

## QQI

# **BA (HONS) ACCOUNTING & FINANCE**

### **AUTUMN 2024 EXAMINATIONS**

Module Code:

**B7AF102** 

Module Description: Financial Accounting

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## 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 (j))	28,000	
Plant and equipment – at cost (Note (j))	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 (vj))		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
	520,435	520,435

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.

	€m		€m	
	2022	amelia de como	2021	
Revenue	401	geleg (a se principi de la segrepa de primitiga a la sema plante).  Odan de servicio de la suita generaliza de sema Didente.	710	gentere geografie met de formanse for extensión for de destinación for de della destinación de de della della d La companya de la companya de destinación de la companya de destinación de la companya de della della della de
Operating profit	55		250	enne pl. ; for the first for the form of the first for the
Net finance costs	40		30	
Profit before tax	15	randii rangelia esessinteristia sesteratura kana	220	
Tax charge	3	allina e dallina e que la fina par recentifica e a canaca e e alli	40	ilininianemerje qadinasanas bus
Profit after tax	12	olice programma francisco de la Coloca de Colo	180	es, language, st. Saganlando de esta d
Statement of Financial Position as a	nt 31 January	oberbarbandare (seebola e blaskibertekkildidi anaberia	must seen august seen ann an teach con a teach con an teach con an teach con a	on the ballement leasterfu. A literate of the east of a literature of the east
	€m	€m	€m	€m
	2022	2022	2021	2021
Property, plant & equipment		320	and the second of the second o	380
Long term investments	ision in Norman and Harrow stranger are resident in the second	1	and the state of the	10
Non current assets		321		390
Inventories	**************************************	teri, arija ad diligidised et erim sistem et en erim ili et et et en erim et et et et en erim et et et et en e La erim et en erim et	40	andreach d'achtain d'ann an d'an d'an deal dean deal dean deal dean deal dean deal dean deal dean dean dean de La comhain ann an dean dean dean dean dean dean d
Trade receivables	175		75	
Bank	1		11	
Section 2015 and the section of the		181	alian kaninin na akuma nooyi a seey kanya a see	126
Total Assets  Little Control C	mour me ca in months of a a hear in more than and a substitute of a substitute of the substitute of th	502		516
Ordinary share capital (25 cent)		80	anarreanire ariannonirenia manama an mud ma	80
Retained Earnings		212		200
	enemu veesta toomaa si taraa urumee uu too oo uu taraa uru oo oo taraa	292		280
Long term debentures (2030)		130	nemer e estilion o o discontituta di la lista di nometich ne en mer	100
	garagaya ayan a ayayaya a a ayaayaya a ahaan kii ii ii ii ii ahaa a ahaa ahaa ahaa a	422	iin i Need-Callebra da Harria II Hadi-ii Haria ida ka	380
Short term loans	65		40	danied of a median of all the first of the control
Trade payables	13		70	ngalyyaanna saata, mey ee falansa artar ara oo oo oo oo oo
Taxation liability	1		21	anangganannangganannanggan sa
Accrued expenses	1	MINISTER AMERICAN AND AND AND AND AND AND AND AND AND A	5	one contrator or contrator of the contra
tang kipagan sa janggap pangan sa manan nagana manan sa		80	[804/M].china.chinhita.chi].hinadda.chinhita.chinada.chi	136
Total Equity & Liabilities	Local Control	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	n de delse l'és d'un commission de la desenvair de designation de monte de la designation de la designation de	and the second contract of the second contrac	10
000 Mark 1880 min of Comment and the Comment of Comment (Comment Comment Comment Comment Comment (Comment Comment Comment Comment Comment Comment (Comment Comment Com	€m			
Sales revenue	919	**************************************	noted to restrict the state of	
Cost of Sales	-603		eri noni	
Gross profit	316		ndur danlida danlida janlay iyo sayay an masa sa	lingui i i desti i li i entre en ineli messes
Distribution costs	-88			
Administrative expenses	-81	MATERIA I - PRII - PRI -	atomatem datoste name o o nas potentas a	*****************************
Profit from operations	147		, a.a	<u></u>
Interest receivable	5			
Interest payable	-12	7,000		
Profit before tax	140	n semestana		
Income tax expense	-18	a and a second as		
Profit after tax	122	**************************************		
Statement of Financial Position as at:	31-Mar-24		31-Mar-23	
	£m	£m	€m	€m
Non-current assets	~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~			Name of the second seco
Property, plant and equipment	605		411	
Intangible assets	14	and the same of th	10	
Investments	16	larkiineer (175-mileorre et en la kolonno (1750) etti kolonno (1750) etti kolonno (1750) etti kolonno (1750) e	19	Nemanii di cilin e canana matana
Commence A Commence C		635		440
Current Assets	**************************************	appropriate manager of comments and appropriate for the second	69	Non-Recognition and Discours Communication
Inventories	58			
Trade receivables	46	obilinda 1111 de l'ille de l'electra a version de la local de l'annecial de l'electron de l'electron de l'elec	34	terrensia di illinin menilipriesi metania menimin
Cash	14		3	
votationen havida viino on voi de novide i innidata poi innemi i nomi innidati i i nan ameno pe i man manamenti ima termini ne enemi in e		118		106
Total Assets		753		546
Equity		onnement beautiful as la emalerat dividi la est free situate de minimi est de la companya de minimi de de sign	or Dough Alberton, La Austria en 1915 de l'Arbenton Martine de Mercenne et	h till grantsachen störnhössbarkhrössnochth 
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	The second of th			
Long term loans	aldrilliarillist allstin turat i partellisistes	100	and respond to the control of the co	10
Current liabilities				
Trade payables	23	9	16	
Bank overdraft	5		10	
Taxation	4		15	
		32		41
Total equity and liabilities	regent and one of the comment of the one of the comment of the other of the comment	753	anna ang mang pamanon lisinda. A Allimbi Pilini Pil	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:

- 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**