



QQI

BA (HONS) ACCOUNTING & FINANCE

AUTUMN 2024 EXAMINATIONS

Module Code: **B7AF102**
Module Description: **Financial Accounting**
Examiner: **James Browne**
Internal Moderator: **Puteri Nur Syazwani Megat Daud**
Aida Haryani Yusoff
Richard O'Callaghan
External Examiner: **TBC Shane Moran**

INSTRUCTIONS TO CANDIDATES.

Time allowed is 3 hours

Section A: Compulsory question, 25 marks.

Section B: Compulsory. Answer ALL questions, total 45 marks.

Section C: Answer ANY TWO questions, 15 marks each.

Total: 100 marks.

By submitting your answers as part of this exam you certify that all work provided is wholly your own, done without the intervention, help or guidance of any third party

SECTION A: COMPULSORY**Question 1**

The following trial balance has been extracted from the financial records of SamsonCo as at 31 March 2024:

	€000	€000
Property – at valuation 1 April 2023 (Note (i))	28,000	
Plant and equipment – at cost (Note (i))	7,000	
Plant and equipment – accumulated depreciation as at 1 April		2,520
Investment property – at valuation 1 April 2023 (Note (ii))	4,000	
Inventory as at 31 March 2024	18,000	
Trade receivables and trade payables	34,100	10,500
Bank overdraft		190
Provision for legal case (Note (iii))		8,500
Revenue		453,300
Cost of sales	303,000	
Distribution costs	52,000	
Administration costs (Note (iii))	64,000	
Interest paid on long term loan (Note (iv))	320	
Interest on bank overdraft	15	
Equity dividend paid	10,000	
Proceeds of ordinary share issue (Note (vi))		7,000
Equity shares (20 cent nominal value)		20,000
Share premium		4,000
Long term loan (Note (iv))		8,000
Retained earnings at 1 April 2023		4,265
Taxation		60
Property revaluation reserve		2,100
	<u>520,435</u>	<u>520,435</u>

The following additional information is relevant:

(i) Non-current assets:

The property had a remaining life of 25 years at 1 April 2018 when originally purchased. The company revalues all property at each year end and at 31 March 2024 it was valued at €27 million.

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 by SamsonCo for its investment potential and meets the criteria of IAS 40 to be classified as an investment property. SamsonCo policy is to revalue this asset at each year end. The agreed valuation as at 31 March 2024 is €4.25 million.

(iii) SamsonCo is being sued by a customer for damages of €10 million. Legal advice from their solicitors advised that there is a 85% chance that they will lose the case. As a result, the directors have recognised a provision of €8,500,000 (€10 million x 85%) by including the cost in the administration costs. Legal fees have not been provided for and are expected to be 10% of the damages awarded.

(iv) The long term loan of €8 million in the trial balance was received on 1 July 2023 and carries an annual interest rate of 8% per annum.

(v) The Directors have estimated the provision for taxation for the year ended 31 March 2024 at €4.2 million. The balance of taxation 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 for an issue price which includes a premium of 15 cent to the par value per share. 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 March 2024.

(10 marks)

- (b) Prepare the Statement of Changes in Equity for the year ended 31 March 2024.

(5 marks)

- (c) Prepare the Statement of Financial Position as at 31 March 2024.

(10 Marks)

(Total 25 Marks)

SECTION B: COMPULSORY

Question 2

The following information has been extracted from the financial statements of TravelCo a company operating in the luxury travel industry with a financial year end of 31 January.

Income Statement (Extracts) for Year Ended 31 January				
	€m		€m	
	2022		2021	
Revenue	401		710	
Operating profit	55		250	
Net finance costs	40		30	
Profit before tax	15		220	
Tax charge	3		40	
Profit after tax	12		180	
Statement of Financial Position as at 31 January				
	€m	€m	€m	€m
	2022	2022	2021	2021
Property, plant & equipment		320		380
Long term investments		1		10
Non current assets		321		390
Inventories	5		40	
Trade receivables	175		75	
Bank	1		11	
		181		126
Total Assets		502		516
Ordinary share capital (25 cent)		80		80
Retained Earnings		212		200
		292		280
Long term debentures (2030)		130		100
		422		380
Short term loans	65		40	
Trade payables	13		70	
Taxation liability	1		21	
Accrued expenses	1		5	
		80		136
Total Equity & Liabilities		502		516

Some additional data has been provided for each financial year by the finance manager of TravelCo:

	€m	€m
	2022	2021
Average share price during the period (cent)	120	364
Average P/E ratio (for the travel industry)	25	8

Required:

- (a) Prepare a **Report** in which you critically evaluate the financial performance and position of TravelCo over the 2021 / 2022 operating period. Your report should focus on the following five categories:

- Profitability
- Liquidity
- Efficiency
- Solvency
- Shareholders

Calculate no more than two ratios under each category, clearly show all workings and state any assumptions you consider appropriate. Reference to the broader economic trading environment may be helpful.

(22 marks)

- (b) To be considered useful, a ratio must be used in comparison with other data. Briefly outline **three** things that a ratio might be compared with and why.

(3 marks)

(Total 25 marks)

Question 3

The following extracts are from the financial statements of DrewCo. for the year ended 31 March 2024:

Income Statement for the year ended 31 March 2024				
	£m			
Sales revenue	919			
Cost of Sales	-603			
Gross profit	316			
Distribution costs	-88			
Administrative expenses	-81			
Profit from operations	147			
Interest receivable	5			
Interest payable	-12			
Profit before tax	140			
Income tax expense	-18			
Profit after tax	122			

Statement of Financial Position as at:		31-Mar-24	31-Mar-23	
	£m	£m	£m	£m
Non-current assets				
Property, plant and equipment	605		411	
Intangible assets	14		10	
Investments	16		19	
		635		440
Current Assets				
Inventories	58		69	
Trade receivables	46		34	
Cash	14		3	
		118		106
Total Assets		753		546
Equity				
Issued share capital (50 cent par value)	240		200	
Share premium	59		35	
Revaluation reserve	20		0	
Retained earnings	302		260	
		621		495
Non-current liabilities				
Long term loans		100		10
Current liabilities				
Trade payables	23		16	
Bank overdraft	5		10	
Taxation	4		15	
		32		41
Total equity and liabilities		753		546

Additional information:

- (i) Profit from operations is after charging depreciation on the property, plant and equipment of €50 million and amortisation on the intangible non-current assets of €2 million.
- (ii) The revaluation reserve relates wholly to property, plant and equipment.
- (iii) On 1 April 2023, plant and machinery costing €65 million, and with accumulated depreciation of €40 million at 31 March 2023, was sold for €24 million.
- (iv) On 1 October 2023, investments were disposed of at their original cost of €3 million therefore not incurring any profit / loss on disposal. No other investments were purchased during the year.
- (v) During the year a 1 for 5 rights issue took place at an issue price of 80 cents per share.
- (vi) Dividends paid during the year were €80 million.

Required:

Prepare a Statement of Cash Flow for DrewCo for the year ended 31 March 2024 using the indirect method and in compliance with IAS 7.

(Total 20 marks)

SECTION C: ANSWER ANY TWO QUESTIONS

Question 4

(a)

International harmonisation is the process of developing one common set of agreed financial reporting standards for use by all entities throughout the world.

There are a number of reasons why the harmonisation of accounting standards would be beneficial. Businesses operate on a global scale and investors make investment decisions on a worldwide basis. Thus, there is a need for financial information to be presented on a consistent basis.

Required:

Explain **TWO** advantages and **TWO** disadvantages of international harmonisation.

(10 marks)

(b)

Qualitative characteristics are the attributes that make information provided in financial statements useful to others.

One of the qualitative characteristics is **Relevance**. Relevance can be defined as: *"information is relevant if it has the ability to influence the economic decisions of users and is provided in the time to influence those decisions."*

For instance, in order to record business machinery, a company may choose to either record the asset at the Fair Value or the Cost.

Required:

Discuss, which would be the most relevant valuation for the business machinery if:

- i. A business is a going concern with no intentions to reduce or curtail its operations.
- ii. A business is not a going concern.

(5 marks)

(Total 15 marks)

Question 5

IFRS 16 (Leases) allows a simplified treatment for leases relating to certain assets which meet certain criteria and therefore do not require the recognition of a right of use asset.

- a) Explain the simplified treatment permitted in IFRS 16 and advise, with a reason whether the following leases would qualify for the simplified treatment.

- (i) 2 year lease on a touch screen tablet device
- (ii) 3 year lease on small pieces of office furniture
- (iii) 1 month lease on a mechanical digger
- (iv) 5 day lease on a brand new motor car
- (v) 2 year lease on a very old second-hand motor car

(10 marks)

- b) Explain the term "Lease Liability", advise how it is calculated under IFRS 16 and how it is then recorded in the financial statements.

(5 marks)

(Total 15 marks)

Question 6

IAS 10 provides guidance on the treatment in the financial statements of Events After the Reporting Date.

Required:

- a) Explain how events might qualify to be described as “Events After the Reporting Date” and explain the two potential classifications of such events as permitted in IAS 10.

(6 marks)

- b) You are finalising the draft financial statements for the annual trading period ended 31 December 2023 and have compiled the following list of material events which occurred after the reporting date. Classify each event in accordance with IAS 10 and explain briefly how it should be dealt with in the financial statements for year ended 31 December 2023.

- (i) Inventory held at the year-end was sold to a customer at below cost.
- (ii) The company made a major investment in plant.
- (iii) The final dividend for the year ended 31 December 2023 was announced.
- (iv) The company launched a corporate take-over of a competitor.
- (v) A customer who owed money at the year-end was declared bankrupt on 3 January 2024.
- (vi) A customer who owed money at the year-end was declared bankrupt on 31 May 2024.

(Each event carries equal marks. Subtotal = 9 marks)

(Total 15 marks)

END OF EXAMINATION