QQI

BA (Hons) in Accounting and Finance (Year 2)

SUMMER 2024 EXAMINATIONS

Module Code: **B7AF102**

Module Description: **Financial Accounting**

Examiner: **James Browne**

Internal Moderator: **Puteri Nur Syazwani Megat Daud**

External Examiner: **Shane Moran**

INSTRUCTIONS TO CANDIDATES

Time allowed is 3 hours
Question 1: Compulsory question, 25 marks.
Questions 2 and 3: Compulsory. Answer ALL questions, total 45 marks.
Answer ANY TWO questions from Questions 4, 5 and 6, 15 marks each.

Question 1: <u>COMPULSORY</u>

The following trial balance has been extracted from the financial records of CokeCo as at 31 December 2023:

	€000	€000
Property – at valuation 1 Jan 2023 (Note (i))	18,675	
Plant and equipment – at cost (Note (i))	8,000	
Plant and equipment – accumulated depreciation as at 1 Jan 2023		1,600
Investment property – at valuation 31 Dec 2022 (Note (ii))	2,000	
Inventory at 31 December 2023	15,000	
Trade receivables and trade payables	19,525	10,500
Bank		150
Provision for bad debts (Note (iii))		825
Revenue		292,810
Cost of sales	127,100	
Distribution costs	82,000	
Administration costs	88,000	
Interest paid on long term loan	250	
Interest on bank overdraft	13	
Equity dividend paid	4,000	
Proceeds of ordinary share issue (Note (vi))		6,000
Equity shares (€0.50)		25,000
Share premium		5,000
Long term loan (Note (iv))		10,000
Retained earnings at 1 Jan 2023		12,163
Income tax provision (Note (v))		15
Property revaluation reserve		500
	364,563	364,563

The following additional information is relevant:

(i) Non-current assets:
The property was purchased five years ago and had a remaining useful life of 45 years at 1 January 2023. The company policy is to revalue all property at each year end and at 31

December 2023 it was valued at €18 million as a result of difficult market conditions in the local area.
All plant and equipment is depreciated at 20% per annum using the reducing balance method. Depreciation of all non-current assets is charged to cost of sales.

(ii) Investment property:
This property is held for its investment potential and meets the criteria of IAS 40 to be classified as an investment property. CokeCo purchased this property on 1 January 2020 at a cost of €1.5 million. The agreed valuation as at 31 December 2022 is €2 million and by 31 December 2023 this had increased by a further €0.5 million. The property has an expected useful life of 40 years from the original date purchased.

(iii) Included in Trade Receivables is an amount of €25,000 relating to a customer who went bankrupt during December. This fact has only become known during the review of "Events After the Reporting Date" under IAS 10. Company policy is to make a provision for general bad debts equal to 5% of final Trade Receivables. All amounts in relation to bad debts should be included in cost of sales.

(iv) The long term loan of €10 million in the trial balance was received on 1 July 2023 and carries an annual interest rate of 7% per annum.

(v) The Directors have estimated the provision for income tax for the year ended 31 December 2023 at €1 million. The balance of income tax shown in the trial balance represents the over / under provision for the previous year.

(vi) During the year there was a 1 for 5 issue of ordinary shares at a premium of 20% to the nominal value. The directors are unsure how to record this and have lodged the cash into the bank and shown the proceeds as a single figure in the trial balance.

Required:

(a) Prepare the Statement of Comprehensive Income for the year ended 31 December 2023.

(10 Marks)

(b) Prepare the Statement of Changes in Equity for the year ended 31 December 2023.

(5 Marks)

(c) Prepare the Statement of Financial Position as at 31 December 2023.

(10 marks)

(Total: 25 Marks)

Question 2: COMPULSORY

The following information has been extracted from the financial statements of RefunderCo a company which prepares its accounts up to 31 December each year.

Income Statement (Extracts) for Year Ended 31 December				
	€m		**€m**	
	2023		**2022**	
Revenue	1045		945	
Operating profit	255		195	
Net finance costs	65		40	
Profit before tax	190		155	
Tax charge	45		34	
Profit after tax	145		121	
Statement of Financial Position as at 31 December				
	€m	**€m**	**€m**	**€m**
	2023	**2023**	**2022**	**2022**
Property, plant & equipment		545		465
Long term investments		15		15
Non current assets		560		480
Inventories	115		85	
Trade receivables	175		149	
Bank	16		6	
		306		240
Total Assets		**866**		**720**
Ordinary share capital (25 cent)		100		100
Retained Earnings		340		295
		440		395
Long term debentures (2026)		175		150
		615		545
Short term loans	80		60	
Trade payables	140		90	
Taxation liability	25		20	
Accrued expenses	6		5	
		251		175
Total Equity & Liabilities		**866**		**720**

The following additional information has been provided.

	2023	2022
Average share price (cent)	405	240
Average P/E ratio (for the industry)	10	8

Required:

(a) Write a report to critically assess the financial performance and position of RefunderCo over the period using ratio analysis under the headings of profitability, liquidity, efficiency, solvency and shareholders.

Calculate no more than two ratios under each heading, clearly show your workings and state any assumptions you consider necessary. All ratios should be calculated to **2 decimal places**.

(20 Marks)

(b) Explain **two** situations where ratios might be said to distort an entity's reported performance and potentially mislead users' interpretations.

(5 Marks)

(Total: 25 Marks)

Question 3

The following extracts are from the financial statements of PlastyCo. for the year ended 31 December 2023:

Income Statement for the year ended 31 December 2023				
	€m			
Sales revenue	961			
Cost of Sales	-603			
Gross profit	358			
Distribution costs	-74			
Administrative expenses	-86			
Profit from operations	198			
Interest receivable	5			
Interest payable	-12			
Profit before tax	191			
Income tax expense	-26			
Profit after tax	165			

Statement of Financial Position as at:		***31-Dec-23***		***31-Dec-22***
	€m	**€m**	**€m**	**€m**
Non-current assets				
Property, plant and equipment	647		444	
Intangible assets	15		10	
Investments	24		27	
		686		481
Current Assets				
Inventories	76		91	
Trade receivables	45		31	
Cash	11		5	
		132		127
Total Assets		**818**		**608**
Equity				
Issued share capital (50 cent par value)	165		150	
Share premium	44		35	
Revaluation reserve	40		20	
Retained earnings	410		325	
		659		530
Non-current liabilities				
Long term loans		100		10
Current liabilities				
Trade payables	40		38	
Bank overdraft	6		15	
Taxation	13		15	
		59		68
Total equity and liabilities		**818**		**608**

Additional information:

(i) Profit from operations is after charging depreciation on the property, plant and equipment of €48 million and amortisation on the intangible fixed assets of €2 million.

(ii) The revaluation reserve relates wholly to property, plant and equipment.

(iii) During the year ended 31 December 2023, plant and machinery costing €80 million, and with accumulated depreciation of €25 million at date of disposal, was sold for €45 million.

(iv) A fully subscribed one for ten Rights Issue took place on 31 August 2023, resulting in 30 million new shares being issued at an issue price of €0.80 each.

(v) Some investments were disposed of at no profit or no loss.

(vi) Dividends paid during the year were €80 million.

Required:
Prepare a Statement of Cash Flow for PlastyCo for the year ended 31 December 2023 in compliance with IAS 7.
(Total: 20 Marks)

Question 4

The Conceptual Framework was developed by the International Accounting Standards Board (IASB) and has a number of purposes, including:

- assisting the Board in the development of future IFRS Standards and in its review of existing IFRS Standards.
- assisting the Board in promoting harmonisation of regulations, accounting standards and procedures relating to the presentation of financial statements by providing a basis for reducing the number of alternative treatments permitted by IFRS Standards.
- assisting preparers of financial statements in applying IFRS Standards and in dealing with topics that are yet to be covered in an IFRS Standard.

Required:

(a) Discuss how the Conceptual Framework could help the IASB achieve the above objectives.

(10 Marks)

(b) Differentiate between Principle-based framework and Rules-based framework.

(5 Marks)

(Total: 15 Marks)

Question 5

IAS 37 deals with Provisions, Contingent Assets and Contingent Liabilities and how they should be reported in the financial statements.

Required:

(a) Distinguish clearly between a provision and a contingency explaining how each is reflected in the financial statements.

(5 Marks)

(b) IAS 37 identifies four criteria which are necessary to make a provision. These criteria are sometimes listed in the form of an eight-word check list to facilitate those preparing and auditing financial statements. Identify the eight-word check list and provide a brief explanation of each of the four criteria.

(8 Marks)

(c) Explain how the accounting concept of "Prudence" is evident in the reporting of contingencies.

(2 Marks)

(Total: 15 Marks)

Question 6

CapitalCo prepares its financial statements to 30 April each year. The company has the following general borrowings outstanding throughout the year to 30 April 2023:

	€000
7.5% Bank loan	800
9% Bank loan	500
8.5% Overdraft	1,200
	2,500

On 1 August 2022, the company began construction of a warehouse (which was classified as a qualifying asset) and incurred expenditure of €300,000. A further €240,000 was spent on 1 December 2022.

Both of these amounts were financed out of general borrowings. Construction of the asset was still underway at 30 April 2023.

Required:

(a) Explain the term "Qualifying Asset" when used in the context of IAS 23 *Borrowing Costs.*

(3 Marks)

(b) Calculate the amount of borrowing costs that should be capitalised as part of the cost of the qualifying asset during the year to 30 April 2023.

(12 Marks)

(Total 15 Marks)

END OF EXAMINATION