



CA PROFICIENCY 2
FINANCIAL REPORTING
INTERIM ASSESSMENT – SEPTEMBER 2017
PAPER AND SUGGESTED SOLUTION

Information Note:

This report contains the following documents:

- Page 3: Exam question booklet (as sat on 2nd September 2017)
Page 9: Exam answer booklet (as sat on 2nd September 2017)
Page 37: Formal suggested solution

As with all examinations, the solution is a 'suggested' solution only. Candidates who present alternative, valid solutions to any question will always receive the appropriate credit in an examination.

This suggested solution is written to the CAP2 Competency Statement 2016/2017

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All references to the masculine gender within this document are intended to refer to both male and female as appropriate.

CA Proficiency 2



FINANCIAL REPORTING

INTERIM ASSESSMENT

Saturday 2 September 2017: 10:00 am – 11:30 am

INSTRUCTIONS TO CANDIDATES

1. This assessment is scheduled for 90 minutes and is a **Closed Book** assessment.
2. A separate answer booklet is provided and **MUST BE USED BY ALL CANDIDATES**. Candidates should answer all **THREE** questions presented using the templates and working spaces provided in the answer booklet.
Candidates are NOT permitted to open their question or answer booklets until instructed to do so.
3. Candidates should indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.
4. Candidates should deem each monetary amount shown with the €/\$ symbol to be stated in their relevant currency.
5. All workings should be shown.
6. The following terminology may appear throughout the paper:
SOPL & OCI = Statement of Profit or Loss and Other Comprehensive Income
SOFPI = Statement of Financial Position
P/L = Profit or Loss
OCI = Other Comprehensive Income

QUESTION ONE: Mormurp Limited

The following list of balances has been extracted from the records of Mormurp Limited ("MORMURP"), a company operating in the agricultural industry.

	€/£ 31.12.2016	€/£ 31.12.2015
	DRAFT	FINAL
Buildings accumulated depreciation – 31.12.15 ****	320,000	320,000
Plant and machinery accumulated depreciation – 31.12.15 ****	210,000	210,000
Allowance for bad and doubtful debts ****	12,300	12,300
Trade receivables	194,000	144,000
Administrative expenses	286,400	-
Revenue	1,925,900	-
Buildings **** (see note 5)	800,000	800,000
Distribution costs	394,600	-
Plant and machinery at cost	590,000	560,000
Retained earnings ****	879,200	879,200
Cash and cash equivalents (see note 6)	89,100	56,000
Trade payables	208,600	186,000
Current tax payable ****	22,300	22,300
Inventory ****	162,800	162,800
Ordinary share capital – shares of €/£ 1.50 each	90,000	75,000
Suspense	15,000	-
Purchases	1,154,400	-
Revaluation surplus – buildings ****	18,000	18,000

All items marked with an asterisk (****) highlight that the bookkeeper of MORMURP has brought forward the closing balance from 2015 to 2016 without taking account of any changes (as outlined below) which may have impacted on these figures in 2016.

The following items are to be adjusted for in preparing the financial statements for the year ended 31 December 2016:

- MORMURP's inventory was not counted until 3 January 2017. On that date, the inventory at cost amounted to €/£ 211,400. Sales in the 2017 financial year up to the date of the inventory count amounted to €/£ 42,000. MORMURP makes a profit margin of 40% on everything it sells;
- The shares were issued at a price of €/£ 2.00 each. The correct cash amount of €/£ 20,000 was received in relation to this share issue. The following is the only entry made to date:

	€/£	€/£
Debit Suspense	15,000	
Credit Ordinary share capital		15,000
- MORMURP received €/£ 6,200 from one of its trade receivables which it credited to trade payables in error. The amount was correctly entered into the bank account in the above list of balances;

(Question 1 continues on next page)

QUESTION ONE (Cont'd)

4. On 31 December 2016 MORMURP estimates that the corporation tax charge for 2016 is €/ \pounds 3,200. A VAT audit commenced in December 2016. MORMURP made an upfront payment of €/ \pounds 16,000 to the Revenue/HMRC at the start of the audit which has not been accounted for in its financial statements. The VAT audit was not finalised by year-end 31 December 2016;

5. Depreciation is to be provided for as follows:

Buildings	2% of cost on a straight line basis
Plant and Machinery	15% of cost on a straight line basis

- Depreciation is charged in full in the year of purchase. No depreciation is charged in the year of sale;
 - Buildings depreciation and excess revaluation losses are allocated to administrative expenses whereas plant and machinery depreciation is allocated to cost of sales;
 - MORMURP sold a building for €/ \pounds 200,000 on 1 June 2016 and lodged the amount to the bank. It had originally purchased this building in 2001 for €/ \pounds 300,000;
 - On 1 September 2016 MURMURP purchased a new building for €/ \pounds 400,000 by cheque;
 - Buildings were revalued at €/ \pounds 630,000 on 31 December 2016. This revaluation took place after annual depreciation had been charged;
 - The increase in the cost of plant and machinery relates to plant that was purchased on 1 May 2016. In relation to this purchase, MORMURP credited trade payables by mistake instead of a new five year bank loan which was received on 1 April 2016. The interest on the bank loan is 10% per annum.
6. The cash and cash equivalents of €/ \pounds 89,100 in the list of balances above is a debit balance. Other than as specified in *Item (3)*, this balance does not reflect any of the necessary adjustments in relation to the above items;
7. The allowance for bad and doubtful debts should be changed to €/ \pounds 14,200 as at 31 December 2016.

Requirement:

a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for MORMURP for the year ended 31 December 2016;

18 marks

b) Prepare the Statement of Financial Position for MORMURP as at 31 December 2016.

37 marks

Total 55 marks

Please note your final answer should be given in the template provided. Workings should be completed and clearly labelled, using the blank pages in the answer booklet.

QUESTION TWO: Rouolo plc

Rouolo plc ("ROUOLO") is a company which owns a chain of jewellery shops operating throughout Ireland. ROUOLO purchased Tarinas Limited ("TARINAS"), a company which manufactures jewellery, on 1 July 2016. The statements of financial position of both companies at 31 December 2016 are as follows:

	ROUOLO		TARINAS	
	31 December 2016		31 December 2016	
	€/£' 000	€/£' 000	€/£' 000	€/£' 000
Assets				
Non-current assets				
Property, plant and equipment		4,400		1,600
Investment in TARINAS		1,600		-
Total non-current assets		6,000		1,600
Current assets				
Inventories	600		400	
Trade receivables	20		300	
Cash and cash equivalents	820		180	
Total current assets		1,440		880
Total assets		7,440		2,480
Equity and Liabilities				
Equity				
Ordinary share capital (€/£ 1 each)	1,000		300	
Share premium	400		50	
Revaluation reserve	200		50	
Retained earnings	4,720		1,000	
Total equity		6,320		1,400
Current liabilities				
Trade payables	1,120		1,080	
Total current liabilities		1,120		1,080
Total equity and liabilities		7,440		2,480

1. ROUOLO paid €/£ 1,600,000 for a 75% stake in TARINAS;
2. At the date of acquisition TARINAS's equity section of its financial statements was as follows:

	€/£
Ordinary share capital	300,000
Share premium	50,000
Revaluation reserve	50,000
Retained earnings	600,000
Total	1,000,000

(Question 2 continued on next page)

QUESTION TWO (Cont'd)

3. TARINAS sold goods to ROUOLO in the post-acquisition period to the value of €/£ 500,000. TARINAS sells jewellery at a profit margin of 50% on selling price. ROUOLO still had €/£ 80,000 of these goods in inventory as at 31 December 2016;
4. At the year-end, there was cash in transit of €/£ 70,000 from ROUOLO to TARINAS;
5. ROUOLO had an intercompany amount of €/£ 100,000 owed to TARINAS included in its trade payables at year-end. TARINAS had an intercompany amount of €/£ 170,000 due from ROUOLO included in its trade receivables at year-end;
6. ROUOLO's policy is to measure non-controlling interests at acquisition at their proportionate share of the fair value of the net identifiable assets acquired and liabilities assumed. The fair value of the net assets at acquisition was equivalent to their book values;
7. Ignore taxation and amortisation.

Requirement:

- a) Calculate the closing consolidated retained earnings in the financial statements of ROUOLO for the year-ended 31 December 2016;
6 marks
 - b) Prepare the goodwill working for ROUOLO on the acquisition of TARINAS on 1 July 2016;
4 marks
 - c) Prepare the consolidated statement of financial position of ROUOLO for the year-ended 31 December 2016.
20 marks
- Total 30 marks**

Please note your final answer should be given in the template provided. Workings should be completed and clearly labelled, using the blank pages in the answer booklet.

QUESTION THREE: Leionth Limited

Leionth Limited ("LEIONTH") is a company which has asked you, its trainee financial accountant, to focus on finalising the trade receivable section of its financial statements for the year-ended 31 December 2016. The following information has been provided for 2016:

	€/£
Trade Receivables – 31.12.2016 – pre adjustments	280,000
Allowance for bad and doubtful debts – 31.12.2015	14,600

The above balances are not reflective of any required adjustments arising from the items below:

- Bad debts of €/£ 8,200 were written off in 2016;
- A customer of LEIONTH wrote to it in November 2016 advising that it would pay a debt which has previously been written off by LEIONTH. The amount of the previously written off bad debt was €/£ 3,000;
- LEIONTH recovered the bad debt of €/£ 3,000 in December 2016 and lodged the amount to its bank account;
- A credit sale made on 1 January 2017 of €/£ 6,200 was included in pre year-end sales and trade receivables;
- The allowance for bad and doubtful debts should be changed to 5% of revised trade receivables;
- Any expenses should be allocated to administrative expenses.

Requirement:

- a) Calculate the closing trade receivable to be included in the financial statements of LEIONTH for the year-ended 31 December 2016; **5 marks**
- b) Based on the above information, prepare the journal entries to record completely the necessary transactions in the financial statements of LEIONTH for the year-ended 31 December 2016. **10 marks**

Total 15 marks

Please note your final answer should be given in the template provided. Workings should be completed and clearly labelled, using the blank pages in the answer booklet.

END OF PAPER

Desk Number: _____

Student Number: _____

Assessment Centre: _____



Chartered Accountants Ireland

CA Proficiency 2

INTERIM ASSESSMENT – FINANCIAL REPORTING

ANSWER BOOKLET

Saturday 2 September 2017: 10:00 am – 11:30 am

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5. All workings should be shown.
6. Templates for each question are as follows:

Question 1: Page 2
Question 2: Page 12
Question 3: Page 20

QUESTION ONE (Cont'd)

Space for workings

QUESTION ONE (Cont'd)

Space for workings

QUESTION ONE (Cont'd)

Space for workings

QUESTION ONE (Cont'd)

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QUESTION ONE (Cont'd)

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QUESTION THREE (Cont'd)

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QUESTION THREE (Cont'd)
Space for workings

QUESTION THREE (Cont'd)
Space for workings

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CA Proficiency 2 – Financial Reporting

Interim Assessment 2017 Paper 3

Suggested Solutions

QUESTION ONE

Mormurp Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2016

		€/£
Revenue	TB	1,925,900
Cost of Sales	W2	<u>(1,169,100)</u>
Gross Profit		756,800
Administrative Expenses	W2	(310,300)
Distribution Costs	W2	(394,600)
Finance Costs	W1.5	(2,250)
Loss on Disposal of Building	W1.5	<u>(10,000)</u>
Profit before Tax		39,650
Income Tax	W1.4	<u>(3,200)</u>
Profit for the Year		36,450
Other Comprehensive Income		
Revaluation Loss	W3 or W1.5	<u>(18,000)</u>
Total Other Comprehensive Income		(18,000)
Total Comprehensive Income for the Year		<u>18,450</u>

Mormurp Limited Statement of Financial Position as at 31st December 2016

Assets

Non-Current Assets

Property, Plant & Equipment

W3

€/£

921,500

Total Non-Current Assets

921,500

Current Assets

Inventory

TB + W1.1

236,600

Trade Receivables

TB + W1.3 + W1.6

173,600

Prepayments - Vat

W1.4

16,000

Total Current Assets

426,200

Total Assets

1,347,700

Equity & Liabilities

Equity

Share Capital

TB + W1.2

90,000

Share Premium

W1.2

5,000

Retained Earnings

TB + SOPL

915,650

Revaluation Surplus - Buildings

TB + W1.5

-

Total Equity

1,010,650

Non-Current Liabilities

Bank Loan

W1.5

30,000

Total Non-Current Liabilities

30,000

Current Liabilities

Trade Payables

TB + W1.3 + W1.5

172,400

Cash & Cash Equivalents

TB + W1.2 + W1.4 + W1.5

106,900

Accruals

W1.5

2,250

Current Tax Payables

TB + W1.4

25,500

Total Current Liabilities

307,050

Total Equity & Liabilities

1,347,700

Workings

				€/£	€/£
1.1	Total Inventories at Cost per Inventory Count				211,400
	Inventory sold post year end included in inventory count				<u>25,200</u>
	Value of Closing Inventories				<u><u>236,600</u></u>
	Sales in January 2017 up to date of inventory count			42,000	
	40% Profit Margin			<u>16,800</u>	
	Cost of Inventory			<u><u>25,200</u></u>	
Dr.	Inventory	+ Current Assets	SOFP	236,600	
Cr.	Closing Inventory	- Cost of Sales	SOPL & OCI		236,600
1.2	Entries included in list of balances			€/£	€/£
Dr.	Suspense			15,000	
Cr.	Ordinary Share Capital	+ Equity	SOFP		15,000
	Correct Entry				
Dr.	Bank	+ Current Assets	SOFP	20,000	
Cr.	Share Capital	+ Equity	SOFP		15,000
Cr.	Share Premium	+ Equity	SOFP		5,000
	Entries to Correct				
Dr.	Bank	+ Current Assets	SOFP	20,000	
Cr.	Suspense				15,000
Cr.	Share Premium	+ Equity	SOFP		5,000

Movement in Value of Ordinary Share Capital	€/£
At End of Year	90,000
At Start of Year	75,000
Movement	15,000
Each share worth €/£ 1.50	1.50
Total Amount of Shares Issued	10,000
Shares sold at €/£ 2.00 each	2.00
Total Amount Received	20,000

1.3			€/£	€/£
	Actually Happened			
Dr.	Bank	+ Current Assets	SOFP	6,200
Cr.	Trade Payables	+ Current Liabilities	SOFP	6,200
	Correct Entry			
Dr.	Bank	+ Current Assets	SOFP	6,200
Cr.	Trade Receivable	- Current Assets	SOFP	6,200
	Entries to Correct			
Dr.	Trade Payables	- Current Liabilities	SOFP	6,200
Cr.	Trade Receivable	- Current Assets	SOFP	6,200
1.4	Dr. Income Tax	+ Expenses	SOPL & OCI	3,200
	Cr. Current Tax Payable	+ Current Liabilities	SOFP	3,200
	Advance Payment of Vat			
Dr.	Vat Prepayment	+ Current Assets	SOFP	16,000
Cr.	Bank	- Current Assets	SOFP	16,000

1.5

		Disposal	Account		
	Cost	300,000	Accumulated Depreciation		
			300,000*2%*15 years	90,000	
			Sales Proceeds	200,000	
			Loss on Sale	10,000	
		<u>300,000</u>		<u>300,000</u>	

				€/£	€/£
Dr.	Disposal Account			300,000	
Cr.	Building - PPE Acc'd Dep'n	- Non-Current Assets	SOFP		300,000
Dr.	PPE	+ Non-Current Assets	SOFP	90,000	
Cr.	Disposal Account				90,000
Dr.	Cash & Cash Equivalents	+ Current Assets	SOFP	200,000	
Cr.	Disposal Account				200,000
Dr.	Loss on Sale of Building	+ Expenses	SOPL & OCI	10,000	
Cr.	Disposal Account				10,000
Purchase of Building					
Dr.	Building - PPE	+ Non-Current Assets	SOFP	400,000	
Cr.	Bank	- Current Asset	SOFP		400,000
Dr.	Revaluation Loss - Buildings - PPE	- Equity	SOFP	18,000	
Dr.	Revaluation Loss - Buildings - PPE	- Expenses	SOPL & OCI	4,000	
Cr.	Buildings - PPE	- Non-Current Assets	SOFP		22,000

Actually Happened

Dr.	Plant & Machinery - PPE	+ Non-Current Assets	SOFP	30,000	
Cr.	Trade Payables	+ Current Liabilities	SOFP		30,000

Correct Entry			€/£	€/£
Dr.	Plant & Machinery - PPE	+ Non-Current Assets	SOPF	30,000
Cr.	Bank Loan	+ Non-Current Liabilities	SOPF	30,000

Entries to Correct				
Dr.	Trade Payables	- Current Liabilities	SOPF	30,000
Cr.	Bank Loan	+ Non-Current Liabilities	SOPF	30,000

Interest on Loan

Loan Amount	30,000
Interest - 10% per annum	10%
No. of Months	9
Interest on Loan	2,250

Dr.	Finance Costs	+ Expenses	SOPL & OCI	2,250
Cr.	Accruals	+ Current Liabilities	SOPF	2,250

Increase in Allowance for Bad & Doubtful Debts

Dr.	Allowance	+ Expenses	SOPL & OCI	1,900
Cr.	Allowance	- Current Assets	SOPF	1,900

Allowance at year-end	14,200
Allowance at start of year	12,300
Movement in Allowance	1,900

Working 2 - Cost of Sales, Administrative Expenses + Distribution Costs

		Cost of Sales €/€	Admin. Expenses €/€	Distribution Costs €/€
Expenses			286,400	394,600
Opening Inventory	Per TB	162,800		
Purchases	Per TB	1,154,400		
Inventory	W1.1	(236,600)		
Increase in Allowance for Trade Receivables	W1.6		1,900	
Revaluation Loss	W1.5		4,000	
Depreciation - Buildings	W3		18,000	
Depreciation - Plant & Machinery	W3	88,500		
		1,169,100	310,300	394,600

Working 3 - Property, Plant & Equipment

		Buildings	Plant & Machinery	Total
Cost		800,000	560,000	1,360,000
Accumulated Depreciation b/d		(320,000)	(210,000)	(530,000)
Carrying Value b/d at 1st January 2016		480,000	350,000	830,000
Addition	W1.5	400,000	30,000	430,000
		880,000	380,000	1,260,000
Disposal - Buildings - Cost		(300,000)		(300,000)
Disposal - Buildings - Accumulated Depreciation		90,000		90,000
		670,000	380,000	1,050,000
Depreciation - Buildings - 2% Straight Line - Cost		(18,000)		(18,000)
Depreciation - Plant & Machinery - 15% Straight Line - Cost			(88,500)	(88,500)
		652,000	291,500	943,500
Revaluation Loss		(22,000)		(22,000)
Carrying Value c/d at 31st December 2016		630,000	291,500	921,500

The double entry for the revaluation loss is already included in W1.5

Dr.	Administrative Expenses	+ Expenses	SOPL & OCI	18,000
Dr.	Distribution Costs	+ Expenses	SOPL & OCI	88,500
Cr.	Buildings - Accumulated Dep'n	- Non-Current Assets	SOFP	18,000
Cr.	Plant & Machinery - Accumulated Dep'n	- Non-Current Assets	SOFP	88,500

QUESTION TWO

a)

Working - Consolidated Retained Earnings

Consolidated Retained Earnings	ROUOLO €/£' 000	TARINAS €/£' 000
Per Question	4,720	1,000
Pre-acquisition Profit		(600)
PUP		(40)
		<u>360</u>
Group Share - 75%	<u>270</u>	
	<u><u>4,990</u></u>	

Note

Note - Closing Inventory & Provision for Unrealised Profit

Inventory on hand	<u>80</u>
50% Margin i.e. Unrealised Profit in Inventory on hand	<u><u>40</u></u>

b)

Working - Goodwill

	€/£' 000	€/£' 000
Consideration Transferred	1,600	
+ Non-Controlling Interests - 25% of €/£ 1,000,000	<u>250</u>	1,850
Less		
Net Fair Value of identifiable assets acquired and liabilities		
Share Capital	300	
Share Premium	50	
Pre-acquisition Retained Earnings	600	
Revaluation Reserve	<u>50</u>	1,000
Goodwill arising on acquisition		<u><u>850</u></u>

c)

Rouolo plc Consolidated Statement of Financial Position as at 31 December 2016

	€/£' 000	€/£' 000
Non-Current Assets		
Property, Plant & Equipment (4,400 + 1,600)		6,000
Goodwill - Working (b)		850
Total Non-Current Assets		<u>6,850</u>
Current Assets		
Inventories (600 + 400 - 40 PUP)	960	
Trade Receivables (20 + 300 - 70 CIT - 100 I/C)	150	
Cash & Cash Equivalents (820 + 180 + 70 CIT)	1,070	
Total Current Assets		<u>2,180</u>
Total Assets		<u><u>9,030</u></u>
Equity & Liabilities		
Equity		
Ordinary Share Capital	1,000	
Share Premium	400	
Revaluation Reserve	200	
Retained Earnings (4,720 + 1,000 - 600 Pre-Acq - 40 PUP - 90 NCI)	4,990	
		<u>6,590</u>
Non-Controlling Interests (250 Working (b) + 90 Post-Acq Profit)		340
Total Equity		<u>6,930</u>
Non-Current Liabilities		
Total Non-Current Liabilities		-
Current Liabilities		
Trade Payables (1,120 + 1,080 - 100 I/C)	2,100	
Total Current Liabilities		<u>2,100</u>
Total Equity & Liabilities		<u><u>9,030</u></u>

QUESTION THREE

a)

Calculation of Closing Trade Receivables as at 31 December 2016	€/£
Trade Receivables pre adjustments	280,000
Bad Debt Written Off	(8,200)
Bad Debt Recovered - Write Back	3,000
Bad Debt Recovered - Amount Received	(3,000)
Sale incorrectly included	<u>(6,200)</u>
Revised Trade Receivables	<u>265,600</u>
Revised Trade Receivables	265,600
Allowance for Bad & Doubtful Debts - 31.12.2016 (5%)	13,280
Allowance for Bad & Doubtful Debts - 31.12.2015	14,600
Decrease in Allowance for Bad & Doubtful Debts	1,320
<u>Overall Trade Receivables - 31.12.2016</u>	
Revised Trade Receivables	265,600
Allowance for Bad & Doubtful Debts - 31.12.2016	<u>(13,280)</u>
	<u>252,320</u>

b)

Correct Entries

Dr. Bad Debts Written Off - Administrative Expenses - P/L - SOPL & OCI	8,200	
Cr. Trade Receivables - Current Assets - SOFP		8,200
Dr. Trade Receivables - Current Assets - SOFP	3,000	
Cr. Bad Debt Recovered - Administrative Expenses - P/L - SOPL & OCI		3,000
Dr. Bank - Current Assets - SOFP	3,000	
Cr. Trade Receivables - Current Assets - SOFP		3,000
or		
Cr. Bad Debt Recovered - Administrative Expenses - P/L - SOPL & OCI		
Dr. Revenue - Income - P/L - SOPL & OCI	6,200	
Cr. Trade Receivables - Current Assets - SOFP		6,200
Dr. Trade Receivables - Current Assets - SOFP	1,320	
Cr. Allowance for Bad & Doubtful Debts - Administrative Expenses - P/L - SOPL & OCI		1,320

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