CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING

FORMATION 2 EXAMINATION - APRIL 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.

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

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

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

1.

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

(10 Marks)

(b) Ruberh Ltd is a company involved in the manufacture of t-shirts for the retail industry. The following trial 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:

(i) Inventory at 31 December 2016 is €236,400. Included in this is a batch of t-shirts which cost €4,800 and is 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 €80,000 was purchased in June 2016. An existing truck which was purchased for €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 €1,300,000 on 1 January 2016. A professional valuer estimates the residual value will be €100,000 and that its remaining useful life is thirty years.

(v) In February 2017, 4% investments had declined in value to €100,000.

(v) A tax payment was made in December 2016 amounting to €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]

2. Huerty Ltd issued 100,000 €2.00 shares at €2.80 per share. Monies due were as follows:

On Application:	€1.60 including premium
On Allotment:	€0.80
Call:	€0.40

Applications were received for 120,000 shares with the excess applications returned on application. At the call stage, 2,000 shares were forfeited. These were subsequently reissued for €2.00 cash.

REQUIREMENT:

(a) Write up the relevant journal entries, including narratives, for the above issue of shares. (16 Marks)

(b) Discuss what is meant by the terms:

(i) Call.
(ii) Forfeiture. (4 Marks)

[Total: 20 Marks]

3.

(A) Ireland has committed to a target that 16% of its total final energy consumption will come from renewable sources by 2020. As part of its plan to encourage a diverse and sustainable renewable energy sector the government has recently introduced grants to companies investing in solar farms. Encouraged by this government support your employer, Duyan Plc, has also recently entered into the solar energy market. It purchases or leases farmland upon which it installs solar panels. The financial controller of this section of the business has asked you to research IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance* and advise how it should account for government grants in the company's financial statements for the financial year ending 31 December 2016.

REQUIREMENT:

Prepare a memo addressed to the Financial Controller which, in accordance with IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance* will:

(a) Explain:

(i) The term 'a government grant';
(ii) The difference between government grants relating to assets and government grants relating to income;
(iii) When government grants should be recognised; and
(iv) How government grants should be recognised in the Statement of Profit or Loss and Other Comprehensive Income account.

(8 Marks)

(b) Outline the two methods of presenting a government grant in the financial statements. (3 Marks)

(B) In March 2016, Duyan Plc installed and paid for €500,000 of property, plant and equipment (PPE) on a farm. The PPE will be depreciated over twenty five years. In July 2016, the government provided a grant of 40% to the company towards this PPE. The company's depreciation policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

REQUIREMENT:

(a) For each method of presenting a Government Grant in financial statements as referred to in your answer to b) above, provide the journal entries based on the above information.

(6 Marks)

(b) Explain how the repayment of a Government Grant already received should be accounted for in the financial statements.

(3 Marks)

[Total: 20 Marks]

4. Mr. Robert Cunningham owns and runs his own farm supplies store. There is a mark-up on cost of sales of

50% on everything he sells. However, his record keeping is poor. Upon investigation, the following has been provided to you:

Summarised Statement of Assets and Liabilities as at 31 December 2015
(i.e. closing position from the previous year).

	€
Non-Current Assets	70,000
Inventory	20,000
Cash in Till	1,000
Cash in Bank	3,800
Trade Payables	3,600
Equity (Retained Earnings - €51,200, Capital - €40,000)	91,200

In the year to 31 December 2016:

1. There were no sales on credit.

2. €156,500 of sales was lodged to the bank.

3. The following bank payments were made:

	€
Trade Payables	130,000
Repairs & Maintenance	8,000
Insurance	4,800
Light & Heat	6,000
Personal House Insurance	1,000

4. Cash payments made out of the till:

Trade Payables	6,800
Wages	30,000
Drawings	10,800

5. The closing cash till balance was €900 and the closing trade payables were €4,200. All trade payables purchases related to the purchase of inventory.

6. Depreciation for the year amounts to €3,000.

7. The value of the closing bank balance and closing inventory are not known.

REQUIREMENT:

Prepare:

(a) A two column cash and bank account for the year ended 31 December 2016. (8 Marks)

(b) A Statement of Profit or Loss for the year ended 31 December 2016. (8 Marks)

(c) A Statement of Financial Position as at 31 December 2016. (4 Marks)

[Total: 20 Marks]

5. Falylk Ltd is involved in the manufacture of agricultural products and its financial statements are as follows:

Falylk Ltd Statement of Financial Position as at 31 December 2016

	2016 €'000	2015 €'000
Non-Current Assets		
Property, Plant & Equipment (PPE)	5,120	3,940
Total Non-Current Assets	**5,120**	**3,940**
Current Assets		
Inventories	1,380	1,220
Trade Receivables	780	680
Cash & Cash Equivalents	50	112
Total Current Assets	**2,210**	**2,012**
Total Assets	**7,330**	**5,952**
Equity & Liabilities		
Equity		
Share Capital	240	200
Share Premium	60	50
Retained Earnings	3,798	2,402
Revaluation Surplus	120	80
Total Equity	**4,218**	**2,732**
Non-Current Liabilities		
Long Term Loan	1,500	1,600
Total Non-Current Liabilities	**1,500**	**1,600**
Current Liabilities		
Trade Payables	1,470	1,500
Bank Overdraft	32	60
Current Tax Payables	110	60
Total Current Liabilities	**1,612**	**1,620**
Total Equity & Liabilities	**7,330**	**5,952**

Notes:

(i) The company's profit for the year before tax amounted to €1,476,000.

(ii) The company's income tax expense for the year was €80,000.

(iii) The cost of Property, Plant & Equipment (PPE) at 1 January 2016 amounted to €4,860,000. The company's depreciation policy is to depreciate all assets at 20% straight line on cost from the date of purchase to the date of sale. The additions to PPE occurred on 31 December 2016. On 1 July 2016, the company sold PPE which originally had cost €1,000,000. On the date this PPE was sold, its carrying value was €600,000 and the firm made a loss on the sale of the PPE of €40,000. The revaluation was performed on 31 December 2016.

(iv) The company's finance cost for the year equals its cash payment of €92,000.

REQUIREMENT:
Prepare a Statement of Cash Flows for the year-ended 31 December 2016 for Falylk Ltd in accordance with IAS 7 *Statement of Cash Flows.*

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

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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, de-emphasised 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 preceding periods. Permitting alternative accounting methods for the same economic phenomenon 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 Loss and Other Comprehensive Income for the year-ended 31st December 2016

		€	€	€	€	€	
Revenue	**TB**					**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**
Income Tax Expense	**TB**					22,500	**0.25**
PROFIT/(LOSS) FOR THE YEAR						**159,449**	**0.25**
Other Comprehensive Income							
Revaluation Loss	**W3**					- 22,000	**0.25**
Other Comprehensive Income for the year, net of tax						**- 22,000**	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR						**137,449**	**0.25**

Ruberh Limited Statement of Financial Position as at 31st December 2016

		€	€	€	€	€	
Property, Plant & Equipment	**W3**					1,531,400	**0.25**
Investments	**TB + W1.v**					120,000	**0.25**
Intangible Asset	**TB + W1.ix**		240,000	- 20,000	- 22,000	198,000	**0.25**
Total Non-Current Assets						**1,849,400**	**0.25**
Current Assets							
Inventories	**W1.i**					231,600	**0.25**
Trade Receivables	**W1.viii**					277,920	**0.50**
Other Receivables	**W1.vii**					1,200	**0.25**
Current Tax Asset	**TB + W1.vi**			- 16,500	20,000	3,500	**0.25**
Cash & Cash Equivalents						-	**0.25**
Total Current Assets						**514,220**	**0.25**
TOTAL ASSETS						**2,363,620**	**0.25**
Equity & Liabilities							
Equity							
Share Capital						100,000	**0.25**
Retained Earnings	**W1.ix + W1.viii**			1,468,571	159,449	1,628,020	**0.25**
Revaluation Surplus	**W3**			22,000	- 22,000	-	**0.25**
Total Equity						**1,728,020**	**0.25**
Non-Current Liabilities							
Long-term Loan						260,000	**0.25**
Total Non-Current Liabilities						**260,000**	
Current Liabilities							
Trade Payables	**TB + W1.iii**					245,600	**0.25**
Bank	**TB + W1.iii + W1.vi**	44,000	70,000	20,000	- 4,000	130,000	**0.25**
Total Current Liabilities						**375,600**	**0.25**
TOTAL EQUITY & LIABILITIES						**2,363,620**	**0.25**
						TOTAL MARKS	**7.50**

			Working - Journal Entries				
		Working - Closing Inventory	**€**	**€**			
		Total Inventories at Cost per Inventory Count		236,400			
		Worthless Inventories - Cost	4,800				
		NRV - Selling Price less costs to sell	-				
		Inventory Write Down		4,800			
		Value of Closing Inventories		231,600			**0.50**
					€	**€**	
1.i	**Dr.**	Inventory	+ Current Assets	SOFP	231,600		**1.00**
	Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		231,600	
1.iii	**Dr.**	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP	10,000		
	Cr.	Disposal Account - Trucks				10,000	
	Dr.	Property, Plant & Equipment (PPE)	+ Non-Current Assets	SOFP	70,000		
	Cr.	Bank	+ Current Liabilities	SOFP		70,000	
	Dr.	Disposal Account - Trucks			60,000		**2.00**
	Cr.	Property, Plant & Equipment (PPE)	- Non-Current Assets	SOFP		60,000	
	Dr.	Accumulated Depreciation - PPE	+ Non-Current Assets	SOFP	48,000		
	Cr.	Disposal Account - Trucks				48,000	
	Dr.	Loss on Disposal	+ Expenses	SOPL & OCI	2,000		
	Cr.	Disposal Account - Trucks				2,000	
1.v		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, it 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. Therefore, there is no adjustment needed in the financial statements for the year-ended 31 December 2016 to reflect the decrease in value.					**1.00**
1.vi	**Dr.**	Current Tax Asset	+ Current Assets	SOFP	20,000		
	Cr.	Bank	+ Current Liabilities	SOFP		20,000	**1.00**
1.vii	**Dr.**	Other Receivables	+ Current Assets	SOFP	1,200		
	Cr.	Investment Income	+ Other Income	SOPL & OCI		1,200	**1.00**
		Investment			120,000		
		Interest on Investment - 3%		4%	4,800		
		Already accounted for		Per TB	3,600		
		Balance to be included in Other Income			1,200		**0.50**
1.viii	**Dr.**	Trade Receivables	+ Current Assets	SOFP	4,000		**1.00**
	Cr.	Bad Debt Recovered	+ Other Income	SOPL & OCI		4,000	
	Dr.	Bank	+ Current Assets	SOFP	4,000		
	Cr.	Trade Receivables	- Current Assets	SOFP		4,000	**0.50**
	Dr.	Allowance for Doubtful Debts	+ Current Assets	SOFP	620		
	Cr.	Allowance for Doubtful Debts	- Expenses	SOPL & OCI		620	**1.00**
		Trade Receivables	TB		289,500		
		+ Write Back of Bad Debt Recovered			4,000		
		- Bad Debt Recovered Received			- 4,000		
					289,500		
		- Allowance for Bad & Doubtful Debts - 4%			- 11,580		
		Revised Trade Receivable			**277,920**		**1.00**
		Current Allowance for Bad & Doubtful Debts	TB		12,200		
		New Allowance for Bad & Doubtful Debts	See Above		11,580		
		Decrease in Allowance for Bad & Doubtful Debts			620		
1.ix	**Dr.**	Expenses	+ Expenses	SOPL & OCI	20,000		
	Cr.	Intangible Assets	- Non-Current Assets	SOFP		20,000	**1.00**
	Dr.	Amortisation of Intangible Assets	+ Expenses	SOPL & OCI	22,000		
	Cr.	Intangible Assets	- Non-Current Assets	SOFP		22,000	**1.00**
		Intangible Asset	TB		240,000		
		- Internally Generated Brand			- 20,000		**0.50**
		Revised Intangible Asset			220,000		
		Amortisation of Intangible Asset	Over Ten Years		22,000		**0.50**
						CURRENT MARKS	**13.50**

Working 2 - Expenses

		Cost of Sales	Distribution Costs	Administration Expenses		
Opening Inventory	**Per TB**	186,400	-	-		**Cost of**
Purchases	**Per TB**	1,984,200	-	-		**Sales**
Closing Inventory	**W1.i**	- 231,600	-	-		**0.50**
Expenses	**Per TB**	-	457,810	345,781		
Loss on Disposal	**W1.iii**	-	1,000	1,000	2,000	**Distribution**
Allowance for Bad & Doubtful Debts	**W1.viii**	-	- 310	- 310	- 620	**Costs**
Internally Generated Brands	**W1.ix**	-	10,000	10,000	20,000	**2.00**
Amortisation of Intangible Assets	**W1.ix**	-	11,000	11,000	22,000	
Revaluation Loss	**W3**	-	19,000	19,000	38,000	
Depreciation - Buildings	**W3**	-	20,000	20,000	40,000	**Admin.**
Depreciation - Plant & Equipment	**W3**	-	12,300	12,300	24,600	**Expenses**
Depreciation - Office Equipment	**W3**	-	42,000	42,000	84,000	**2.00**
Total		**1,939,000**	**572,800**	**460,771**		

Working 3 - Property, Plant & Equipment

		Buildings €	Fixtures & Fittings €	Trucks €	Total €	
Cost	**Per TB**	1,800,000	247,500	400,000	2,447,500	
- Accumulated Depreciation b/d	**Per TB**	- 440,000	- 124,500	- 211,000	- 775,500	
Carrying Value b/d at 1st January 2016		1,360,000	123,000	189,000	1,672,000	
Revaluation Loss	**Note 1**	- 60,000	-	-	- 60,000	**0.50**
		1,300,000	123,000	189,000	1,612,000	
Addition		-	-	80,000	80,000	**0.50**
Disposal - Cost	**W1.iii + Note 2**	-	-	- 60,000	- 60,000	**0.50**
Disposal - Accumulated Depreciation	**W1.iii + Note 2**	-	-	48,000	48,000	**0.50**
		1,300,000	123,000	257,000	1,680,000	
Depreciation - Buildings	**Note 3**	- 40,000	-	-	- 40,000	**0.50**
Depreciation - Fixtures + Fittings - 20% Reducing Balance		-	- 24,600	-	- 24,600	**0.50**
Depreciation - Trucks - 20% Straight Line on Cost		-	-	- 84,000	- 84,000	**0.50**
Carrying Value c/d at 31st December 2016		**1,260,000**	**98,400**	**173,000**	**1,531,400**	

Note 1 - Revaluation Loss

Dr.	Revaluation Surplus	- Equity	SOFP	22,000		
Dr.	Expenses	+ Expenses	SOPL&OCI	38,000		**1.00**
Cr.	Property, Plant & Equipment	- Non-Current Assets	SOFP		60,000	

Note 2 - Disposal of Equipment

Cost		60,000
Accumulated Depreciation - 20% straight line per annum		
Depreciation 2012	12,000	
Depreciation 2013	12,000	
Depreciation 2014	12,000	
Depreciation 2015	12,000	
	48,000	- 48,000
Carrying Value of Equipment disposed		12,000

Disposal Account

Cost	80,000	Accumulated Depreciation	48,000
		Trade In Value	10,000
		Loss on Disposal	**4,000**
	80,000		62,000

Note 2 - Depreciation of Buildings

$$\frac{\text{Revalued Amount} - \text{Residual Value}}{\text{Remaining Estimated Useful Life}}$$

$$\frac{1{,}300{,}000 \qquad 100{,}000}{30}$$

Depreciation on Buildings 40,000

CURRENT MARKS	**9.00**
TOTAL MARKS	**22.50**

			Adjustment		Statement of Profit or Loss and Other Comprehensive Income		Statement of Financial Position	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	€	€	€	€	€	€	€	€
Accumulated Depreciation - Building - 1 January 2016		440,000		40,000				480,000
Accumulated Depreciation - Fixtures & Fittings - 1 January 2016		124,500		24,600				149,100
Accumulated Depreciation - Trucks - 1 January 2016		211,000	48,000	84,000				247,000
Admininstrative Expenses	345,781		115,300	310	460,771			
Allowance for Bad & Doubtful Debts		12,200	620					11,580
Bank		44,000	4,000	90,000				130,000
Building at Cost at 1 January 2016	1,800,000			60,000			1,740,000	
Current Tax Payable		16,500	20,000				3,500	
Distribution Costs	457,810		115,300	310	572,800			
Fixtures & Fittings at Cost at 1 January 2016	247,500						247,500	
Income Tax	22,500				22,500			
Intangible Assets	240,000			42,000			198,000	
Investments - 4%	120,000						120,000	
Investment Income		3,600		1,200		4,800		
Inventory at 1 January 2016	186,400				186,400			
Issued Share Capital		100,000						100,000
Long-Term Loan		260,000						260,000
Purchases / Revenue	1,984,200	3,145,720			1,984,200	3,145,720		
Retained Earnings at 1 January 2016		1,468,571			159,449			1,628,020
Revaluation Surplus		22,000	22,000					-
Trade Receivables / Trade Payables	289,500	245,600	4,000	4,000			289,500	245,600
Trucks at Cost at 1 January 2016	400,000		80,000	60,000			420,000	
Inventory at 31 December 2016			231,600	231,600		231,600	231,600	
Other Receivables			1,200				1,200	
Bad Debt Recovered				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
				-		-		-

SOLUTION 2

(a)

Dr.	Bank	192,000		**0.75**	
Cr.	Application & Allotment Account		192,000	**0.75**	
	being applications proceeds banked			**0.50**	
Dr.	Application & Allotment Account	32,000		**0.75**	
Cr.	Bank		32,000	**0.75**	
	being money returned to over-subscribers			**0.50**	
Dr.	Bank	80,000		**0.75**	
Cr.	Application & Allotment Account		80,000	**0.75**	
	being cash on allotment received and banked			**0.50**	
Dr.	Application & Allotment Account	240,000		**0.75**	
Cr.	Share Capital Account		160,000	**0.75**	
Cr.	Share Premium Account		80,000	**0.50**	
	being allotment of shares				
Dr.	Call Account	40,000		**0.75**	
Cr.	Share Capital Account		40,000	**0.75**	
	Being call of final instalment owed			**0.50**	
Dr.	Bank - (100,000 - 2,000) * €0.40	39,200		**0.50**	
Cr.	Call Account		39,200	**0.50**	
	being call receipts banked			**0.50**	
Dr.	Forfeiture Account - 2,000 * €0.40	800		**0.50**	
Cr.	Call Account		800	**0.50**	
	Being forfeited shares			**0.50**	
Dr.	Bank	4,000		**0.50**	
Cr.	Forfeiture Account - 2,000 * €2.00		4,000	**0.50**	
	being receipts from forfeited shares reissued banked			**0.50**	
Dr.	Forfeiture Account - 2,000 * €1.60	3,200		**0.50**	
Cr.	Share Premium Account		3,200	**0.50**	
	being allocation of additional premium on forfeited shares reissued			**0.50**	
			SUBTOTAL MARKS	**16.00**	

(b)

Call: Where the purchase price is payable in instalments, the company will call for instalments on their due dates of payments.	**2.00**	
Forfeiture: If a shareholder fails to pay a call, his shares may be forfeited without the need to return the money he has paid. These forfeited shares may then be reissued to other shareholders.	**2.00**	
TOTAL MARKS	**20.00**	

SOLUTION 3

REPORT
To: Financial Controller – Duyan Limited
From: Future Financial Accountant
Re: IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
Date: April 2017

Part A

(a) **(i)** Government grants per paragraph 3 of IAS 20 are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity.

(ii) Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long term assets.

Grants relating to income are government grants other than those related to assets.

(iii) Government grants, including non-monetary grants at fair value shall not be recognised until there is a reasonable assurance that

a) The entity will comply with the conditions attaching to them; and
b) The grants will be received.

(iv) Paragraph 12 of IAS 20 states that government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate i.e. if an asset is to be depreciated over ten years, then the government grant will be amortised to profit or loss over ten years as well.

(8 Marks)

(b) Per paragraph 24, government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Two methods of presentation of government assets related to assets are permitted

(a) Recognise the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

(b) Deducts the grant in calculating the carrying amount of the asset. The grant is recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

(3 Marks)

Part B

(a) **Method (a)**

The asset would be capitalised as follows:

Dr.	Property, Plant & Equipment (PPE)	€500,000	
Cr.	Bank		€500,000

Receipt of Grant

Dr.	Bank	€200,000	
Cr.	Deferred Income – Liabilities		€200,000

Depreciation of the asset - €500,000 / 25 Years

Dr.	Depreciation Expense	€20,000	
Cr.	Accumulated Depreciation (PPE)		€20,000

Amortisation of Grant - €200,000 / 25 Years

Dr.	Deferred Income	€8,000	
Cr.	Other Income		€8,000

Method (b)
The asset would be capitalised as follows:

Dr.	Property, Plant & Equipment (PPE)	€500,000	
Cr.	Bank		€500,000

Receipt of Grant

Dr.	Bank	€200,000	
Cr.	Property, Plant & Equipment (PPE)		€200,000

Depreciation of the asset – (Cost €500,000 – Grant €200,000) / 25 years

Dr.	Depreciation Expense	€12,000	
Cr.	Accumulated Depreciation (PPE)		€12,000

(6 Marks)

(b) A government grant per paragraph 32 of IAS20, that becomes repayable shall be accounted for as a change in accounting estimate. Repayment of a grant related to income shall be applied first against any unamortised deferred credit recognised in respect of the grant and then in profit or loss. Repayment of a grant related to an asset shall be recognised by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised in profit or loss to date in the absence of the grant shall be recognised immediately in profit or loss.

(3 Marks)

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

Yours sincerely,

Financial Accountant

[**Total: 20 Marks]**

SOLUTION 4

a)

Dr.	**Cash**	**Bank**		**Cash**	**Bank** **Cr.**	
Balance b/d	1,000	3,800				**0.50**
			Cash Sales Banked	156,500		**0.50**
Cash Sales Banked		156,500				**0.50**
			Trade Payable	6,800	130,000	**1.00**
			Repairs & Maintenance		8,000	**0.50**
			Insurance		4,800	**0.50**
			Light & Heat		6,000	**0.50**
			Wages	30,000		**0.50**
			Drawings	10,800	1,000	**1.00**
Cash Sales	204,000					**1.50**
Balance c/d			Balance c/d	900	10,500	**1.00**
	205,000	160,300		205,000	160,300	
Balance b/d	900	10,500	Balance b/d			
					SUBTOTAL MARKS	**8.00**

b)

Sales	150%	204,000		204,000	**0.50**
Cost of Sales	100%	?	Therefore, 204,000/1.5 = CoSales	136,000	**1.00**
Gross Profit	40%	?		68,000	

Trade Payables Account

Bank Payments	130,000	Balance b/d	3,600	**1.00**
Cash Payments	6,800			**0.50**
		Purchases - Balancing Figure	137,400	**1.00**
Balance c/d	4,200			
	141,000		141,000	

Cost of Sales
Opening Inventory 20,000
+ Purchases 137,400
- Closing Inventory X
= Cost of Sales Total 136,000

10,000 + 137,400 - X = 136,000 - 21,400
X = €18,600

Mr. Robert Cunningham Statement of Profit or Loss for the year-ended 31 December 2016

	€	€	€	
Revenue			**204,000**	**0.25**
Cost of Sales				
Opening Inventory		20,000		**0.25**
+ Purchases		137,400		**0.50**
- Closing Inventory		- 21,400		**0.50**
Cost of Sales Total			136,000	**0.25**
Gross Profit			**68,000**	**0.25**
Expenses				
Repairs Maintenance		8,000		**0.25**
Insurance		4,800		**0.25**
Light & Heat		6,000		**0.25**
Wages		30,000		**0.25**
Depreciation		3,000		**0.25**
Total Expenses			**51,800**	**0.25**
Net Profit/(Loss)			**16,200**	**0.50**
			SUBTOTAL MARKS	**8.00**

c) **Mr. Robert Cunningham Statement of Financial Position as at 31 December 2016**

Non-Current Assets					
PPE	67,000		(70,000 - 3,000)	**0.50**	
Total Non-Current Assets		**67,000**			
Current Assets					
Inventory	21,400			**0.50**	
Cash & Cash Equivalents	11,400		(10,500 + 900)	**1.00**	
Total Current Assets		**32,800**			
Total Assets			99,800		
Equity & Liabilities					
Equity					
Equity	40,000			**0.50**	
Drawings	- 11,800		(10,800 + 1,000)	**0.50**	
Retained Earnings	67,400		(51,200 + 16,200)	**0.50**	
Total Equity		**95,600**			
Non-Current Liabilities					
Total Non-Current Liabilities		-			
Current Liabilities					
Trade Payable	4,200			**0.50**	
Total Current Liabilities		**4,200**			
Total Equity & Liabilities			99,800		
			SUBTOTAL MARKS	**4.00**	
			TOTAL MARKS	**20.00**	

SOLUTION 5

Falylk Limited Statement of Cash flows for the year ended 31 December 2016

Cash flows from Operating Activities		**€'000**	**€'000**		
Profit before Taxation		1,476		**1.00**	
Adjustments for					
Depreciation		872		**2.00**	
Loss on Sale of PPE		40		**1.00**	
Interest Expense		92		**1.00**	
		2,480			
Increase in Inventories		- 160		**1.00**	
Increase in Trade Receivables		- 100		**1.00**	
Decrease in Trade Payables		- 30		**1.00**	
Cash Generated from Operations		2,190			
Interest Paid		- 92		**0.50**	
Income Taxes Paid		- 30		**1.50**	
Net Cash from Operating Activities			**2,068**	**1.00**	
Cash flows from Investing Activities					
Payments to acquire Property, Plant & Equipment		- 2,612		**3.00**	
Receipts from sale of Property, Plant & Equipment		560		**1.00**	
Net Cash used in Investing Activities			**- 2,052**	**1.00**	
Cash flows from Financing Activities					
Proceeds from Issue of Shares		50		**1.00**	
Payments due to decrease in Long Term Loan		- 100		**1.00**	
			- 50	**1.00**	
Net Increase in Cash & Cash Equivalents			**- 34**		
Cash & Cash Equivalents at beginning of Year	**Note 1**		**52**		
Cash & Cash Equivalents at end of Year	**Note 1**		**18**	**1.00**	
Note 1		**2016**	**2015**		
		€'000	**€'000**		
Cash on hand and balances with bank		50	112		
Bank Overdraft		- 40	- 60		
Cash and Cash Equivalents		10	52		
			TOTAL MARKS	**20.00**	

MARKING SCHEME

SOLUTION 1

(a)	Define and discuss the qualitative characteristics of financial statements	10
(b)	Workings	22.5
	Statement of Profit or Loss and Other Comprehensive Income + Statement of Financial Position	7.5
	Total Marks for Solution 1	**40**

SOLUTION 2

(a)	Journal Entries	16
(b)	Explanation of 'Call' and 'Forfeiture'	4
	Total Marks for Solution 2	**20**

SOLUTION 3

Part A

(a)	(i)	Government Grant	2
	(ii)	Government Grants relating to assets and income	2
	(iii)	Recognition of Government Grants	2
	(iv)	Recognition of Government Grants in Statement of Profit or Loss	2
(b)		Presentation of two methods of Government Grants	3

Part B

(a)	Journal Entries to reflect application of two methods	6
(b)	Accounting for repayment of Government Grant	3
	Total Marks for Solution 3	**20**

SOLUTION 4

(a)	Two Column Cash & Bank Accounts	8
(b)	Statement of Profit or Loss	8
(c)	Statement of Financial Position	4
	Total Marks for Solution 4	**20**

SOLUTION 5

Operating Activities	11
Investing Activities	5
Financing Activities	3
Cash & Cash Equivalents1	
Total Marks for Solution 5	**20**