation - Fixtures & Fittings | **W3** | - | 7,675 | 7,675 | 15,350 | **Expenses** |
| Depreciation - Motor Vehicles | **W3** | - | 22,200 | 22,200 | 44,400 | **2.00** |
| **Total** | | **1,482,423** | **512,385** | **543,375** | | |

| Working 3 - Property, Plant & Equipment | | Premises € | Office Equipment € | Motor Vehicles € | Total € | |
|---|---|---|---|---|---|---|
| Cost | | 1,624,000 | 186,000 | 240,000 | 2,050,000 | |
| Accumulated Depreciation b/d | | (458,700) | (124,600) | (86,000) | (669,300) | |
| Carrying Value b/d at 1st January 2016 | | 1,165,300 | 61,400 | 154,000 | 1,380,700 | **0.50** |
| Disposal | **W1.ii** | - | - - | 24,000 - | 24,000 | **0.50** |
| Disposal - Accumulated Depreciation | **W1.ii** | - | - | 10,800 | 10,800 | **0.50** |
| Carrying Value | | 1,165,300 | 61,400 | 140,800 | 1,367,500 | |
| Addition - Premises | **W1.iii** | 400,000 | - | - | 400,000 | **0.50** |
| | | 1,565,300 | 61,400 | 140,800 | 1,767,500 | |
| Depreciation - Premises - 2% Straight Line on Cost | | (36,480) | - | - | (36,480) | **0.50** |
| Depreciation - Office Equipment - 25% Reducing Balance | | - | (15,350) | - | (15,350) | **0.50** |
| Depreciation - Motor Vehicles - 20% Straight Line on Cost | | - | - | (44,400) | (44,400) | **0.50** |
| **Carrying Value c/d at 31st December 2016** | | **1,528,820** | **46,050** | **96,400** | **1,671,270** | **0.50** |

| | |
|---|---|
| **CURRENT MARKS** | **10.00** |
| **TOTAL MARKS** | **30.00** |

## SOLUTION 2

### (a)

| Montag Club Bar Trading Account for the year-ended 31 December 2016 | | | | |
|---|---|---|---|---|
| | € | € | | |
| **Sales** | | **93,700** | | **1.00** |
| **Less Cost of Sales** | | | | |
| Opening Inventory | 6,100 | | | **1.00** |
| + Purchases | 60,560 | | | **3.00** |
| - Closing Inventory | (5,900) | | | **1.00** |
| **Total Cost of Sales** | | **60,760** | | **0.50** |
| **Gross Profit** | | **32,940** | | **0.50** |
| **Expenses** | | | | |
| Bar Expenses | 8,420 | | | **1.00** |
| Bar Wages | 26,880 | | | **2.00** |
| **Total Expenses** | | **35,300** | | |
| **Net Loss** | | **(2,360)** | | **1.00** |
| | | | **SUBTOTAL MARKS** | **11.00** |

### (b)

| Montag Club Income & Expenditure Account for the year-ended 31 December 2016 | | | | |
|---|---|---|---|---|
| **Income** | € | € | | |
| Subscriptions | 81,660 | | | **3.00** |
| Profit on Competition | 6,930 | | (10,830 - 3,900) | **1.00** |
| **Total Income** | | **88,590** | | **0.50** |
| **Expenditure** | | | | |
| Loss on Bar | 2,360 | | | **0.50** |
| Rates | 3,200 | | | **0.50** |
| Loan Interest | 4,800 | | 96,000*0.05 | **1.00** |
| Sundry Expenses | 1,020 | | | **0.50** |
| Depreciation | 6,500 | | (50,000+15,000)*0.10 | **1.00** |
| **Total Expenditure** | | **17,880** | | **0.50** |
| **Excess of Income over Expenditure** | | **70,710** | | **0.50** |
| | | | **SUBTOTAL MARKS** | **9.00** |
| | | | **OVERALL MARKS** | **20.00** |

**Bar Purchases Calculation**

T. Payables Bar Account

| | € | | € |
|---|---|---|---|
| Bank Bar Payments | 60,360 | Balance B/D | 8,400 |
| | | **Purchases - Balancing Figure** | 60,560 |
| Balance C/D | 8,600 | | |
| | 68,960 | | 68,960 |
| | | Balance B/D | 8,600 |

**Subscriptions Calculation**

Subscriptions Account

| | € | | € |
|---|---|---|---|
| Balance B/D | 2,090 | Balance B/D | 1,550 |
| **Income - I&E A/c - Balancing Figure** | 81,660 | Bank Receipt | 82,460 |
| Balance C/D | 1,960 | Balance C/D | 1,700 |
| | 85,710 | | 85,710 |
| Balance B/D | 1,700 | Balance B/D | 1,960 |

**Wages Calculation**

Wages Account

| | € | | € |
|---|---|---|---|
| Bank Payments | 26,380 | Balance B/D | 1,000 |
| | | **Expense - I&E A/c - Balancing Figu** | **26,880** |
| Balance C/D | 1,500 | | |
| | 27,880 | | 27,880 |
| | | Balance B/D | 1,500 |

**SOLUTION 3**

**REPORT**
**To: Financial Controller – Octwon Limited**
**From: Assistant Financial Accountant**
**Re: IAS 10 – Events after the Reporting Period**
**Date: August 2017**

**PART A**

**(a)** Per paragraph 14 of IAS 10, a company would not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the company or to cease trading or that it has no realistic alternative but to do so.

(3 Marks)

**(b)** Paragraph 3 of IAS 10 states that events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified i.e.

a) Adjusting events are those events that provide evidence of conditions that existed at the end of the reporting period

b) Non-adjusting events are those events that are indicative of conditions that arose after the reporting period

(3 Marks)

**(c)** Per paragraph 19 of IAS 10, if a company receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to these conditions, in the light of the new information.

(2 Marks)

**PART B**

(i) Per paragraph 11 of IAS 10, this is a non-adjusting event. The decline in fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Similarly, the company does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure

(ii) Per paragraph 9 (c) of IAS 10, this is an adjusting event. The determination after the statement of financial position dates of the cost of assets purchased before the end of the reporting period is an adjusting event after the reporting period and the adjusting event needs to be recognised in its financial statements for the relevant year ended. Therefore, the full cost of the motor vehicle needs to be reflected in its financial statements for the year ended 31 December 2016.

(iii) Per paragraph 9 (a) of IAS 10, this is an adjusting event. The event took place during the reporting period and the settlement after the reporting period of the court case confirms that there was a present obligation at the end of the reporting period. Therefore, the previous provision should be reversed and the money received for legal fees should be netted against any legal costs that Octwon Limited bore in defending the case in the financial statements for the year ended 31 December 2016.

(iv) Per paragraph 9 (b i) of IAS 10, this is an adjusting event. The receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period for example the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable. Therefore, Octwon Limited should write off the amount as a bad debt in its financial statements for the year ended 31 December 2016

(12 Marks)

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

Yours sincerely,

Financial Accountant

**Total (20 Marks)**

## SOLUTION 4

**(a)**

| | | € | € | | | € | € | Marks |
|---|---|---|---|---|---|---|---|---|
| | **Issue 1** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| | Trade Payables | 964 | | Dr. | Trade Payables | 964 | | |
| Cr. | Purchase Returns | | 964 | Dr. | Purchases | 964 | | |
| | | | | Cr. | Suspense | | 1,928 | |
| | **To Correct** | | | | | | | |
| Dr. | Suspense | 1,928 | | | | | | 1.00 |
| Cr. | Purchase Returns | | 964 | | | | | 1.00 |
| Cr. | Purchases | | 964 | | | | | 1.00 |
| | **Issue 2** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| Dr. | Bank | 10,000 | | Dr. | Bank | 10,000 | | |
| Cr. | Bank Loan - Non-Current | | 10,000 | Cr. | Equity | | 10,000 | |
| | **To Correct** | | | | | | | |
| Dr. | Equity | 10,000 | | | | | | 1.00 |
| Cr. | Bank Loan - Non-Current | | 10,000 | | | | | 1.00 |
| | **Issue 3** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| Dr. | Trade Payables | 1,000 | | Dr. | Suspense | 2,000 | | |
| Cr. | Bank | | 1,000 | Cr. | Trade Receivable | | 1,000 | |
| | | | | Cr. | Bank | | 1,000 | |
| | **To Correct** | | | | | | | |
| Dr. | Trade Payables | 1,000 | | | | | | 1.00 |
| Cr. | Trade Receivable | 1,000 | | | | | | 1.00 |
| Cr. | Suspense | | 2,000 | | | | | 1.00 |
| | **Issue 4** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| Dr. | Repairs & Maintenance Expense | 900 | | Dr. | Insurance Expense | 900 | | |
| Cr. | Bank | | 900 | Cr. | Bank | | 900 | |
| | **To Correct** | | | | | | | |
| Dr. | Repairs & Maintenance Expense | 900 | | | | | | 0.50 |
| Cr. | Insurance Expense | | 900 | | | | | 0.50 |
| | **Issue 5** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| Dr. | Drawings | 1,000 | | | Nothing | | | |
| Cr. | Purchases | | 1,000 | | | | | |
| | **To Correct** | | | | | | | |
| Dr. | Drawings | 1,000 | | | | | | 1.00 |
| Cr. | Purchases | | 1,000 | | | | | 1.00 |
| | **Issue 6** | | | | | | | |
| | **Should Have Happened** | | | | **Actually Happened** | | | |
| | Nothing | | | Dr. | Bank Interest Expense | 400 | | |
| | | | | Cr. | Suspense | | 400 | |
| | **To Correct** | | | | | | | |
| Dr. | Suspense | 400 | | | | | | 1.00 |
| Cr. | Bank Interest Expense | | 400 | | | | | 1.00 |
| | | | | | | | **TOTAL MARKS** | **13.00** |

**(b)**

**Suspense Account**

| | | | | | | Marks |
|---|---|---|---|---|---|---|
| 1 | Purchase Returns | 964 | | Opening Balance | 328 | 1.50 |
| 1 | Purchases | 964 | 3 | Trade Payables | 1,000 | 1.00 |
| 6 | Bank Interest Expense | 400 | 3 | Trade Receivable | 1,000 | 1.00 |
| | | 2,328 | | | 2,328 | 0.50 |
| | | | | | **SUBTOTAL MARKS** | **4.00** |

**(c)**

Errors of Transposition
Errors of Omission (if the omission is one-sided)
Errors of Commission (if one-sided, or say two debit entries are made for example)

**SUBTOTAL MARKS** **3.00**

**OVERALL MARKS** **20.00**

## SOLUTION 5

**(a)**

| | **2016** | **2015** |
|---|---|---|
| Gross Profit Percentage | €1,677/ €5,800 = 28.91% | €1,127/ €3,990 = 28.25% |
| Net Profit Percentage | €970/ €5,800 = 16.72% | €510/ €3,990 = 12.78% |
| Current Ratio | €1,240/ €702 = 1.76:1 | €900/ €570 = 1.58:1 |
| Trade Receivable Days | €460/ €5,800*365 = 29 Days | €280/ €3,990*365 = 26 Days |
| Trade Payable Days | €400/ €4,123*365 = 35 Days | €320/ €2,863*365 = 41 Days |
| Return on Capital Employed | €1,266/ €4,148 = 30.52% | €824/ €3,555 = 23.18% |
| Earnings per Share | €970/ €1,000 = €0.97 | €510/ €1,000 = €0.51 |
| Price Earnings Ratio | €12.00/ €0.97 = 12.37 | €6.20/ €0.51 = 12.16 |

(8 Marks)

**(b)** **To: Board of Directors – Bohermaw Limited**
**From: Assistant Financial Accountant**
**Re: Company's Position and Performance**
**Date: August 2017**

**Gross Profit Percentage**

The Gross Profit percentage has increased from 28.25% to 28.91%, an increase of over 2.33% which is a positive trend for the company. This is also positive for the fact that the company sales increased by over 45%. An increase of this magnitude presented a challenge for a company and the company has in the main responded positively to this challenge. The increase resulted from the fact that sales increased faster than Cost of Sales (44%). However, one should note that purchases increased at a slightly higher rate than sales and was offset by higher closing inventory.

| | **2016** | **2015** | **% Increase** |
|---|---|---|---|
| | **€'000s** | **€'000s** | |
| Opening Stock | 460 | 500 | - 8.00% |
| Purchases | 4,243 | 2,903 | 46.16% |
| Closing Stock | (580) | (460) | 26.09% |
| Cost of Sales | 4,123 | 2,863 | |

**Net Profit Percentage**

The Net Profit % has increased from 12.78% to 16.72% which is an increase of nearly 31%. This is an extremely good performance. The main reason for the increase is due to the increase in Sales which has meant that the Gross Profit has increased from €1,127k to €1,677k, an increase of €550k. This increase has been offset to a degree by the increase in Admin Expenses of €92k which is an increase of just over 73%. This increase is high so the company need to watch this cost going forward.

**Current Ratio**

This is less than the average of 2:1. However, the current ratio has increased by over 11.39% which is an improvement. The reason for the improvement is primarily due to the increase in Current Assets (up 37.78%) which in turn has been driven by the increase in inventory from €460k to €580k an increase of over 26%, increase in trade receivables of €180k (over 64% increase) and an increase in cash of €40k or 25%. The increase in trade receivables is not a great result as the sales increased by over 45% which would indicate that there may have been a problem collecting debts or else the company, to increase sales, had to sell to customers who demanded more credit from the company. However, if we were to look at Trade Receivables Days we will see that they increased by less than 12% so therefore, this level of increase is less than the increase in Sales. However, the trend is negative and therefore the company collection of Trade Receivables should be pushed hard to ensure that they are collecting them as efficiently as possible and bring the Trade Receivables back in line with the previous year. Current Liabilities increased by 23.16%. The main drivers of Current Liabilities were the increase in the Bank Overdraft of €117k, an increase of over 390%. The increase in the bank overdraft stems from the purchase of non-current assets as well as a decrease in the long-term debt and an increase in working capital. Trade Payables increased by €80k or 25% but this increase was mainly due to the decrease in accruals of €53k.

**Trade Receivables Days**
This has increased from 23 to 26 days, an increase of over 11%. Sales have increased by over 45% but this is no excuse for the deterioration in Trade Receivables Days. The company need to ensure that the increase in Sales is not being fuelled by having customers who are demanding longer credit before they would purchase goods from Boherash Limited. Another possible reason is that the credit department were poor in collecting debts and given the increase in Administrative Expenses, one would expect that the credit control department was adequately staffed to cope with the increased workload in collecting debts from having more sales.

**Trade Payables Days**
This decreased from 41 days to 35 days which is a deterioration of over 14.63%. This is not a good result given the fact that the company should be aiming for 45 days plus. Obviously with the increase in purchases, some of the supplier company's set limits on the amount of stock they would sell before getting paid and therefore, this meant that the Trade Payables days decreased. If we compare to 2015, the difference between when money was received in from Trade Receivables and paid out to Trade Payables has decreased from 15 days to 6 days which has obviously put pressure on the cash flow of the company

**Return on Capital Employed**
This has increased from 23.18% to 30.52% which is an increase in percentage terms of nearly 32%. Again, this is a very positive result. The main driver of this increase is the increase above the line in the Profit before Interest and Tax from €824k to €1,266k, an increase of €442 or 53.64%. Capital Employed also increased from €3,555k to €4,148k, an increase of €593k or 16.68%. The main increases here were the increase in Non-Current Assets and Current Assets which we have discussed already.

**Earnings per Share**
This has increased from 51 cent per share to 97 cent per share, which is an increase of over 90%. This is a positive trend and is driven by the increase in profit which the company has gained in 2016.

**Price Earnings Ratio**
This ratio has increased slightly from 12.16 to 12.37, an increase of 1.73%. Basically, what has happened is that the increase in EPS has been offset by the increase in share price from €6.20 to €12 euro. The current P/E ratio is at a healthy level and basically investors have become quite interested in the company and the profits the company were going to make and their interest has driven the price of the shares up significantly.

(10 Marks)

**(c)** Yes I would recommend the sale of the company for €15 million. Basically, the return for 2016 has been very good and provided that this was not a one off year, then one would expect the company to continue to perform well going forward. The cash position is the one which is of most concern in purchasing this company i.e. that the current ratio is not great but if we increase Trade Payables and squeeze Trade Receivables back to where they were in 2015, this would increase the cash position by €175k and increase the current ratio to greater than the norm. The current offer values the company at €15 a share which is at a 25% premium to the current share price. Overall, I would recommend the sale of the company at €15 million provided no issues are unveiled in the due diligence process.

(2 Marks)

Total (20 Marks)

## MARKING SCHEME

| | | |
|---|---|---|
| **Q1** | | |
| **(a)** | Define and explain the elements of financial statements | 10 |
| **(b)** | Workings<br>Statement of Profit or Loss and Other Comprehensive Income +<br>Statement of Financial Position | 30 |
| | Total Marks – Q1 | **40** |
| **Q2** | | |
| **(a)** | Bar Trading Account | 11 |
| **(b)** | Income and Expenditure Account | 9 |
| | Total Marks – Q2 | **20** |
| **Q3** | | |
| **(a)** | Events after the reporting period | 3 |
| **(b)** | Financial statements not prepared on a going concern basis | 3 |
| **(c)** | Information after the reporting period | 2 |
| **(d)** | Scenarios 1 – 4 | 12 |
| | Total Marks – Q3 | **20** |
| **Q4** | | |
| **(a)** | Journal Entries | 13 |
| **(b)** | Suspense Account | 4 |
| **(c)** | Errors detected by preparing a trial balance | 3 |
| | Total Marks – Q4 | **20** |
| **Q5** | | |
| **(a)** | Calculation of Ratios | 8 |
| **(b)** | Report on position and performance of company | 10 |
| **(c)** | Advice on selling of company | 2 |
| | Total Marks – Q5 | **20** |