FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 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.

Identify and discuss the main qualitative characteristics of financial statements. (a)

(10 Marks)

Ruberh Ltd is a company involved in the manufacture of t-shirts for the retail industry. The following trial (b) balance was extracted from their books as at 31 December 2016:

	Debit	Credit
	€	€
Accumulated Depreciation - Building - 1 January 2016		440,000
Accumulated Depreciation - Fixtures & Fittings - 1 January 2016		124,500
Accumulated Depreciation - Trucks - 1 January 2016		211,000
Admininstrative Expenses	345,781	
Allowance for Bad & Doubtful Debts		12,200
Bank		44,000
Building at Cost at 1 January 2016	1,800,000	
Current Tax Payable		16,500
Distribution Costs	457,810	
Fixtures & Fittings at Cost at 1 January 2016	247,500	
Income Tax (2016)	22,500	
Intangible Assets	240,000	
4% Investments (at cost)	120,000	
Investment Income		3,600
Inventory at 1 January 2016	186,400	
Issued Share Capital		100,000
Long-Term Loan		260,000
Purchases / Revenue	1,984,200	3,145,720
Retained Earnings at 1 January 2016		1,468,571
Revaluation Surplus		22,000
Trade Receivables / Trade Payables	289,500	245,600
Trucks at Cost at 1 January 2016	400,000	
	6,093,691	6,093,691

The following additional information has also come to your attention:

- Inventory at 31 December 2016 is €236,400. Included in this is a batch of t-shirts which cost €4,800 and is (i) viewed as being worthless on that date.
- (ii) Depreciation is to be charged as follows:

Building	3% Straight Line on Cost
Fixtures & Fittings	20% Reducing Balance

Trucks 20% Straight Line on Cost

Depreciation for the year is charged in full in the year of purchase and none in the year of sale. (iii) A new truck costing \in 80,000 was purchased in June 2016. An existing truck which was purchased for \in 60,000 in June 2012 was traded in against the new truck and the balance of €70,000 was paid in June 2016.

- (iv) The building was revalued to \in 1,300,000 on 1 January 2016. A professional valuer estimates the residual value will be \in 100,000 and that its remaining useful life is thirty years.
- (v) In February 2017, 4% investments had declined in value to \in 100,000.
- (v) A tax payment was made in December 2016 amounting to \in 20,000.
- (vii) Provide for the balance of the investment income owing.
- viii) Ruberh Ltd received and recovered a €4,000 bad debt previously written off in December 2016. The Allowance for Doubtful Debts should be set at 4%.
- (ix) Intangible assets includes an internally generated brand worth €20,000. Intangible assets are to be amortised over ten years.
- (x) Expenses are to be allocated evenly between Distribution Costs and Administrative Expenses.

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 Ruberh Ltd for the financial year-ended 31 December 2016.

Note: All workings should be shown.

(30 Marks)

[Total: 40 Marks]

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN **IRELAND**

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 2017

SOLUTION 1

(a) If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable with the fundamental qualitative characteristics being relevance and faithful representation.

Relevance

To be useful information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations. The relevance of information is affected by its nature and materiality. In some cases, the nature of information alone is sufficient to determine its relevance. In other cases, both the nature and materiality are important. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

Faithful Representation

Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable.

A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, deemphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented

Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

Comparability

Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Users must be able to compare the financial statements of an entity through time in order to identify trends in its financial position and performance. Users must also be able to compare the financial statements of different entities in order to evaluate their relative financial position, performance and changes in financial position. Hence, the measurement and display of the financial effect of like transactions and other events must be carried out in a consistent way throughout an entity and over time for that entity and in a consistent way for different entities. The need for comparability should not be confused with mere uniformity. It is inappropriate for an entity to leave its accounting policies unchanged when more relevant and reliable alternatives exist. It is important that the financial statements show corresponding information for the Permitting alternative accounting methods for the same economic phenomenon preceding periods. diminishes comparability.

Verifiability

Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified. Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

Classifying, characterising and presenting information clearly and concisely makes it understandable. Some aspects of financial statements are inherently complex and cannot be made easy to understand. Excluding information about these from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading. Users must be able to understand financial statements. They are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information properly. Complex matters, if relevant for decision-making, should not be left out of financial statements simply due to its difficulty in being understood.

(10 Marks)

(b)

Ruberh Limited Statement of Profit or Lo	oss and Other Comprehensive In	come for the	e year-ended 3	1st Decembe	er 2016	E	
Revenue	тв	Ē	<u>e</u>	<u>t</u>	<u>t</u>	<u>*</u> 3.145.720	0.25
Cost of Sales	W2					- 1,939,000	
Gross Profit					-	1,206,720	0.25
Investment Income	TB + W1.vii		3,600	1,200	4,800		0.25
Bad Debt Recovered	W1.viii				4,000		0.25
Distribution Costs	W2				572,800		
Administrative Expenses	W2			_	460,771	1,024,771	
Profit/(Loss) before Tax						181,949	0.25
	IB				-	22,500	0.25
Other Comprohensive Income						159,449	0.25
Revaluation Loss	W3					- 22.000	0.25
Other Comprehensive Income for the ve	ar net of tax				-	- 22,000	0.20
					-	127,440	0.25
TOTAL COMPREHENSIVE INCOME FOR	THE LEAR				-	137,449	0.25
Ruberh Limited Statement of Financial F	Position as at 31st December 201	6	_	_		_	
		€	€	€	€	<u>€</u>	
Property, Plant & Equipment	W3					1,531,400	0.25
			0.40,000	00.000	00.000	120,000	0.25
Intangible Asset	IB + W1.IX		240,000 -	20,000 -	22,000	198,000	0.25
Total Non-Current Assets					-	1,049,400	0.25
Current Assets							
Inventories	W1.i					231,600	0.25
Trade Receivables	W1.viii					277,920	0.50
Other Receivables				16 500	20,000	1,200	0.25
Current Tax Asset	IB + W1.VI		-	16,500	20,000	3,500	0.25
Total Current Assots					-	514 220	0.25
					=	514,220	0.25
IUIAL ASSEIS					=	2,363,620	0.25
Equity & Liabilities							
Equity							
Share Capital				4 400 574	450 440	100,000	0.25
Retained Earnings	W1.IX + W1.VIII			1,468,571	159,449	1,628,020	0.25
Total Equity	VV3			22,000 -	22,000 -	1 729 020	0.25
Non Current Linkilition					-	1,720,020	0.25
Long form Loon						260 000	0.25
Total Non-Current Liabilities					-	200,000	0.25
					-	200,000	
Trade Davables	TB + W4 iii					245 600	0.25
Rank	TB + W1 iii + W1 vi	44 000	70.000	20,000	4 000	245,600	0.25
Total Current Liabilities		44,000	70,000	20,000 -	4,000 -	375 600	0.25
					=	575,000	0.25
IOTAL EQUITY & LIABILITIES					-	2,363,620	0.25
					то	TAL MARKS	7.50

	Wo	rking - Closing Inventory	Working - Journal Entries €	<u>8</u> €			
		Total Inventories at Cost per Inventory Count		236 400			
		Worthless Inventories - Cost NRV - Selling Price less costs to sell	4,800	200,100			
		Inventory Write Down Value of Closing Inventories		4,800 231,600	_		0.50
1.i	Dr. Cr.	Inventory Closing Inventory	+ Current Assets - Cost of Sales	SOFP SOPL & OCI	€ 231,600	€ 231,600	1.00
1.iii	Dr.	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP	10,000		
	Cr. Dr. Cr.	Disposal Account - Trucks Property, Plant & Equipment (PPE) Bank	+ Non-Current Assets + Current Liabilities	SOFP SOFP	70,000	10,000 70,000	
	Dr. Cr. Dr.	Disposal Account - Trucks Property, Plant & Equipment (PPE) Accumulated Depreciation - PPE	- Non-Current Assets + Non-Current Assets	SOFP SOFP	60,000 48,000	60,000	2.00
	Cr. Dr. Cr.	Disposal Account - Trucks Loss on Disposal Disposal Account - Trucks	+ Expenses	SOPL & OCI	2,000	48,000 2,000	
1.v		Per paragraph 11 of IAS 10, this is a non-adjusting event. The to the condition of the investments at the end of the reporting parisen subsequently. Similarly, it does not update the amounts of the reporting period, although it may need to give additional needed in the financial statements for the year-ended 31 Dece	e decline in fair value does n period, but reflects circumsta s disclosed for the investmen disclosure. Therefore, ther ember 2016 to reflect the de	ot normally relate ances that have nts as at the end e is no adjustment crease in value.			1.00
1.vi	Dr. Cr.	Current Tax Asset Bank	+ Current Assets + Current Liabilities	SOFP SOFP	20,000	20,000	1.00
1.vii	Dr. Cr.	Other Receivables Investment Income	+ Current Assets + Other Income	SOFP SOPL & OCI	1,200	1,200	1.00
		Investment Interest on Investment - 3% Already accounted for Balance to be included in Other Income		4% Per TB	120,000 4,800 <u>3,600</u> 1,200		0.50
1.viii	Dr.	Trade Receivables	+ Current Assets	SOFP	4,000		1.00
	Cr. Dr. Cr.	Bad Debt Recovered Bank Trade Receivables	+ Other Income + Current Assets - Current Assets	SOPL & OCI SOFP SOFP	4,000	4,000 4,000	0.50
	Dr. Cr.	Allowance for Doubtful Debts Allowance for Doubtful Debts	+ Current Assets - Expenses	SOFP SOPL & OCI	620	620	1.00
		Trade Receivables + Write Back of Bad Debt Recovered - Bad Debt Recovered Received	ТВ	-	289,500 4,000 4,000		
		- Allowance for Bad & Doubtful Debts - 4% Revised Trade Receivable		-	289,500 11,580 277,920		1.00
		Current Allowance for Bad & Doubtful Debts New Allowance for Bad & Doubtful Debts Decrease in Allowance for Bad & Doubtful Debts	TB See Above	-	12,200 11,580 620		
1.ix	Dr. Cr.	Expenses Intangible Assets	+ Expenses - Non-Current Assets	SOPL & OCI SOFP	20,000	20,000	1.00
	Dr. Cr.	Amortisation of Intangible Assets Intangible Assets	+ Expenses - Non-Current Assets	SOPL & OCI SOFP	22,000	22,000	1.00
		Intangible Asset - Internally Generated Brand Revised Intangible Asset	ТВ	-	240,000 20,000 220,000		0.50
		Amortisation of Intangible Asset	Over Ten Years		22,000		0.50
					CURREN	IT MARKS	13.50

-	Working 2 - Expenses Opening Inventory Purchases Closing Inventory Expenses Loss on Disposal Allowance for Bad & Doubtful Debts Internally Generated Brands Amortisation of Intangible Assets Revaluation Loss Depreciation - Buildings Depreciation - Plant & Equipment Depreciation - Office Equipment Total Working 3 - Property, Plant & Equipment Cost Accumulated Depreciation b/d Carrying Value b/d at 1st January 2016 Revaluation Loss Addition	Per TB W1.i Per TB W1.iii W1.viii W1.ix W1.ix W3 W3 W3 W3 W3 W3 W3 W3 W3	Cost of <u>Sales</u> 186,400 1,984,200 - 231,600 - - - - - - - - - - - - - - - - - -	Distribution <u>Costs</u> - 457,810 1,000 - 310 - 10,000 11,000 19,000 20,000 12,300 42,000 572,800 Fixtures & <u>Fittings</u> € 247,500 - 123,000 - 123,000 - 123,000 - - - - - - - - - - - - -	Administration <u>Expenses</u> - - - - - - - - - - - - -	- 2,000 - 620 20,000 22,000 38,000 40,000 24,600 84,000 - 775,500 1,672,000 - 60,000 1,612,000 80,000	Cost of Sales 0.50 Distribution Costs 2.00 Admin. Expenses 2.00 0.50
	Disposal - Cost	W1.iii + Note 2 W1 iii + Note 2	-		- 60,000 48,000	- 60,000	0.50
		WILLIN + NOTE 2	1,300,000	123,000	257,000	1,680,000	0.50
	Depreciation - Buildings Depreciation - Fixtures + Fittings - 20% Reducing Balance Depreciation - Trucks - 20% Straight Line on Cost Carrying Value c/d at 31st December 2016	Note 3	- 40,000 - - - 1,260,000	- 24,600 98,400	- <u>84,000</u> 1 73,000	- 40,000 - 24,600 - 84,000 1,531,400	0.50 0.50 0.50
_	Note 1 - Revaluation Loss			0.055			
Dr. Dr. Cr.	Revaluation Surplus Expenses Property, Plant & Equipment	- Equity + Expenses - Non-Current Asse	ts	SOFP SOPL&OCI SOFP	22,000 38,000	60,000	1.00
	Note 2 - Disposal of Equipment			00.000			
	Cost Accumulated Depreciation - 20% straight line per annum Depreciation 2012		12,000	60,000			
	Depreciation 2013 Depreciation 2014		12,000 12,000				
	Depreciation 2015		<u>12,000</u> 48,000	- 48,000			
	Carrying Value of Equipment disposed			12,000			
		Disposal Account					
		Cost 80,000	Accumulated D Trade In Value Loss on Dispo	Depreciation	48,000 10,000 4,000		
		80,000		=	62,000		
	Note 2 - Depreciation of Buildings	Revalued Amount Remain	- ing Estimated Us	Residual Value seful Life			
		1 300 000		100 000			
		1,000,000	30	100,000			
	Depreciation on Buildings		40,000				
					CUR	RENT MARKS	9.00
					т	OTAL MARKS	22.50

			Adjustm	ent	Statement of Profit	or Loss and	Statement of Finar	cial Position
					Other Comprehen	sive Income		
	Debit €	Credit €	Debit €	Credit €	Debit €	Credit €	Debit €	Credit €
Building - 1 January 2016 Tixtures & Fittinos - 1 January 2016	,	440,000 124 500	,	40,000 24 600	,	,	•	480,000 149,100
Trucks - 1 January 2016		211.000	48.000	84.000				247,000
	345,781		115,300	310	460,771			
I Debts		12,200	620					11,580
		44,000	4,000	90,000				130,000
2016	1,800,000			60,000			1,740,000	
		16,500	20,000	040			3,500	
0100	45/,810		115,300	310	D/Z,8UU			
1 January 2016	247,500 22,500				22 END		247,5UU	
	240.000			42.000	74,000		198.000	
	120,000						120,000	
		3,600		1,200		4,800		
	186,400				186,400			
		100,000						100,000
	1.984.200	3.145.720			1.984.200	3.145.720		200,000
ary 2016		1,468,571			159,449			1,628,020
:		22,000	22,000					
ayables 2016	289,500	245,600	4,000 80,000	4,000 60,000			289,500	245,600
16	+00°,000		231,600	231,600		231,600	231,600	
			1,200				1,200	
				4,000		4,000		
	6,093,691	6,093,691	642,020	642,020	3,386,120	3,386,120	3,251,300	3,251,300
				·				·

Accumulated Depreciation - Building - 1 January 2016
Accumulated Depreciation - Fixtures & Fittings - 1 January 2016
Accumulated Depreciation - Trucks - 1 January 2016 Admininstrative Exnenses
Allowance for Bad & Doubtful Debts
Bank
Building at Cost at 1 January 2016
Current Tax Payable
Distribution Costs
Fixtures & Fittings at Cost at 1 January 2016
Income Tax
Intangible Assets
Investments - 4%
Investment Income
Inventory at 1 January 2016
Issued Share Capital
Long-Term Loan
Purchases / Revenue
Retained Eamings at 1 January 2016
Revaluation Surplus
Trade Receivables / Trade Payables
Trucks at Cost at 1 January 2016
Inventory at 31 December 2016
Other Receivables
Bad Debt Recovered