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OLLSCOIL NA hÉIREANN, GAILLIMH

THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

SEMESTER TWO EXAMINATIONS 2002

EVENING B. COMM EXAMINATIONS

FINANCIAL REPORTING

(AY402)

Professor N. Garrod
Professor J. F. Collins
Ms. E. Curtis
Mr. Sean Murray

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 investments in a listed company which 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 briefly why the valuation rule for stocks is 'lower of cost or net realisable value'.

(6 marks)
(Total marks 40)

P.T.O.

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 inclusion in the financial statements for the year ended 31 December 2001, in accordance with *FRS 15 Accounting for Fixed Assets.*

25 Marks

[Question 2 continues over….

...Question 2 continued from previous page]

Part B

Logan Ltd. received the following grants in the year ended 31 December 2001:

1. The Company received a grant of €500,000 from the IDA towards the purchase of a new production line which cost €2,000,000. The production line was installed in January 2001 and is to be depreciated on a reducing balance basis at the rate of 50% per annum.
2. The Company received a grant of €200,000 towards the cost of training 100 new employees in July 2000. 25% of the employees were trained in the year ended 31 December 2000 and 75% of the training was complete by 31 December 2001.
3. An engineering consultant was provided free of charge by FAS for the month of November 2001. The company would normally have to pay €5,000 for such a consultant.

Required:

Explain how the grants set out in items 1 – 3 above should be treated by Logan Ltd in accordance with *SSAP 4 Accounting for Government* Grants and calculate the amounts which should be included in the balance sheet and profit and loss account for the year ended 31 December 2001, in respect of each grant, together with any notes to the accounts relating to grants which you consider appropriate.

15 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:

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

[Question 3 continues over....

...Question 3 continued from previous page]

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.
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.

34 marks

b) Outline briefly the function of the Auditors of financial statements.

6 marks

Total marks: 40

P.T.O.

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

Part A

FRS 3 Reporting Financial Performance introduced a new layered format for the profit and loss account. Explain the structure of this layered format and outline the reasons why it was introduced.

10 marks

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. The Company incurred a bad debt of €200,000 due to the bankruptcy of a significant customer.

Explain how items 1 and 2 above should be treated in the accounts for the year ended 31 December 2001 in accordance with *FRS 3 Reporting Financial Performance*.

10 marks
Total marks: 20