GX 44

OLLSCOIL NA hÉIREANN, GAILLIMH

THE NATIONAL UNIVERSITY OF IRELAND, GALWAY

AUTUMN 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 Go Manufacturing Ltd on 31 December 2001:

	€'000
10% Debenture loans repayable 2006	500
Administrative expenses	750
Bank	10
Cost of sales	2,100
Distribution expenses	600
Land at cost	2,000
Plant and machinery at cost	600
Aggregate depreciation – plant and machinery 31 December 2000	280
Premises at cost	1,450
Aggregate depreciation – premises 31 December 2000	470
Profit and loss account at 31 December 2000	1,340
Share capital (authorised, issued and fully paid 50 cent shares)	1,500
Stock 31 December 2001	380
Trade creditors	180
Trade debtors	230
Turnover	3,850

Additional information:

1. In June 2001, plant and machinery which had been purchased three years ago for €160,000 was sold for €50,000. The machinery was being depreciated over four years. The sales proceeds were used to build a canteen at the back of the main warehouse. The cheque from the purchaser of the plant and machinery was given directly to the contractor who built the canteen and hence none of these transactions were recorded in the books prior to the extraction of the trial balance. No other fixed assets were acquired or disposed of during the year.

2. Depreciation for the year has yet to be accounted for at the following rates:
   i) Premises – straight line basis 2%
   ii) Plant and machinery – straight line basis 25%

   A full year's depreciation is charged in the year of acquisition, regardless of the date of purchase, and no depreciation is charged in the year of disposal.

3. Audit fees of €20,000 and debenture interest have yet to be provided for. Corporation Tax is at a rate of 12% and is to be calculated based on the accounting profit before tax.

4. During the year the company discontinued permanently, the operations of a significant business segment. Turnover, cost of sales, administrative expenses and distribution expenses of this segment were €800,000, €500,000, €200,000 and €150,000 respectively.

[Question 1 continues over….

...Question 1 continued from previous page]

5. On 28 December 2001, stock worth €100,000 was rendered useless by flooding at the company's premises. The stock was not insured against flooding and it is estimated that it will cost €10,000 to dispose of the worthless remnants of the stock. No entries have been made in the accounting records in respect of this.

Required:

a) Prepare the profit and loss account for Go Manufacturing 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 objective of an audit of the financial statements of a company.

6 marks
Total marks 40

Question 2

Part A

Logan Ltd made the following purchases and sales of widgets during the year ended 31 March 2002:

Purchases		
Date	Units	Price
January	30	€28
March	50	€32
September	15	€34
October	20	€35

Sales	
Date	Units
February	15
June	45
August	10
December	16

Required:

Write a memo to the directors of Logan Ltd which:

- outlines the basic principle on which stock is valued in accordance with SSAP 9 - *Accounting for Stock and Long term contracts,* and

4 marks

- describes the principle difficulties encountered in the valuation of stocks in a manufacturing company, and

9 marks

- explains the three methods of valuing the stock of widgets - indicating the circumstances where each method could be considered appropriate. Your memo should show the stock valuation and the cost of sales of the widgets that would result from the use of each method, assuming zero opening stock.

15 marks

[Question 2 continues over....

...Question 2 continued from previous page]

Part B

Jinder plc is a manufacturing and distribution company. In January 1995 the company purchased a building which cost €100,000 with an estimated useful life of 50 years. On 30 June 2001 an independent valuation undertaken by the Directors, valued the building at €200,000. No entries have been made in the accounts in this regard, however the Directors are keen to include the valuation in the financial statements. You are required to prepare a brief memorandum to the Board of Directors of Jinder plc in which you explain how this matter should be reflected in the company's published financial statements for the year ended 31 December 2001. Your answer should include a calculation of the depreciation charge on the building for the year and make reference to the requirements of *FRS 15 Tangible fixed assets.*

12 marks

Total marks: 40

Question 3

Louise Fagan has operated a shop selling glassware in Galway city for many years. Louise has always relied on her sister to help keep the books however last year she moved to Spain and things have not been the same since. The following information is available in respect of the year ended 30 June 2002:

Summary of bank transactions:

Dr	€	Cr	€
Cash receipts lodged	136,200	Opening balance	5,660
Loan received	20,000	Payments to suppliers	82,600
		New display units	16,600
		Rent & rates	8,600
		Light & heat	3,660
		Political donation	1,200
		Travel expenses	1,650
		Cleaning & maintenance	2,300
		Wages	26,400
		Advertising	2,100
		Insurance	1,200
		Sundry expenses	3,120
		Closing balance	1,110
	156,200		156,200

[Question 3 continues over....

...Question 3 continued from previous page]

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

	1 July 2001	30 June 2002
	€	€
Debtors	2,300	1,230
Creditors	4,630	3,860
Insurance prepaid	260	140
Cleaning & maintenance accrued	320	300
Stocks at cost	22,100	26,700
Shop fittings at cost	3200	?
Depreciation on shop fittings	1200	?

Additional information:

1. Louise took out a loan of €20,000 on 1 October 2001. Interest is debited annually a rate of 11.5% per annum. The loan is repayable in 5 equal annual instalments on 30 September each year commencing on 30 September 2003.
2. Shop fittings are depreciated at a rate of 25% reducing balance.
3. The political donation was to the political party her uncle was standing for in the recent general election.
4. A cheque received from a debtor in June 2002 and lodged in that month has since been returned 'unpaid – refer to drawer'. The cheque was in the amount of €800. Neither the bank transaction details above nor the figure for year end debtors have been amended to reflect the returned cheque. Louise does not now expect to receive payment from this debtor.
5. Louise lodged all takings, with the exception of personal drawings of €400 per week.
6. The travel expenses represents the cost of a business trip to Croatia.

Required

a) Prepare the profit and loss account for Louise's business for the year ended 30 June 2002 together with a balance sheet as at that date. Detailed workings in support of the financial statements should be included.

34 marks

b) Explain the 'Matching Principle' used in the preparation 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 short essay on either of the following:

a) The importance of the regulation of financial reporting in a society rocked by financial scandals

OR

b) The role and function of the Accounting Standards Board and the process of issuing accounting standards

Total marks: 20

Question 5

You must attempt Part A AND Part B of this question

Part A

FRS 3 Reporting Financial Performance requires separate disclosure of discontinued operations and sets out strict conditions for making provisions in respect of discontinued operations. Describe, using examples, these provisions of FRS 3 and explain why the Accounting Standards Board included these provisions.

10 Marks

Part B

Explain the provisions of *SSAP 4 Accounting for Government Grants* with respect to the accounting treatment of revenue and capital grants

10 marks

Total marks: 20