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OLLSCOIL NA hÉIREANN, GAILLIMH

THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SEMESTER TWO EXAMINATIONS 2002

SECOND COMMERCE EXAMINATIONS

FINANCIAL ACCOUNTING I

(AY206)

Professor N. Garrod
Professor J. F. Collins
Mr F. Conaty
Ms. E. Curtis

Time allowed: TWO HOURS

Candidates are required to attempt ANY TWO questions from Section A and ANY ONE question from Section B.

Separate answer books are not required

Section A
Candidates are required to attempt ANY TWO questions in this section

Question 1

The following trial balance was extracted from the books of Emmett Limited, a distribution company, on 31 December 2001:

	€
Debtors	44,000
Provision for bad debts	2,000
Creditors	21,000
Bank overdraft	28,000
Buildings, at net book value	133,000
Fixtures and fittings, at net book value	49,000
Salesmen's motor vehicles	24,500
Investments	105,000
Investment income	10,500
Bank overdraft interest	1,750
Turnover	385,000
Cost of sales	143,500
10% Debentures	35,000
Selling expenses	15,000
General expenses	75,000
Salaries and wages	102,000
Share capital	140,000
Share premium	35,000
Profit and loss account at 1 January 2001	55,500
Stock at cost, 31 December 2001	19,250

Additional information:

1. Stocks held by the company at 31 December 2001 were comprised of the following:

	Cost €	Net realisable value €	Replacement cost €
Product omega	5,000	8,000	6,500
Product delta	7,000	8,000	6,000
Product gamma	7,250	6,000	7,500
	19,250	22,000	20,000

2. The investments are in a listed company and are not intended to be held for the long term. The market value of those investments was €35,000 at 31 December 2001. The Directors are of the opinion that this reduction in value is not permanent, but simply due to conditions prevailing in the stock market.

3. Investment income of €3,000 is receivable and has not yet been recorded. Interest payable on Debentures for the year has not yet been accrued.

[Question 1 continues over....

...Question 1 continued from previous page]

4. Depreciation of the following amounts has already been calculated and included under the relevant expense headings:

Buildings (included in cost of sales)	€2,000
Fitting and fixtures (included in general expenses)	€5,000
Salesmen's vehicles (included in selling expenses)	€5,000

5. An analysis of general expenses is as follows:

	€
Telephone	10,000
Light and heat	34,000
Motor vehicle expenses	2,000
Audit fees	7,000
Directors' fees	4,500
Sales commissions	3,850
Depreciation on fittings and fixtures	5,000
Stationery	8,650
	75,000

6. An analysis of salaries and wages is as follows:

	€
Directors salaries	48,000
Distribution staff	30,000
Administrative staff	24,000
	102,000

7. 60% of Emmett's annual turnover in 2001 related to sales of cleaning products with the remaining 40% relating to sales of clothing. 70% of total turnover in 2001 was in respect of sales in Ireland which 30% of the turnover was in respect of sales made in France.

Required:

a) Prepare the profit and loss account for Emmett Ltd for the year ended 31 December 2001, and a balance sheet at that date, in a form suitable for publication, including relevant notes, so far as this is possible from the available information.

(34 marks)

b) Explain the basic valuation rule for stocks as set out in *SSAP 9 Stocks and long term contracts*.

(6 marks)
(Total marks 40)

P.T.O.

ი 2

Question 2

Part A

You are given the following information about the fixed assets of Blueberry Ltd for the year ended 31 December 2001:

The cost and aggregate depreciation of the fixed assets at 1 January 2001 were as follows:

	Buildings	Equipment	Total
	€	€	€
Cost at 1/1/2001	100,000	75,000	175,000
Aggregate Depreciation at 1/1/2001	20,000	25,000	45,000
	80,000	50,000	130,000

The company paid €100,000 on 1 January 1991 for a building which was being depreciated over 50 years. In January 2001 the company decided to revalue the building to €450,000.

During the year the company constructed a new office building. The building was complete and put into use late in June 2001. The building is to be depreciated over 50 years starting from 1 July 2001. The following costs were accumulated by the accountant of Blueberry, which she has associated with the construction:

	€
Allocation of the cost of time spent by existing staff in personnel department on hiring contractors	10,000
Direct materials	100,000
Direct labour	70,000
Foreman	27,000
Construction engineer	15,000
Allocation of administrative overheads	18,000
	240,000

On 30 June 2001 the company sold equipment with a cost of €20,000 and a net book value of €7,000. The company purchased new equipment for €34,000 on 30 September 2001. The company charges depreciation on the equipment on a monthly basis at a rate of 10% per annum (straight line).

Required

Prepare the movement on fixed assets for Blueberry Ltd for the year ended 31 December 2001, in accordance with *FRS 15 Tangible Fixed Assets.*

24 Marks

[Question 2 continues over....

...Question 2 continued from previous page]

Part B

Dreamkitchen Ltd. manufactures and sells good quality, yet competitively priced kitchens. The company has two production plants, one in Dublin and one in Galway. Turnover for the year ended 31 December 2001 was €10 million and pre tax profits amounted to €2.5 million, before accounting for the following items:

1. Following stiff local competition in the West of Ireland during the year, the directors decided to close the Galway plant. The closure of the plant was completed by 10 March 2002 and the costs of closure amounted to €700,000.

2. A new type of paint was used on a significant number of kitchens during the year, however the paint turned out to be unsuitable for the damp atmosphere in kitchens and had started to peel. The company sent out craftsmen to repaint the kitchens at a cost of €500,000. All of the repair work was completed prior to year end.

3. The accountant of Dreamkitchen has uncovered two problems with last years' accounts:
   - The provision for bad debts was too large. Best estimates at the time gave rise to a provision of €100,000 whereas, in the event the actual bad debts incurred were only €50,000.
   - A significant error was made in the valuation of the stock, which resulted in the stock being overvalued by €1,000,000 and the profit being overstated by a similar amount. If this error had been discovered at the time, it would have resulted in the accounts being withdrawn, corrected and reissued.

Required:

Explain briefly how the above items should be accounted for by Dreamkitchen Ltd for the year ended 31 December 2001, in accordance with *FRS 3 Reporting Financial Performance*.

16 Marks

Total marks: 40

Question 3

Dermot Lufferton has operated a shop selling art materials for the past ten years. Although promising himself every year that he will do better Dermot is not a good record keeper. The following information is available in respect of the year ended 31 March 2002:

[Question 3 continues over....

...*Question 3 continued from previous page]*

Summary of bank transactions:

	€		€
Opening balance	3,600	Payments to suppliers	71,500
Cash lodged	118,600	New shop fittings	4,200
		Rent & rates	5,100
		Light & heat	3,660
		New van (net of trade in)	6,800
		Van running expenses	2,300
		Wages	15,660
		Advertising	1,230
		Insurance	900
		Sundry expenses	2,340
		Closing balance	8,510
	122,200		122,200

Details of Dermot's assets and liabilities at the start and end of the year are as follows:

	1 April 2001 €	31 March 2002 €
Debtors	1,400	1,230
Creditors	3,220	3,860
Insurance prepaid	120	140
Advertising accrued	200	180
Stocks at cost	19,700	24,800
Van at net book value	3,600	?
Shop fittings at cost	2,600	?
Depreciation on shop fittings	800	?

Additional information:

1. Dermot lodged all takings, with the exception of personal drawings of €300 per week and an amount of €600 in cash paid to his first cousin for painting the shop.
2. Closing debtors include an amount of €200 which is not expected to be recovered and is to be written off.
3. The old van on the books at 1 April 2001 was traded in for a value of €2,800 against the purchase of its replacement.

[Question 3 continues over....

...Question 3 continued from previous page]

4. Depreciation is provided for a whole year in the year of purchase and is not provided for in the year of sale. The van is to be depreciated at 20% on a straight-line basis and the shop fittings 25% on a reducing balance basis.
5. During the year Dermot donated art materials that cost €800 to a local school for children with special needs.
6. Finally Dermot informs you that a cheque in the amount €300 written on 25 March 2002 payable to and sent on that day to his main supplier has not yet been presented to his bank for payment and is not included in the summarised bank transactions above. He did confirm however that the figure for Creditors as at 31 March 2002 given above has already been reduced by this amount.

Required:

a) Prepare the profit and loss account for Dermot's business for the year ended 31 March 2002 together with a balance sheet as at that date. Detailed workings in support of the financial statements should be included.

32 marks

b) In recent years the need for adequate *Internal Controls* in accounting systems has moved if not quite to centre stage then certainly towards the front as an essential element of good corporate governance. In the context of accounting systems, internal controls fall into a number of categories defined by the type and nature of the controls. 'Authorisation Controls' is one such category, identify two other accounting system control types and explain their nature and purpose.

8 marks
Total marks : 40

Section B

Candidates are required to attempt ONE question in this section

Question 4

Write a note on any TWO of the following:

i) Factors which influence the development of different accounting systems.

ii) The impact of the 1986 Companies (Amendment) Act on financial reporting in Ireland.

iii)The need for accounting standards and the role of the Accounting Standards Board.

10 marks each
Total marks: 20
P.T.O.

Question 5

You must attempt Part A AND Part B of this question

Part A

You are given the following extract from the cash flow statement of Aruba Ltd. for the year ended 30 November 2001:

	€
Net cash inflow before management of liquid resources and financing	(1,000)
Cash inflow from management of liquid resources	5,000
Financing	
Issue of new share capital	6,000
Repayment of debt	(9,000)
Increase in cash	1,000

The opening net debt of Aruba Ltd was €12,000.

Required:

Prepare the reconciliation of the change in cash for the year to the change in net debt for the year for Aruba Ltd for the year ended 20 November 2001.

7 marks

Part B

Paul has been in business for a number of years and is now considering bringing in John his nephew as a partner. John has agreed to purchase 40% of the business for €6,000. Fair value of the recorded net assets of Paul's business should be taken at their net book value, currently €9,950. To assist in the expansion Paul and John are to introduce £10,000 additional capital in proportion to their respective shares of the business.

Required:

a) Show the entries in the books of the business to record the above events.

6 marks

b) The legal framework pertaining to Partnerships includes the following elements:

- Partnership Act 1890
- Legal precedent
- Partnership agreements

Briefly outline the role of each of the above elements and where appropriate use examples to illustrate.

7 marks

Total marks: 20