



QQI

BA (HONS) ACCOUNTING & FINANCE

AUTUMN 2024 EXAMINATIONS

Module Code: **B8AF102**

Module Description: **Financial Reporting**

Examiner: **Mr James Browne**

Internal Moderator: **Mr Richard O'Callaghan**

External Examiner: **XXXXXXXX**

Date: **August 2024**

Time:

INSTRUCTIONS TO CANDIDATES

Time allowed is 3 hours

Section A: Compulsory question, 25 marks.

Section B: Answer ANY THREE questions, all carry 25 marks.

Total: 100 marks.

Section A: COMPULSORY**Question 1**

The summarised statements of financial position of three companies as at 30 September 2023 are as follows:

	<u>PaleeCo</u> <u>€'000</u>	<u>SaleeCo</u> <u>€'000</u>	<u>AaleeCo</u> <u>€'000</u>
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment	81,000	29,000	55,000
Intangible assets	8,000	-	-
Investments:		-	-
SaleeCo (12 million shares)	22,000	-	-
AaleeCo	<u>19,000</u>	<u>-</u>	<u>-</u>
	130,000	29,000	55,000
 <u>Current assets</u>			
Inventory	8,000	1,000	5,000
Trade receivables	11,200	2,000	5,000
Bank	1,000	500	100
Total assets	<u>150,200</u>	<u>32,500</u>	<u>65,100</u>
 EQUITY AND LIABILITIES			
Ordinary shares of €1 each	80,000	16,000	30,000
Retained earnings -			
- Opening as at 1 October 2022	46,800	5,500	22,267
- For current y/e 30 Sept. 2023	<u>12,100</u>	<u>7,000</u>	<u>4,000</u>
	138,900	28,500	56,267
 <u>Non-current liabilities</u>			
Deferred tax	3,000	1,000	3,333
Current liabilities	8,300	3,000	5,500
Total equity and liabilities	<u>150,200</u>	<u>32,500</u>	<u>65,100</u>

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The following additional information also applies:

1. On 1 October 2022, PaleeCo obtained a majority equity shareholding in SaleeCo on the following terms: an immediate cash payment of €22 million on 1 October 2022; and a further amount of €5 million on 1 October 2027. The delayed payment is contingent on SaleeCo remaining profitable for each of the five years. The immediate payment has been recorded in PaleeCo's financial statements, but the contingent payment has not yet been recorded. PaleeCo's cost of capital is 8% per annum.
2. On 1 January 2023, PaleeCo acquired 30% of the equity shares of AaleeCo, paying €19 million in cash.
3. PaleeCo's policy is to value the non-controlling interest at fair value at the date of acquisition. To calculate the fair value of non-controlling interest the directors of PaleeCo have agreed to use a share price for SaleeCo of €1.20 per share.
4. At the date of acquisition, the fair values of SaleeCo's property, plant and equipment was equal to its carrying amount with the exception of plant which had a fair value €500,000 above its carrying amount. At that date the plant had a remaining life of five years. SaleeCo uses straight-line depreciation for plant assuming a nil residual value.
5. At 30 September 2023, PaleeCo's inventory included goods bought from SaleeCo for €1 million. SaleeCo had priced these goods using a margin of 20%. The agreed intercompany current account balance between the two entities at 30 September 2023 was €300,000.
6. Impairment tests carried out on 30 September 2023 concluded that due to difficult trading conditions, the value of the investment in AaleeCo was impaired by €500,000. Goodwill has not been impaired.
7. A table of PV discount factors is provided on the last page of the exam paper.

Required:

- (a) Prepare a consolidated statement of financial position for PaleeCo as at 30 September 2023.
(20 marks)
- (b) When one entity has **control** over another it is said to create a Parent / Subsidiary relationship.
Discuss the term "**Control**" clearly explaining what it is and its features which help identify its existence in relation to consolidated financial statements.
(5 marks)

(Total: 25 Marks)

Section B: Answer ANY THREE questions

Question 2

Accounting standards often feature the idea of having “two aspects”. It may be two treatments; two methods; two events; two outcomes; two presentations. Sometimes the two aspects are complimentary and sometimes the two aspects are contradictory.

Required:

- (a) IAS 12 provides guidance on the appropriate accounting treatment for deferred taxation in published financial statements.

Required:

Explain the two types of timing difference identified in IAS 12 and provide one example of each.

(6 marks)

- (b) IAS 20 provides guidance on the appropriate accounting treatment for government grants in published financial statements.

Required:

Explain the two alternative methods of accounting for capital grants identified in IAS 20 and provide one criticism of each.

(8 marks)

- (c) IAS 10 provides guidance on the appropriate accounting treatment for events after the reporting date in published financial statements.

Required:

Explain the two types of events identified in IAS 10 and provide one example of each.

(6 marks)

- (d) IAS 16 provides guidance on the appropriate accounting treatment for property, plant and equipment in published financial statements.

Required:

Explain the two methods of measurement, after initial recognition, for non-current assets as identified in IAS 16 and provide one criticism of each.

(5 marks)

(Total 25 marks)

Question 3

The following information has been extracted from the financial records of SheldonCo for the year ended 31 December 2023:

Income Statement for the year ended 31 December 2023

	<u>€m</u>
Revenue	611
Cost of Sales	<u>(302)</u>
Gross Profit	309
Distribution costs	(41)
Administrative expenses	<u>(52)</u>
Profit from operations	216
Investment income receivable	4
Interest payable	<u>(7)</u>
Profit before tax	213
Income tax expense	<u>(27)</u>
Profit after tax	186

Statement of Financial Position as at:

	<u>31 December 2023</u>		<u>31 December 2022</u>	
	<u>€m</u>	<u>€m</u>	<u>€m</u>	<u>€m</u>
Non-current assets				
Property, plant and equipment	940		601	
Intangible assets	45		43	
Investments	<u>18</u>		<u>20</u>	
		1,003		664
Current Assets				
Inventories	40		43	
Trade receivables	90		79	
Cash	<u>5</u>		<u>3</u>	
		135		125
Total Assets		<u>1,138</u>		<u>789</u>
Equity				
Issued share capital (€1)	144		120	
Share premium	16		40	
Revaluation reserve	50		-	
Retained earnings	<u>538</u>		<u>376</u>	
		748		536
Non-current liabilities				
Long Term Debenture (2033)		300		150
Current liabilities				
Trade payables	70		80	
Bank Overdraft	5		14	
Taxation	<u>15</u>		<u>9</u>	
		90		103
Total equity and liabilities		<u>1,138</u>		<u>789</u>

(Continued)

Additional information:

- (i) Profit from operations is after charging depreciation on the property, plant and equipment of €55 million and amortisation on the intangible fixed assets of €5 million.
- (ii) There were no disposals of intangible assets during the year but there were some additions.
- (iii) There were no additions of non-current asset investments during the year but there were some disposals (with no profit or loss on disposal).
- (iv) Other Comprehensive Income (OCI) during the year is reflected in the revaluation reserve and relates entirely to property, plant and equipment.
- (v) During the year ended 31 December 2023, plant with an original cost of €80 million and accumulated depreciation at time of disposal of €70 million, was sold for €13 million.
- (vi) During the year ended 31 December 2023, there was a 1 for 5 BONUS share issue funded entirely from the Share Premium account.
- (vii) Due to cash flow difficulties during the year, only a small interim dividend could be paid to equity shareholders.

Required:

Prepare a Statement of Cash Flow for SheldonCo for the year ended 31 December 2023 in compliance with IAS 7 and using the indirect method.

You should clearly show the reconciliation of the opening and closing cash positions.

(Total 25 marks)

Question 4

PaxCo is a company operating in the Farm Equipment industry and has decided that a policy of growth through acquisition is the fastest way to achieve the directors' long term strategy. In recent years they have acquired shares in two other companies as follows:

<i>Company</i>	<i>Date acquired</i>	<i>Ownership</i>	<i>Total Equity at acquisition</i>	<i>Purchase Consideration</i>
SaxCo	1 st April 2019	70%	€395m	€305m
AxCo	1 st Oct 2022	40%	€520m	€195m

The results for the three companies for the year ended 31st March 2023 are as follows:

	PaxCo	SaxCo	AxCo
	€m	€m	€m
Revenue	2,250	840	980
Cost of Sales	<u>(1,555)</u>	<u>(505)</u>	<u>(618)</u>
Gross profit	695	335	362
Operating expenses	<u>(335)</u>	<u>(121)</u>	<u>(97)</u>
Operating profit	360	214	265
Investment income			
- dividends from SaleeCo	30		
- dividends from AaleeCo	6		
Interest payable	<u>(30)</u>	<u>(28)</u>	<u>(20)</u>
Profit before tax	366	186	245
Tax	<u>(50)</u>	<u>(22)</u>	<u>(38)</u>
Profit after tax	<u>316</u>	<u>164</u>	<u>207</u>

The following information is available:

1. PaxCo has a policy of measuring NCI using the proportionate share of net assets method. Goodwill impairment to date since acquisition amounts to a total of €12m. Goodwill impairments recognised as expenses up to 31st March 2022 were €9m.
2. During the year PaxCo made sales to SaxCo of €45m. All of these goods had been sold on by SaxCo at the year-end. Since the acquisition of AxCo, PaxCo has made sales to AxCo of €25m. 20% of these goods had been sold to third parties by AxCo before the year end.
3. PaxCo charges a mark-up of 25% on cost when setting its sales price.

Required:

- (a) Explain the difference between Acquisition Accounting and Equity Accounting in terms of group accounting.

(5 marks)

- (b) Prepare the Consolidated Income Statement for the year ended 31st March 2023 in so far as the information above allows.

(20 marks)

(Total 25 marks)

Question 5

The following trial balance has been extracted from the financial records of RajCo for the accounting year-end 31 March 2023.

	<u>DR €000</u>	<u>CR €000</u>
Ordinary Share Capital (€0.50 par value)		50,000
Share Premium		15,000
Retained Earnings at 1 April 2022		80,075
7% Debentures (2033)		10,000
Deferred Tax		1,500
Current Tax		25
Bank		50
Trade Payables and Receivables	38,800	24,400
Inventory at 1 April 2022	25,500	
Land & Buildings at Cost (Land €15 million)	115,000	
Investment Property at Cost	24,000	
Plant at Cost	18,000	
Equipment at Cost	21,000	
Accumulated Depreciation 1 Apr 2022 – Buildings		8,000
Accumulated Depreciation 1 Apr 2022 – Plant		3,600
Accumulated Depreciation 1 Apr 2022 – Equipment		4,000
Revenue		511,000
Purchases	315,500	
Administration Costs	86,500	
Distribution Costs	75,500	
Debenture Interest Paid	150	
Other Finance Costs	1,000	
Equity Dividend Paid	12,500	
Suspense Account (see note 6)		25,800
	<u>733,450</u>	<u>733,450</u>

The following **additional** information has been provided to help finalise the financial statements:

1. Depreciation policy for the company is that Plant is depreciated at 20% using the reducing balance method; Buildings have a remaining useful life of 46 years based on an original useful economic life of 50 years when first acquired. Equipment is depreciated at 10% using the straight line method and assuming a residual value of €1 million. All depreciation should be charged to Cost of Sales.
2. The investment property was bought on 1 October 2022 and is held for its rental income with an expected useful life of 30 years. RajCo does not occupy any part of the property and their policy is to use the fair value model as permitted in IAS 40 (Investment Property). The valuation at 31 March 2023 was €26 million. Deferred tax is to be provided for at a rate of 25%.
3. Closing inventory at 31 March 2023 was valued at €30 million. This figure includes the following items which require further consideration:

- An amount of €1.25 million relating to inventory ordered from a supplier on 28 March 2023. Due to a breakdown of the supplier's delivery vehicle, these goods were not despatched until 1 April 2023 although they were invoiced to RajCo on 31 March 2023.
 - A large batch of products recorded at original cost of €3 million. Due to upgrades of competitors' technology, it was only possible to sell this entire batch of products for an amount of €2.6 million during July 2023.
4. The current tax in the trial balance relates to last year's over/under provision. The charge for the current year is estimated at €4.5 million.
 5. The 7% Debentures were issued on 1 January 2023 at par value and are due for repayment in January 2033 at par value.
 6. The Suspense Account balance represents two events for which the directors do not know the correct accounting treatment:
 - During the year, a 1 for 10 Rights Issue took place at an issue price which included a 60% premium on the share's nominal value. Only the cash received and lodged to the bank has been recorded.
 - RajCo issued a long term bond on 1 April 2022. The nominal value is €20 million but it was issued at a discount of 5% and will be redeemed at a premium on maturity. As a result of the discount and premium, the effective finance cost is 10% although the quoted coupon rate is 6% (payable annually in arrears). Only the items going through the bank account have been recorded (cash received and the coupon paid for the year) in the suspense account.

Required:

- a) Prepare the Statement of Comprehensive Income for the year ended 31 March 2023.
(10 marks)
- b) Prepare the Statement of Changes in Equity for the year ended 31 March 2023.
(5 marks)
- c) Prepare the Statement of Financial Position as at 31 March 2023.
(10 marks)

(Total: 25 Marks)

END OF PAPER

PRESENT VALUE TABLES

Periods	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.874	0.857	0.841	0.826
3	0.970	0.942	0.916	0.889	0.864	0.840	0.817	0.794	0.772	0.751
4	0.960	0.924	0.889	0.855	0.823	0.792	0.764	0.735	0.708	0.683
5	0.950	0.906	0.863	0.822	0.784	0.747	0.714	0.681	0.650	0.621
6	0.941	0.888	0.838	0.790	0.747	0.705	0.667	0.631	0.596	0.565
7	0.932	0.871	0.814	0.760	0.711	0.665	0.623	0.584	0.547	0.514
8	0.923	0.854	0.790	0.731	0.677	0.627	0.582	0.541	0.502	0.467
9	0.914	0.837	0.767	0.703	0.645	0.592	0.544	0.501	0.461	0.425
10	0.905	0.821	0.745	0.676	0.614	0.558	0.508	0.464	0.423	0.386
11	0.896	0.805	0.723	0.650	0.585	0.526	0.475	0.430	0.388	0.351
12	0.887	0.789	0.702	0.625	0.557	0.496	0.444	0.398	0.356	0.319
13	0.878	0.774	0.682	0.601	0.530	0.468	0.415	0.369	0.327	0.290
14	0.869	0.759	0.662	0.578	0.505	0.442	0.388	0.342	0.300	0.264
15	0.860	0.744	0.643	0.556	0.481	0.417	0.363	0.317	0.275	0.240
16	0.851	0.729	0.624	0.535	0.458	0.393	0.339	0.294	0.252	0.218
17	0.843	0.715	0.606	0.514	0.436	0.371	0.317	0.272	0.231	0.198
18	0.835	0.701	0.588	0.494	0.415	0.350	0.296	0.252	0.212	0.180
19	0.827	0.687	0.571	0.475	0.395	0.330	0.277	0.233	0.194	0.164
20	0.819	0.674	0.554	0.457	0.376	0.311	0.259	0.216	0.178	0.149
11	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
12	0.812	0.797	0.783	0.769	0.757	0.743	0.731	0.718	0.706	0.694
13	0.732	0.712	0.693	0.675	0.658	0.641	0.625	0.608	0.593	0.578
14	0.659	0.636	0.613	0.592	0.572	0.553	0.534	0.515	0.498	0.482
15	0.594	0.568	0.542	0.519	0.497	0.477	0.456	0.436	0.418	0.402
16	0.535	0.507	0.480	0.455	0.432	0.411	0.390	0.369	0.351	0.335
17	0.482	0.453	0.425	0.399	0.376	0.354	0.333	0.313	0.295	0.279
18	0.434	0.404	0.376	0.350	0.327	0.305	0.285	0.265	0.248	0.233
19	0.391	0.361	0.333	0.307	0.284	0.263	0.244	0.225	0.208	0.194
20	0.352	0.322	0.295	0.269	0.247	0.227	0.209	0.191	0.175	0.162
11	0.317	0.288	0.261	0.236	0.215	0.196	0.179	0.162	0.147	0.135
12	0.286	0.257	0.231	0.207	0.187	0.169	0.153	0.137	0.124	0.113
13	0.258	0.229	0.204	0.182	0.163	0.146	0.131	0.116	0.104	0.094
14	0.232	0.204	0.181	0.160	0.142	0.126	0.112	0.098	0.087	0.078
15	0.209	0.182	0.160	0.140	0.123	0.109	0.096	0.083	0.073	0.065
16	0.188	0.163	0.142	0.123	0.107	0.094	0.082	0.070	0.061	0.054
17	0.169	0.146	0.126	0.108	0.093	0.081	0.070	0.059	0.051	0.045
18	0.152	0.130	0.112	0.095	0.081	0.070	0.060	0.050	0.043	0.038
19	0.137	0.116	0.099	0.083	0.070	0.060	0.051	0.042	0.036	0.032
20	0.123	0.104	0.088	0.073	0.061	0.052	0.044	0.036	0.030	0.027