Accounting Technicians Ireland

2nd Year Examination : Summer 2009

FINANCIAL ACCOUNTING II

PAPER, SOLUTIONS
and
EXAMINERS REPORT

Accounting Technicians Ireland

NOTES TO USERS ABOUT THESE SOLUTIONS

The solutions in this document are published by Accounting Technicians Ireland. They are intended to provide guidance to students and their teachers regarding possible answers to questions in our examinations.

Although they are published by us, we do not necessarily endorse these solutions or agree with the views expressed by their authors.

There are often many possible approaches to the solution of questions in professional examinations. It should not be assumed that the approach adopted in these solutions is the ideal or the one preferred by us.

This publication is intended to serve as an educational aid. For this reason, the published solutions will often be significantly longer than would be expected of a candidate in an examination. This will be particularly the case where discursive answers are involved.

The solutions are relevant to the tax rates in the year the Examination was sat. A copy of the tax rates is enclosed with the solutions.

NEW SYLLABUS

1st Year Examination : Summer 2009

PAPER : FINANCIAL ACCOUNTING I

Monday 18th May 2009 - 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Candidates must indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.

Answer ALL THREE questions in Section A and TWO of the THREE questions in Section B. If more than TWO questions are answered in Section B, then only the first TWO questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled, as appropriate, e.g. €'s, £'s, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins next page.

The following insert is enclosed with this paper:

- **Multiple choice question answer sheet [QUESTION 2]**

Note:

This paper uses both the language of International Accounting Standards (I.A.S's) and Financial Reporting Standards (F.R.S's) where appropriate (e.g. Receivables/Debtors). Examinees are permitted to use <u>either terminology</u> when preparing financial statements but the use of the language of the International Accounting Standards (e.g. Receivables rather than Debtors) is preferred.

Accounting Technicians Ireland

SECTION A

Answer ALL THREE Questions in this Section

QUESTION 1

TRINKETS Ltd. a retailing company, has an authorised share capital of £/€3,500,000 made up of 6,000,000 ordinary shares of 50 pence/cent each and £/€500,000 of 5% preference shares of £/€1 each.

The following trial balance was extracted from the books of the company at 31st December 2008:-

	£/€	£/€
Ordinary share capital		1,300,000
5% preference share capital		500,000
Share premium account		250,000
General reserve		130,000
Income statement (profit and loss account) - balance 1st January 2008 ..		41,000
6% debenture stock (issued in 2001 - redeemable in 2012)		200,000
Leasehold premises at cost at 1st January 2008	2,500,000	
Leasehold premises - accumulated depreciation at 1st January 2008 ...		400,000
Plant and machinery at cost at 1st January 2008	620,000	
Plant and machinery - accumulated depreciation at 1st January 2008 ...		240,000
Motor vehicles at cost at 1st January 2008	120,000	
Motor vehicles - accumulated depreciation at 1st January 2008		70,000
Computer equipment at cost at 1st January 2008	120,000	
Computer equipment - accumulated depreciation at 1st January 2008		45,000
Additions to fixed assets during year at cost		
Plant and machinery	70,000	
Motor vehicles	25,000	
Computer equipment	30,000	
Disposal of plant and machinery (sale proceeds)		30,000
Receivables (debtors)	66,000	
Inventories (stocks)	90,000	
Payables (creditors)		85,000
Bank balance		138,000
V.A.T. account		32,000
Corporation tax owing		86,000
PAYE owing		12,000
Bank deposit account	60,000	
Accrued expenses		18,000
Prepaid expenses	12,000	
Long term investments (purchased 2006)	60,000	
Short term investments	40,000	
Retained profit for the year (after providing for dividends and debenture interest but before adjustment for items 1 to 3 below)		146,000
Deferred government grant at 1st January 2008		90,000
	3,813,000	3,813,000

QUESTION 1 *(Cont'd)*

ADDITIONAL INFORMATION

The following additional information is available:-

The retained profit for the year as stated above has been calculated before accounting for the following items:-

(1) Depreciation is to be (and has in the past been) provided on fixed assets as follows:

Leasehold premises	-	2% on cost
Plant and machinery	-	10% on cost
Motor vehicles	-	20% on cost
Computer equipment	-	331/3% on cost

A full year's depreciation is provided in the year of purchase and none in the year of sale.

(2) During the year plant and machinery which cost £/€80,000 in 2005 was disposed of for £/€30,000. The only entries made (before extracting the above trial balance) were to debit the bank account and credit disposal of plant and machinery account.

(3) The deferred government grants balance included in the above trial balance arises in respect of a grant of £/€100,000 received in 2007 to help finance the cost of plant and machinery bought during that year.

In addition a grant of £/€18,000 was received on 29th December 2008 towards the cost of the new computers purchased during the year. This grant has not yet been recorded in the company's books.

Requirement

(a) Prepare the following notes to the accounts for the year ended 31st December 2008:-

(i) non current assets (fixed assets).
(ii) deferred government grants.
(iii) creditors: amounts falling due within one year.

14 Marks

(b) Prepare the balance sheet as at 31st December 2008 in a form suitable for publication.

11 Marks
Total 25 Marks

N. B. *You are not required to prepare the income statement (profit and loss account) or any "other" notes to the accounts.*

Marks will be awarded for presentation.

QUESTION 2

The following multiple-choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

There are FIVE parts in **Sub-Section A** of the question and FIVE parts in **Sub-Section B**. Each part in **Sub-Section A** carries 2 Marks and each part in **Sub-Section B** carries 1 Mark.

Requirement

Indicate the right answer to each of the following TEN parts. **Total 15 Marks**

N.B. *Candidates should answer this question by ticking the appropriate boxes on the special green answer sheet, which is supplied with the examination paper.*

SUB-SECTION A - 2 MARKS EACH

BACKGROUND INFORMATION TO PARTS [1] to [5]

The following information relates to TRAINS Ltd, for the year ended 31st December 2008:

	£/€
Receivables/Debtors at 1st January 2008	65,000
Receivables/Debtors at 31st December 2008	85,000
Inventories/Stocks at 1st January 2008	190,000
Inventories/Stocks at 31st December 2008	200,000
Prepayments at 1st January 2008	15,000
Prepayments at 31st December 2008	25,000
Payables/Creditors at 1st January 2008	90,000
Payables/Creditors at 31st December 2008	100,000
Accrued expenses at 1st January 2008	30,000
Accrued expenses at 31st December 2008	35,000
Cash at bank at 1st January 2008	25,000
Bank overdraft at 31st December 2008	40,000
Sales on credit for the year ended 31st December 2008	1,900,000
Cash sales for the year ended 31st December 2008	350,000
Purchases on credit for the year ended 31st December 2008	1,300,000
Cash purchases for the year ended 31st December 2008	100,000

[1] The "average" debt collection period for the year to 31st December 2008 (to the nearest day) was:

(a) 12 days
(b) 13 days
(c) 14 days
(d) 15 days

[2] The "average" payment period of creditors for the year to 31st December 2008 (to the nearest day) was: -

(a) 27 days
(b) 28 days
(c) 30 days
(d) 32 days

QUESTION 2 *(Cont'd)*

[3] The current ratio at 31^{st} December 2008 (assuming no other current assets or liabilities) to two decim places, was: -

- **(a)** 2.59:1
- **(b)** 2.37:1
- **(c)** 2.05:1
- **(d)** 1.77:1

[4] The asset test ratio (quick ratio) at 31^{st} December 2008 (assuming no other current assets or liabilities) to two decimal places, was: -

- **(a)** 1.11:1
- **(b)** 0.63:1
- **(c)** 0.50:1
- **(d)** 0.43:1

[5] The gross profit margin for the year ended 31^{st} December 2008 to one decimal place was: -

- **(a)** 38.2%
- **(b)** 39.3%
- **(c)** 40.4%
- **(d)** 42.6%

SUB-SECTION B - 1 MARK EACH

[6] Which of the following costs would be considered an attributable cost in bringing an asset into working condition for its intended use according to I.A.S.16 Property, Plant and Equipment.

- **(a)** subsequent expenditure.
- **(b)** the cost of site preparation and clearance.
- **(c)** costs relating to production delays.
- **(d)** inspection and overhaul costs.

[7] In accordance with I.A.S.10 Events After the Balance Sheet Date, which of the following is not an adjusting event:-

- **(a)** the subsequent determination of the purchase price of an asset purchased before the year end.
- **(b)** the renegotiation of amounts owing by debtors.
- **(c)** the issue of shares and debentures.
- **(d)** the discovery of errors or frauds which show that the financial statements were incorrect.

[8] In accordance with I.A.S.17 Leases, an operating lease is one where:-

- **(a)** the lessee pays a rental for the hire of an asset for a period of time which is normally equal to most of its useful life and the lessee retains most of the risks of ownership.
- **(b)** the lessee pays a rental for the hire of an asset for a period of time which is normally equal to most of its useful life and the lessor retains most of the risks of ownership.
- **(c)** the lessee pays a rental for the hire of an asset for a period of time which is normally substantially less than its useful life and the lessor retains most of the risks of ownership.
- **(d)** the lessee pays a rental for the hire of an asset for a period of time which is normally substantially less than its useful life and the lessee retains most of the risks of ownership.

QUESTION 2 *(Cont'd)*

[9] If the balance sheets at 1st January 2008 and 31st December 2008 show a liability for tax of £/€14,000 and £/€24,000 respectively and the charge for taxation in the profit and loss account for the year ended 31st December 2008 is £/€38,000 then the figure which will appear in the cash flow statement for the year ended 31st December 2008 as taxation paid will be:-

(a) £/€38,000
(b) £/€28,000
(c) £/€48,000
(d) £/€18,000

[10] In preparing a cash flow statement in accordance with I.A.S. 7, a profit on disposal of a fixed asset should be:-

(a) added back to operating profit in computing the net cash flow from operating activities.
(b) deducted from operating profit in computing the net cash flow from operating activities.
(c) deducted from payments to acquire tangible fixed assets to compute capital expenditure.
(d) added to payments to acquire tangible fixed assets to compute capital expenditure.

QUESTION 3

Tim, Ursula and Victor are in partnership sharing profits and losses in the ratio 2:2:1. The partners receive a salary of £/€4,500, £/€6,500 and £/€9,000 each respectively and are entitled to interest on the balance on their capital accounts at 4% per annum. Ursula is entitled to a guaranteed share of profits totalling £/€20,000 (i.e. inclusive of salary and interest on capital), any deficiency to be borne by Tim and Victor equally.

The following is the draft balance sheet of the partnership as at 31st December 2008 (before the profit for the year has been divided between the partners).

DRAFT BALANCE SHEET AS AT 31st DECEMBER 2008

	Cost	**Accumulated Depreciation**	**Net book Amount**
	£/€	**£/€**	**£/€**
Non-current Assets			
Leasehold premises	360,000	70,000	290,000
Plant and machinery	140,000	65,000	75,000
Motor vehicles	25,000	5,000	20,000
	525,000	140,000	385,000
Current Assets			
Inventories/Stocks		50,000	
Receivables/Debtors		26,000	
Bank		11,000	
		87,000	
Creditors - amounts falling due within one year			
Payables/Creditors	22,000		
Loan from Tim	15,000		
		(37,000)	
Net Current Assets			50,000
			435,000

QUESTION 3 *(Cont'd)*

Represented by:-

	£/€	£/€
Capital Accounts		
Tim		100,000
Ursula		100,000
Victor		100,000
		300,000
Current Accounts		
Tim	16,000	
Ursula	(20,000)	
Victor	17,000	
		13,000
Profit for the year (not yet divided between the partners)		122,000
		435,000

Adjustment is required in respect of the following items:-

(1) Purchases of £/€22,000 on credit on 26th December were not recorded before production of the draft accounts (inventories/stocks have been correctly adjusted).

(2) Depreciation for the year has not been provided. It should be charged as follows :-

Leasehold Premises	5% on the straight - line basis
Plant and machinery	10% on the straight - line basis
Motor vehicles	20% on the reducing balance basis

(3) Wages and salaries of £/€12,000 and electricity costs of £/€2,000 have not been provided for at the year end.

(4) Rent amounting to £/€4,000 has been prepaid at the year end.

(5) A customer who owed £/€5,000 at 31st December has gone into liquidation and the full amount of the debt should be written off as bad.

Requirement

You are required to prepare:

(a) a statement setting out the adjustments required to the profit for the year arising out of items (1) to (5) above;

3 Marks

(b) a statement setting out the appropriation of the adjusted profit between the partners;

3 Marks

(c) the current accounts of the partners;

5 Marks

(d) the revised balance sheet of the partnership after dealing with (a) to (c) above.

9 Marks

Total 20 Marks

SECTION B

Answer TWO of the THREE questions in this Section

QUESTION 4

(a) What is the objective of Financial Reporting?

2 Marks

(b) What are the *seven* desirable characteristics of Financial Reports according to "The Corporate Report"?

7 Marks

(c) List *six* different users of Financial Reports.

6 Marks

(d) In respect of *three* of the users of Financial Reports listed at (c) above, what are the information requirements of those users?

5 Marks
Total 20 Marks

QUESTION 5

TENNIS DRESS Ltd. produces various types of tennis clothes. In order to meet demand for its clothes the company purchased a building costing £/€600,000 and a machine costing £/€250,000 during the year ended 31st December 2008. TENNIS DRESS intends to depreciate (1) the building at 5% per annum on a straight-line basis and (2) the machine at 20% per annum on a reducing balance basis (for a full year in the year of purchase.)

It received a grant of 30% of the cost of the building and a grant of £/€40,000 towards the cost of training staff to use the new machine. The training costs amounted to £/€60,000 and were incurred during the year ended 31st December 2008. Neither of the grants were received until January 2009. The directors approved the accounts in March 2009.

Requirement

You are required to:

(a) Prepare journal entries to show how the above items will be dealt with in the accounts for the year ended 31st December 2008 in accordance with International Accounting Standards.

7 Marks

Note: *Journal narratives are not required.*

(b) Prepare an extract from the Income Statement/Profit and Loss Account of TENNIS DRESS Ltd. for the year ended 31st December 2008 to show how the information above affects the income statement/profit and loss account.

4 Marks

(c) Prepare an extract from the Balance Sheet of TENNIS DRESS Ltd. as at 31st December 2008 to show how the information above affects the balance sheet.

4 Marks

(d) Explain the reason for the accounting treatment adopted in **(a)** to **(c)** above.

5 Marks
Total 20 Marks

QUESTION 6

Ian Grant trades as a sole trader. He does not maintain a complete nominal ledger accounting system. He h asked you to prepare the accounts of the business for the year ended 31st December 2008.

A summary of the bank account of the business for the year ended 31st December 2008 is as follows:-

Bank Account

	Note	£/€		Note	£/€
Lodgements			Balance at 1st January 2008 ...		4,300
Sales receipts	(1)	100,000	Payments to suppliers	(6)	61,000
Rental income	(3)	24,000	Wages and salaries		38,000
Royalty income	(4)	2,400	Rent and rates		3,400
			Insurance	(6)	2,800
			Postage and telephone		3,900
			General expenses		1,600
			Purchase of computers	(2)	10,300
			Purchase of broadband system ..	(5)	900
			Drawings		12,600
Balance c/d at 31st December 2008		12,400			
		138,800			138,800
			Balance b/d at 1st January 2009		12,400

ADDITIONAL INFORMATION

(1) The following cash payments were made out of sales receipts before they were lodged to the bank.

	£/€
Payments to creditors	1,200
Casual wages	2,800
Postage	350

(2) During 2008, new office computers were purchased. Computers are depreciated at $33^1/_3$% per annum with a full year's depreciation in the year of purchase and none in the year of sale.

(3) The rental income received includes £/€2,000 received in respect of the two months ended 28th February 2009.

(4) The royalties income represents two thirds of the royalty income receivable for the year ended 31st December 2008, the balance of which has not yet been received.

(5) Ian Grant paid for a broadband system out of the business bank account. This system is purely for personal use.

(6) Details of other assets liabilities are as follows:-

	at 1st January 2008 £/€	at 31st December 2008 £/€
Receivables/Debtors	8,000	9,400
Payables/Creditors	6,300	6,900
Inventories/Stock	5,000	5,400
Insurance prepaid	400	600

Requirement

(a) Prepare a statement of affairs as at 1st January 2008.

4 Marks

(b) Prepare the trading and profit and loss account/ income statement for the year ended 31st December 2008.

10 Marks

(c) Prepare the balance sheet as at 31st December 2008.

6 Marks

Total 20 Marks

STANDARD ANSWER SHEET FOR ALL MULTIPLE CHOICE QUESTI

Accounting Technicians Ireland

Candidates are required to insert the following details.

Examination Session ....

Examination Session ....

Examination Session ....

Examination Session ....

To answer each section, please tick appropriate box.

Part		Part		Part		Part		Part	
1	(a) ☐	6	(a) ☐	11	(a) ☐	16	(a) ☐	21	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
2	(a) ☐	7	(a) ☐	12	(a) ☐	17	(a) ☐	22	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
3	(a) ☐	8	(a) ☐	13	(a) ☐	18	(a) ☐	23	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
4	(a) ☐	9	(a) ☐	14	(a) ☐	19	(a) ☐	24	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐
5	(a) ☐	10	(a) ☐	15	(a) ☐	20	(a) ☐	25	(a) ☐
	(b) ☐		(b) ☐		(b) ☐		(b) ☐		(b) ☐
	(c) ☐		(c) ☐		(c) ☐		(c) ☐		(c) ☐
	(d) ☐		(d) ☐		(d) ☐		(d) ☐		(d) ☐

Accounting Technicians Ireland

NEW SYLLABUS

2nd Year Examination : Summer 2009

FINANCIAL ACCOUNTING II

SOLUTIONS

Solution to question 1

TRINKETS Ltd

Notes to the accounts for the year ended 31st December 2008

(1) Property, plant and equipment

	Leasehold Premises £/€	Plant & machinery £/€	Motor Vehicles £/€	Computer Equipment £/€	Total £/€
Cost					
at 1st January 2008	2,500	620	120	120	3,360
additions	-	70	25	30	125
disposals	-	(80)		-	(80)
at 31st December 2008	2,500	610	145	150	3,405
Accumulated Depreciation					
at 1st January 2006	400	240	70	45	755
charge for year	50	61	29	50	190
	450	301	99	95	945
Disposals	-	(24)		-	(24)
at 31st December 2008	450	277	99	95	921
Net Book Amount					
at 1st January 2008	2,100	380	50	75	2,605
at 31st December 2008	2,050	333	46	55	2,484

Solution to question 1 continued on next page

Solution to question 1 *(Cont'd)*

(2) Deferred government grants

	£/€
At 1st January 2008	90
Received during the year	18
	108
Released to Income Statement during year	16
At 31st December 2008	92

(3) Creditors : Amounts falling due within one year

Bank balance (138 -18)	120
Payables	85
Corporation tax	86
V.A.T.	32
P.A.Y.E.	12
Accrued Expenses	18
	353
Shown on balance sheet as:	
Trade and other payables	233
Bank overdraft	120
	353

Trinkets Ltd
Balance Sheet as at 31st December 2008

	£/€	£/€
Non current assets		
Property, plant and equipment (Note 1)		2,484
Other financial assets		60
		2,544
Current Assets		
Inventories	90	
Trade receivables	66	
Prepayments	12	
Short term investments	40	
Cash and cash equivalents	60	
		268
Total assets		2,812
Equity and liabilities		
Capital and reserves		
Issued capital (W.1)		1,800
Reserves (W.2)		380
Accumulated profits (W.3)		(13)
		2,167
Non-current liabilities		
Interest - bearing borrowings		
		200
		2,367
Current liabilities (Note 3)		
Trade and other payables	233	
Bank overdraft	120	
		353
Deferred government grants (Note 2)		92
		2,812

Solution to question 1 continued on next page

Solution to question 1 *(Cont'd)*

Workings

		£/€
(1)	Issued Capital	
	Ordinary share capital	1,300
	5% Preference Share Capital	500
		1,800
(2)	Reserves	
	Share Premium Account	250
	General Reserve	130
		380
(3)	Accumulated profits	
	Retained profit for year per trial balance	146
	Depreciation	(190)
	Loss on disposal of Plant and Machinery (see below)(26)	
	Government grant credited to Profit and loss	16
	Retained loss for year	(54)
	Retained profits forward at 1st January 2008	41
	Retained loss forward at 31st December 2008	(13)

Loss on disposal :

Cost a/c

Bal b/d	80	Disposal a/c	80

Prov. For Depr.a/c

Disposal a/c	24	Bal b/d	24

Disposal a/c

Cost a/c	80	Prov. For Depr.a/c	24
		Bank	30
		Loss on Disposal to P & L a/c	26
	80		80

Solution to question 2

[1]	(c)	**[2]**	(a)	**[3]**	(d)	**[4]**	(b)	**[5]**	(a)
[6]	(b)	**[7]**	(c)	**[8]**	(c)	**[9]**	(b)	**[10]**	(b)

Workings *(not required of examinees in exam)*

(1) ((65 + 85) / 2) / 1,900 * 365 = **14.4**

(2) ((90 +100) / 2) / 1,300 * 365 = **26.7**

(3) Current Assets : 85,000 + 200,000 + 25,000 = 310,000
Current Liabilities : 100,000 + 35,000 + 40,000 = 175,000

310,000 / 175,000 = **1.77 : 1**

(4) 310,000 - 200,000 = 110,000 / 175000 = **0.63 : 1**

(5)

Sales :	Credit		1,900,000
	Cash		350,000
			2,250,000
Cost of goods sold			
	Opening stock	190,000	
	Credit purchases	1,300,000	
	Cash purchases	100,000	
		1,590,000	
Closing stock		200,000	
			1,390,000
Gross profit			860,000

Gross profit margin : 860,000/2,250,000 **38.2%**

(9) 14,000 + 38,000 - 24,000 = **28,000**

Solution to question 3

(a) Statement of adjusted profit for the year ended 31st December 2008

		€/£	€/£
Net profit as per draft accounts			122,000
(1) Purchases not recorded			(22,000)
(2) Depreciation:			
Leasehold Premises	(360,000 x 5%)	18,000	
Plant and Machinery	(140,000 x 10%)	14,000	
Motor vehicles	(20,000 x 20%)	4,000	
			(36,000)
(3) Wages and salaries owing		(12,000)	
Electricity owing		(2,000)	
			(14,000)
(4) Rent prepaid			4,000
(5) Bad debt written off			(5,000)
Adjusted net profit			**49,000**

(b) Profit and Loss appropriation account for the year ended 31st December 2008

	€/£		€/£
Net profit			49,000
Less:			
Partner's salaries			
Tim	4,500		
Ursula	6,500		
Victor	9,000		(20,000)
Interest on capital			
Tim	4,000		
Ursula	4,000		
Victor	4,000		(12,000)
			17,000
Appropriated as follows:			
Tim		6,800	
Less: to meet guarantee		(1,350)	
			5,450
Ursula		6,800	
Add : guarantee (see below)		2,700	
			9,500
Victor		3,400	
Less: to meet guarantee		(1,350)	
			2,050
			17,000

Solution to question 3 continued on next page

Solution to question 3 *(Cont'd)*

Guarantee to Ursula :

	€/£
Salary of	6,500
Interest on capital	4,000
Share of profits, using the profit sharing ratio	6,800
	17,300
therefore she gets a further	2,700
Because of the guarantee making a total of	20,000

The 2,700 is split equally between the other two partners as agreed.

Partners' Current accounts

	Tim €/£	Ursula €/£	Victor €/£		Tim €/£	Ursula €/£	Victor €/£
Balance b/d		20,000		Bal b/d	16,000		17,000
				Salaries	4,500	6,500	9,000
				Interest on capital	4,000	4,000	4,000
				Residual profit	5,450	9,500	2,050
Balance c/d	29,950		32,050				
	29,950	20,000	32,050		29,950	20,000	32,050
				Balance b/d	29,950		32,050

(d) `

Balance Sheet as at 31st December 2008

	Cost €/£	Accumulated Depreciation €/£	Net book Amount €/£
Fixed Assets			
Leasehold Premises	360,000	88,000	272,000
Plant and machinery	140,000	79,000	61,000
Motor vehicles	25,000	9,000	16,000
	525,000	176,000	349,000
Current Assets			
Stocks (Inventories)		50,000	
Debtors (Receivables) (26,000 - 5,000)		21,000	
Prepaid rent		4,000	
Bank		11,000	
		86,000	
Current Liabilities			
Creditors (Payables) (22,000 + 22,000)	44,000		
Loan from Tim	15,000		
Accrued wages and salaries and electricity	14,000		
		73,000	
			13,000
			362,000
Financed by:			
Capital Accounts			
Tim			100,000
Ursula			100,000
Victor			100,000
			300,000
Current Accounts			
Tim		29,950	
Victor		32,050	62,000
			362,000

Solution to question 4

The objective of financial statements is to provide information on the financial performance, position and chang in the financial position of an entity that is useful to a wide range of users in making economic decisions regarding the entity.

The seven desirable characteristics of financial reports according to The Corporate Report are

- Relevance;
- Comprehensibility
- Reliability;
- Completeness;
- Objectivity
- Timeliness
- Comparability

The different users of Financial Reports per The Corporate Report are:

- Shareholders;
- Loan Creditors;
- Analysts and Advisors;
- Employees;
- Business contacts;
- The Public.
- Government

The information requirements of the above mentioned users of Financial Reports are:

Shareholders
Both present and potential shareholders will require information which will enable them to know how the business is performing in order to be happy that their investment is or will be secure and give them an adequate return in relation to the risk involved.

Loan creditors
Need information to decide whether to lend to the company

Employees
Employees will wish to view the financial reports in order to form an opinion as to whether the business is sound and likely to give them continued employment into the foreseeable future.

Analysts and Advisors
Need information to pass on to clients

Business contacts
Suppliers will be keen to see the financial reports in order to be confident that if they supply goods or services to the company on credit that they will be paid in a timely fashion.
Competitors will be interested in any information available from the company.
Etc.

Government
Government will be concerned with compliance with tax and company law etc.

The public
The public need to have information for many of the above reasons.

Solution to question 5

(a) **Journal**

	Dr. €/£	Cr €/£
Buildings - Cost Account	600,000	
Bank		600,000
Machinery - Cost Account	250,000	
Bank		250,000
P & L A/c - Depreciation Buildings	30,000	
Accum Deprec. - Buildings		30,000
P & L A/c - Depreciation Machinery	50,000	
Accum Deprec. - Machinery		50,000
Debtor - Grant receivable	180,000	
Deferred capital grants a/c		180,000
Deferred capital grants a/c	9,000	
P & L A/c - Grant release		9,000
Training Costs A/c	60,000	
Bank		60,000
Debtor - Grant receivable	40,000	
Training Costs A/c		40,000

(b) **Income Statement (P & L Account) (extract) for the year ended 31st December 2008**

	€/£	€/£
Income		
Government grant released		9,000
Expenses		
Training costs (60,000 - 40,000)		20,000
Depreciation:		
Buildings	30,000	
Machinery	50,000	
		80,000

(c) **Balance Sheet (extract) as at 31st December 2008**

Non current Assets	**Cost** €/£	**Acc.Depr.** €/£	**Net Book Amount** €/£
Buildings	600,000	30,000	570,000
Machinery	250,000	50,000	200,000
	850,000	80,000	770,000
Current Assets			
Grants receivable (180,000 + 40,000)			220,000
Deferred Grants (180,000 - 9,000)			(171,000)

Solution to question 5 continued on next page

Solution to question 5 *(Cont'd)*

(d) The capital grant is credited to a deferred grant account and released to the P &L a/c on the same basis a the related asset is depreciated.

The revenue grant is deducted from the related expense in the same period as the related expense is incurred.

Both of the above treatments apply the matching concept of accounting and comply with I.A.S 20.

Both grants have been treated as debtors at the year end as they had not been received by that date.

Depreciation has been charged in accordance with I.A.S. 16.

Solution to question 6

Statement of affairs as at 1st January 2008

Assets		
	€/£	**€/£**
Debtors(Receivables)		8,000
Stocks(Inventories)		5,000
Insurance prepaid		400
		13,400
Liabilities		
Creditors(Payables)	6,300	
Bank overdraft	4,300	
		10,600
Capital at 1/1/08		2,800

Solution to question 6 *(Cont'd)*

Ian Grant

Trading and Profit and Loss Account (Income Statement)
for the year ended 31st December 2008

		€/£	€/£
Sales (W1)			105,750
Cost of goods sold			
Opening stock		5,000	
Purchases(W2)		62,800	
		67,800	
Closing stock		5,400	
			62,400
Gross Profit			43,350
Add : Royalty income	(W4)		3,600
Rental income	(W3)		22,000
			68950
Less : Expenses			
Wages and salaries	(W5)	40,800	
Rent and rates		3,400	
Insurance (W6)		2,600	
Postage and telephone	(W7)	4,250	
General expenses		1,600	
Depreciation	(W8)	3,433	
			56,083
Net Profit			12,867

Solution to question 6 *(Ian Grant)*

Balance Sheet as at 31st December 2008

Fixed Assets(Non- Current Assets)	**Cost**	**Acc.Depr.**	**N.B.A.**
	€/£	**€/£**	**€/£**
Computers	10,300	3,433	6,867
Current Assets			
Stock (Inventories)		5,400	
Debtors (Receivables)		9,400	
Insurance prepaid		600	
Royalty income due		1,200	
		16,600	
Current Liabilities			
Creditors (Payables)	6,900		
Rental income rec'd in advance	2,000		
Bank overdraft	12,400		
		21,300	
Net Current Liabilities			(4,700)
			2,167
Financed by :			
Capital at 1/1/2008			2,800
Add : Net Profit			12,867
			15,667
Less : Drawings (W9)			13,500
Capital : at 31/12/2008			2,167

Workings are on the next page

Solution to question 6 *(Cont'd)*

Workings

Note : Some workings are presented as ledger accounts and some as calculations. Both ways are acceptable.

(1) Sales

	€/£
Lodgements	100,000
Add : Paid out of sales receipts (1200 + 2800 + 350)	4,350
	104,350
Add : Increase in debtors	1,400
	105,750

(2) Purchases

Payments to creditors	61,000
Add : Increase in creditors	600
	61,600
Add : Cash purchases	1,200
	62,800

(3) Rental income a/c

	€/£		€/£
		Bank account	24,000
Bal b/d (Rent Rec'd in advance)	2,000		
P & L a/c	22,000		
	24,000		24,000

(4) Royalty Income a/c

	€/£		€/£
		Bank Account	2,400
P & L a/c	3,600	Due at 31/12/08 2400/2*3	1,200
	3,600		3,600

(5) Wages and Salaries a/c

	€/£		€/£
Bank a/c	38,000		
Casual wages	2,800	P & L a/c	40,800
	40,800		40,800

(6) Insurance a/c

	€/£		€/£
Bal b/d	400	P & L a/c	2,600
Bank account	2,800	Bal c/d	600
	3,200		3,200
Bal b/d	600		

Solution to question 6 continued on next page

Solution to question 6 *(Cont'd)*

(7) Postage and Telephone

	€/£
Per Bank account	3,900
Paid out of sales receipts	350
	4,250

(8) Depreciation charge

10,300 * 33 1/3 %	3,433

(9) Drawings

Per Bank account	12,600
Broadband system	900
	13,500

Accounting Technicians Ireland

NEW SYLLABUS

2nd Year Examination : Summer 2009

FINANCIAL ACCOUNTING II

EXAMINER'S REPORT

General comment

The overall standard of answer was very good. It was apparent that most examinees had prepared well for the examination and had made good use of the pilot papers on the new syllabus.

Question 1

This question which required candidates to prepare the Balance Sheet and certain Notes to the accounts was well answered. However many candidates lost marks by not computing the adjusted retained profit figure to include in the balance sheet.

A number of candidates were unable to deal correctly with the disposal of the plant and machinery and with the government grants as they affected the balance sheet.

Question 2

The multiple choice question was attempted by the vast majority of students and caused few problems

Question 3.

This partnership question was very well answered. A good number of candidates, however, did not deal with the appropriation of the profit correctly to account for the guaranteed share for Ursula. Also quite a few candidates showed their continued lack of knowledge of double-entry by reversing the entries in the current accounts of the partners.

Question 4

This discursive question was the least popular of the three choice questions being answered by about 30% of candidates. However, those candidates who did answer it produced, by and large, good answers.

Question 5

This question, which required candidates to show their knowledge of International Accounting Standards and their application to practical situations, resulted in very varied answers from excellent to very poor. Many candidates failed to attempt part (d) of the question. Also most candidates recorded the grants as a debit to the bank account even though the question clearly stated that the grants were not received until after the year end.

Question 6

This incomplete records question was the most popular of the choice questions and was largely well answered. Many candidates showed their lack of knowledge of how to adjust expenses and revenues for year end accruals and prepayments.