
CA PROFICIENCY 2
FINANCIAL REPORTING
INTERIM ASSESSMENT – JANUARY 2016

FINAL EXAM VERSION

**PAPER AND SUGGESTED SOLUTION WITH
EXAMINER'S COMMENTS**

Information Note:

This report contains the following documents:

- Page 3: Exam question booklet (as sat on 16 January 2016)
Page 9: Exam answer booklet (as sat on 16 January 2016).
Page 34: Formal suggested solution **with examiner's comments**

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 2015/2016



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

INTERIM ASSESSMENT – FINANCIAL REPORTING

QUESTION BOOKLET

Saturday 16 January 2016: 2:00pm – 3:30pm

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 on the front of their answer booklet 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
SOFP = Statement of Financial Position
P/L = Profit or Loss
OCI = Other Comprehensive Income

QUESTION ONE: Rubuth Limited

The following list of balances has been extracted at 31 December 2015 from the records of Rubuth Limited ("RUBUTH"), a company involved in the manufacture of greeting cards and merchandise for the retail industry:

	DEBIT €/£	CREDIT €/£
Premises	1,245,000	
Premises accumulated depreciation – 31.12.14		689,000
Equipment	2,457,260	
Equipment accumulated depreciation – 31.12.14		1,248,760
Bank overdraft		42,600
Trade receivables	764,570	
Ordinary share capital –100,000 shares as €/£ 2.00 each		200,000
Share premium		50,000
Retained earnings – 31.12.14		490,498
Debentures – 3% - Repayable in 2018		630,000
Trade payables		687,200
Current tax payable		26,800
Allowance for bad or doubtful debts		30,580
Revenue		4,881,242
Inventory – 31.12.14	345,870	
Purchases	3,003,781	
Distribution costs	648,752	
Administrative expenses	457,863	
Finance costs	18,900	
Income tax	34,684	
	<u><u>8,976,680</u></u>	<u><u>8,976,680</u></u>

The following items are to be adjusted for in preparing the financial statements for the year ended 31 December 2015:

- (1) RUBUTH's closing inventory at 31 December 2015 amounted to €/£ 389,654. This amount included 16,000 t-shirts that related to the rugby world cup held in the autumn of 2015 that cost €/£ 42,600. RUBUTH, using their advanced equipment, believe that they can convert the t-shirts for the upcoming soccer world cup at a cost of €/£ 0.50 per t-shirt. RUBUTH estimates that it can sell the 'converted' t-shirts at 80% of the original cost price.
- (2) A customer of RUBUTH's went into voluntary liquidation owing €/£ 14,300 on 30 December 2015. Following a creditors meeting, RUBUTH will receive only 10% of the amount owed. It has decided to write off the remaining amount. In addition, RUBUTH believes that the allowance for bad or doubtful debts should be changed to 3% of outstanding trade receivables. The allowance should be included in the financial statements as part of Administrative expenses.
- (3) RUBUTH declared and paid a dividend of €/£ 0.15 per share in early December 2015. No entry has been made to reflect this in the financial statements.

(Question 1 continues on next page)

QUESTION ONE (Cont'd)

- (4) RUBUTH purchased motor vehicles for its sales representatives amounting to €/£ 120,000. This was financed with five year finance leases which commenced on 1 January 2015. Total annual lease payments are €/£ 30,000 paid in arrears on 31 December each year. The fair value of the motor vehicles is equivalent to the present value of the minimum lease payments. The interest rate implicit in the lease is 7.931%. The annual interest should be rounded to the nearest €/£. The bookkeeper has entered the following in the financial records of RUBUTH;

DEBIT	Equipment	€/£ 120,000	
CREDIT	Trade payables		€/£ 120,000

- (5) RUBUTH had an amount owing of €/£ 3,000 at the year-end for administrative expenses.

- (6) Depreciation is to be provided for as follows:

Premises	2% of cost on a straight line basis
Equipment	12% on a reducing balance basis
Motor vehicles	20% of cost on a straight line basis

Depreciation is calculated from the date of purchase to the date of sale.

Depreciation is split 70:30 between Distribution costs and Administrative expenses.

Requirements:

- a) Prepare the Statement of Profit or Loss and Other Comprehensive Income for RUBUTH for the year ended 31 December 2015. **14 Marks**
- b) Prepare the Statement of Financial Position for RUBUTH as at 31 December 2015. **30 Marks**
- c) Prepare the Statement of Changes in Equity for RUBUTH as at 31 December 2015. **6 Marks**

Total 50 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: Laukly Limited

The trial balance of Laukly Limited ("LAUKLY"), a company involved in the wholesale sector, had a debit suspense balance of €£ 569,384 at their year-end of 31 December 2015. On review, the following issues have been identified:

- (1) Due to a software problem, Purchases on credit of €£ 4,864 have been included in Trade Receivables.
- (2) On 1 December 2015, LAUKLY received a loan (repayable in 2020) amounting to €£ 240,000 in relation to the possible purchase of a building in 2016. Interest accrues on the loan at the rate of 0.5% per month. The first repayment is not due until June 2016. LAUKLY had made the following entries in its financial statements.

	€/£	€/£
Dr Property, plant & equipment	240,000	
Cr Trade payables		240,000

- (3) A dividend of €£ 26,000 in relation to the financial year-ending 31 December 2015 was declared on 2 January 2016 and paid on 6 January 2016. The following entry had been made in the financial statements of LAUKLY for the year-ending 31 December 2015.

	€/£	€/£
Dr Retained earnings	26,000	
Cr Bank		26,000

- (4) On 31 December 2015, LAUKLY purchased a 90% stake in Rango Limited ("RANGO") for €£600,000. At that date RANGO's assets and equity / liabilities were as follows;

	€/£
Assets	
Property, plant & equipment	<u>580,000</u>
Total assets	<u>580,000</u>
Liabilities	-
Equity	
Share capital	500,000
Retained earnings	<u>80,000</u>
Total equity	<u>580,000</u>
Total equity & liabilities	<u>580,000</u>

The bookkeeper at LAUKLY entered the following transactions for this purchase;

	€/£	€/£
Dr Suspense	580,000	
Cr Share capital		500,000
Cr Retained earnings		80,000

LAUKLY'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.

- (5) An invoice related to audit fees amounting to €£ 7,500 needs to be accounted for.
- (6) Discount received of €£ 462 has been debited to the discount allowed account as €£ 426.

(Question 2 continues on next page)

QUESTION TWO (cont'd)

Requirement:

- a) Prepare a journal entry (if required) to record any relevant transactions from the above information for the consolidated financial statements of LAUKLY for the year-ending 31 December 2015.
23 marks
- b) Prepare the Suspense account showing the corrections to be made for LAUKLY for the year-ending 31 December 2015.
7 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: Darjo Limited

Darjo Limited "DARJO" is a manufacturing company which has employed you as its trainee financial accountant. You have been asked to prepare journal entries and a working for the following transactions in relation to the premises section of its property, plant and equipment for the year-ended 31 December 2015. The following information has been provided for 2015:

- (1) The carrying value of its premises at 1 January 2015 was €/£ 2,400,000. On that date, the cost of the premises amounted to €/£ 3,620,000.
- (2) DARJO purchased and paid for a premises amounting to €/£ 450,000 on 1 March 2015. An auctioneer estimates that it was worth €/£ 500,000 at the date of purchase.
- (3) DARJO sold a premises for €/£ 800,000 on 31 December 2015 and received payment by cheque on 2 January 2016 due to the holiday postal service. This premises was purchased on 1 January 2001 for €/£ 1,400,000. The following journal entry in relation to this transaction was included in its draft financial statements for the year-ending 31 December 2015:

	€/£	€/£
Dr Bank	800,000	
Dr Depreciation expense	16,000	
Cr Property, plant & equipment		816,000

- (4) DARJO decided to revalue its premises for the first time on 31 December 2015. On that date a professional valuer reported to DARJO that its premises were worth €/£ 1,750,000 in total.
- (5) DARJO's depreciation policy is as follows:
 - Premises: 2% straight line on cost.
 - Depreciate from the date of purchase to the date of sale.

Requirements:

- a) Prepare a working for the Premises section of Property, Plant & Equipment that can be included in the notes to the financial statements of DARJO for the year-ended 31 December 2015.

7 Marks
- b) Based on the above information, prepare the necessary journal entries to record correctly the transactions that occurred during the year in the financial statements of DARJO for the year-ended 31 December 2015.

13 Marks

Total 20 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

Assessment Centre: _____

Date: _____

Student Number: _____

Chartered Accountants Ireland

CA Proficiency 2

INTERIM ASSESSMENT – FINANCIAL REPORTING

ANSWER BOOKLET

Saturday 16 January 2016: 2:00pm – 3.30pm

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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. Templates for each question are as follows:
Question 1: Page 2
Question 2: Page 10
Question 3: Page 17

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)

Space for workings

QUESTION ONE (Cont'd)

Space for workings

QUESTION ONE (Cont'd)

Space for workings

QUESTION TWO (Cont'd)

Answer Templates

Part (b)

Suspense Account					
Point No.	Description	€/£	Point No.	Description	€/£

QUESTION TWO (Cont'd)

Space for workings

QUESTION TWO (Cont'd)

Space for workings

QUESTION TWO (Cont'd)

Space for workings

QUESTION TWO (Cont'd)

Space for workings

QUESTION THREE: Darjo Limited

Answer Templates

Part (a)

Date	Details	Total - €/£

(Question 3 answer templates continue on next page)

QUESTION THREE (Cont'd)

Space for workings

QUESTION THREE (Cont'd)

Space for workings

QUESTION THREE (Cont'd)

Space for workings

QUESTION THREE (Cont'd)

Space for workings

SUGGESTED SOLUTION

EXAMINER'S GENERAL COMMENTS

Overall, the percentage of candidates scoring more than 50 marks was 85.6% which was an excellent result overall. This was a strong performance by candidates undertaking the exam and a significant improvement on last year's result. It also continues the upward trend in candidate performance in this interim assessment which is pleasing. Consequently, for the majority, these exam results have helped candidates to perform well in this subject in the summer sitting.

A noticeable trend this year was the level of marks achieved by some candidates, with the highest mark being 98%. This reinforces the point that if candidates prepare well under exam conditions, this assessment allows them to score well. It was encouraging to see a significant number of candidates provide strong answers to the questions as evidenced by over 67% who received a mark equal to or in excess of 60 and the nearly 42% who received a mark equal to or in excess of 70. Both of these results demonstrate a significant improvement on the previous year. The other pleasing aspect of the exam was the fact that candidates answered more consistently across all three questions this year and follows on from a similar trend last year.

QUESTION ONE: Rubuth Limited

a)

Rubuth Limited Statement of Profit or Loss and Other Comprehensive Income for the year-ended 31st December 2015

		€/€	€/€	€/€	€/€	€/€
Revenue	TB					4,881,242
Cost of Sales	W2					2,976,517
Gross Profit						1,904,725
Administrative Expenses	W2					519,560
Distribution Costs	W2					774,416
Finance Costs	TB + W1.4	18,900	9,517			28,417
Profit/(Loss) before Tax						582,332
Income Tax	TB	34,684				34,684
Profit/(Loss) for the Year						547,648
Other Comprehensive Income						
Revaluation						-
Total Other Comprehensive Income						-
Total Comprehensive Income for the Year						547,648

b)

Rubuth Limited Statement of Financial Position as at 31st December 2015

Assets

Non-Current Assets

Property, Plant & Equipment	W3					1,584,980
Total Non-Current Assets						1,584,980

Current Assets

Inventory	W1.1					373,134
Trade Receivables	TB + W1.2	764,570	(30,580)	(12,870)	8,029	729,149

Cash & Cash Equivalents

Total Current Assets						1,102,283
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Total Assets

2,687,263

Equity & Liabilities

Equity

Share Capital	TB					200,000
Share Premium	TB					50,000
Retained Earnings	TB + W1.3 + SOPL	490,498	(15,000)	547,648		1,023,146
Total Equity						1,273,146

Non-Current Liabilities

Debentures 3% - 2018	TB					630,000
Finance Lease Liability	W1.4	120,000	9,517	(30,000)	(22,107)	77,410
Total Non-Current Liabilities						707,410

Current Liabilities

Trade Payables	TB + W1.4	687,200	(120,000)			567,200
Bank Overdraft	TB + W1.3	42,600	15,000	30,000		87,600
Accruals	W1.5					3,000
Finance Lease Liability	W1.4				22,107	22,107
Current Tax Payable	TB					26,800
Total Current Liabilities						706,707

Total Equity & Liabilities

2,687,263

c)

Rubuth Limited Statement of Changes in Equity for the year-ended 31st December 2015

	Share Capital	Share Premium	Retained Earnings	Total Equity
Balance at 1st January 2015	200,000	50,000	490,498	740,498
Dividend	0	0	(15,000)	(15,000)
Total Comprehensive Income for the year	0	0	547,648	547,648
Balance at 31st December 2015	200,000	50,000	1,023,146	1,273,146

Workings

			€/£	€/£
1.1	Total Inventories at Cost per Inventory			389,654
	Slow Moving Inventories - Cost		42,600	
	NRV - 80% of Cost Price less conversion costs	€/£ 42,600 * 80% - €/£ 16,000 * €/£ 0.50	26,080	
	Inventory Write Down			<u>(16,520)</u>
	Value of Closing Inventories			<u><u>373,134</u></u>
	Dr. Inventory	+ Current Assets	SOPF	373,134
	Cr. Closing Inventory	- Cost of Sales	SOPL & OCI	373,134
1.2	Dr. Bad Debt Write Off	+ Expenses	SOPL & OCI	12,870
	Cr. Trade Receivables	- Current Assets	SOPF	12,870
	Dr. Trade Receivables	+ Current Assets	SOPF	8,029
	Cr. Allowance for bad or doubtful debts - Admin Expenses	- Expenses	SOPL & OCI	8,029
	Trade Receivables	Per TB	764,570	
	Less Bad Debt Write Off	W1.2	<u>(12,870)</u>	
			751,700	
	Allowance for Trade Receivables	3%	22,551	
	Allowance for Trade Receivables Per TB		<u>30,580</u>	
	Decrease in Allowance for Trade Receivables		<u><u>(8,029)</u></u>	
1.3	Should have Happened			
	Dr. Retained Earnings	- Equity	SOPF	15,000
	Cr. Bank	- Current Assets	SOPF	15,000
	Dividend - €/£ 0.15 * 100,000 shares		15,000	
1.4		7.931%		
	01.01.2015	FV Asset	120,000	Rounded
	31.12.2015	Interest 2015	9,517	Interest
	31.12.2015	Annual Instalment	<u>(30,000)</u>	9,517
			99,517	9,517.20
	31.12.2016	Interest 2016	7,893	
	31.12.2016	Annual Instalment	<u>(30,000)</u>	7,893
			77,410	7,892.69
	31.12.2017	Interest 2017	6,139	
	31.12.2017	Annual Instalment	<u>(30,000)</u>	6,139
			53,549	6,139.39
	31.12.2018	Interest 2018	4,247	
	31.12.2018	Annual Instalment	<u>(30,000)</u>	4,247
			27,796	4,246.97
	31.12.2018	Interest 2018	2,205	
	31.12.2018	Annual Instalment	<u>(30,000)</u>	2,205
			1	2,204.50

Actually Happened				
Dr. Equipment - PP&E	+ Non-Current Assets	SOFP	120,000	
Cr. Trade Payables	+ Current Liabilities	SOFP		120,000
Reverse Actually Happened i.e.				
Dr. Trade Payables	Current Liabilities	SOFP	120,000	
Cr. Equipment - PP&E	- Non-Current Assets	SOFP		120,000
Should have Happened				
Dr. Motor Vehicles - PP&E	+ Non-Current Assets	SOFP	120,000	
Cr. Finance Lease Liability	+ Non-Current Liabilities	SOFP		120,000
Dr. Depreciation - Distribution Costs	+ Expenses	SOPL & OCI	16,800	
Dr. Depreciation - Administrative Exp	+ Expenses	SOPL & OCI	7,200	
Cr. Motor Vehicles - PP&E	- Non-Current Assets	SOFP		24,000
Dr. Finance Cost	+ Expenses	SOPL & OCI	9,517	
Cr. Finance Lease Liability	+ Non-Current Liabilities	SOFP		9,517
Dr. Finance Lease Liability	- Non-Current Liabilities	SOFP	30,000	
Cr. Bank	- Current Assets	SOFP		30,000
Dr. Finance Lease Liability	- Non-Current Liabilities	SOFP	22,107	
Cr. Finance Lease Liability	+ Current Liabilities	SOFP		22,107
Current & Non-Current Element of Finance Lease Liability				
Current			22,107	
Non-Current			77,410	
			<u>99,517</u>	
<hr/>				
1.5	Actually Happened			
	Dr. Administrative Expenses	+ Expenses	SOPL & OCI	3,000
	Cr. Accruals	Current Liabilities	SOFP	3,000

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

		Cost of Sales €/£	Admin. Expenses €/£	Distribution Costs €/£
Expenses	Per TB		457,863	648,752
Opening Inventory	Per TB	345,870		
Purchases	Per TB	3,003,781	0	0
Closing Inventory	W1.1	(373,134)		
Bad Debt Write Off	W1.2	0	12,870	0
Allowance for bad or doubtful debts	W1.2	0	(8,029)	0
Accruals	W1.5	0	3,000	0
Depreciation - Premises	W3	0	7,470	17,430
Depreciation - Office Equipment	W3	0	39,186	91,434
Depreciation - Trucks	W3	0	7,200	16,800
		<u>2,976,517</u>	<u>519,560</u>	<u>774,416</u>

Working 3 - Property, Plant & Equipment

		<u>Premises</u>	<u>Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
Cost		1,245,000	2,457,260	0	3,702,260
Accumulated Depreciation b/d		(689,000)	(1,248,760)	0	(1,937,760)
Carrying Value b/d at 1st January 2015		556,000	1,208,500	0	1,764,500
Reverse Error	W1.4	0	(120,000)	0	(120,000)
Addition	W1.4	0	0	120,000	120,000
		556,000	1,088,500	120,000	1,764,500
Depreciation - Premises - 2% Straight Line Basis on Cost		(24,900)	0	0	(24,900)
Depreciation - Office Equipment - 12% Reducing Balance Basis		0	(130,620)	0	(130,620)
Depreciation - Motor Vehicles - 20% Straight Line Basis on Cost		0	0	(24,000)	(24,000)
Carrying Value c/d at 31st December 2015		531,100	957,880	96,000	1,584,980

EXAMINER'S COMMENTS ON QUESTION ONE

Question one was the best answered question on the paper. Generally candidates did well in this question, answering all sections equally well.

Typical errors in question one were as follows:

- Incorrect calculation of closing inventory;
- Incorrectly calculating the bad debt write off;
- Incorrectly calculating the decrease in allowance for bad or doubtful debts and including the decrease as a debit to expenses in the SOPL & OCI;
- Incorrectly calculating depreciation;
- Forgetting to include the addition into Motor Vehicles in Property, Plant & Equipment;
- Forgetting to calculate the depreciation on the Motor Vehicles addition;
- Including the incorrect amount for finance costs;
- Including the incorrect amount for income tax as candidates displayed a lack of knowledge re which item should be expensed and which item should be included in current liabilities;
- Not completing the SOPL & OCI in full;
- Candidates ignoring the fact that the addition to Motor Vehicles had to be eliminated from Equipment when calculating the depreciation amount for equipment;
- Including the closing bank amount as an asset in the SOFP;
- Not reducing retained earnings by the dividend amount;
- Not accounting for the finance lease
- Not splitting the finance lease between the current and non-current portion;
- Not reducing Trade Payables by the addition to Motor Vehicles amounts;
- Not including the closing accrual and current tax payable amount;
- Not completed in full the SOCIE;
- Having incorrect layouts for SOPL & OCI, SOFP and SOCIE;

QUESTION TWO: Laukly Limited

a)

<u>Issue 1</u>	€/£	€/£	Actually Happened	€/£	€/£
Should Have Happened					
Dr. Purchases - Cost of Sales - P/L - SOPL & OCI	4,864		Dr. Purchases - Cost of Sales - P/L - SOPL & OCI	4,864	
Cr. Trade Payables - Current Liabilities - SOFP		4,864	Dr. Trade Receivables - Current Assets - SOFP	4,864	
			Cr. Suspense		9,728

To Correct		
Dr. Suspense	9,728	
Cr. Trade Payables - Current Liabilities - SOFP		4,864
Cr. Trade Receivables - Current Assets - SOFP		4,864

<u>Issue 2</u>	€/£	€/£	Actually Happened	€/£	€/£
Should Have Happened					
Dr. Bank - Current Assets - SOFP	240,000		Dr. Property, Plant & Equipment - Non-Current Assets - SOFP	240,000	
Cr. Bank Loan - Non-Current Liabilities - SOFP		240,000	Cr. Trade Payables - Current Liabilities - SOFP		240,000
Dr. Finance Costs - Expenses - P/L - SOPL & OCI	1,200				
Cr. Accruals - Current Liabilities - SOFP		1,200			

To Correct		
Dr. Bank - Current Assets - SOFP	240,000	
Dr. Finance Costs - Expenses - P/L - SOPL & OCI	1,200	
Dr. Trade Payables - Current Liabilities - SOFP	240,000	
Cr. Bank Loan - Non-Current Liabilities - SOFP		240,000
Cr. Accruals - Current Liabilities - SOFP		1,200
Cr. Property, Plant & Equipment - Non-Current Assets - SOFP		240,000

<u>Issue 3</u>	€/£	€/£	Actually Happened	€/£	€/£
Should Have Happened					
Nothing			Dr. Retained Earnings - Equity - SOFP	26,000	
			Cr. Bank - Current Assets - SOFP		26,000

To Correct		
Dr. Bank - Current Assets - SOFP	26,000	
Cr. Retained Earnings - Equity - SOFP		26,000

<u>Issue 4</u>	€/£	€/£	Actually Happened	€/£	€/£
Should Have Happened					
Dr. Property, Plant & Equipment - Non-Current Assets - SOFP	580,000		Dr. Suspense	580,000	
Dr. Goodwill - Non-Current Assets - SOFP	78,000		Cr. Share Capital - Equity - SOFP		500,000
Cr. Bank - Current Assets - SOFP		600,000	Cr. Retained Earnings - Equity - SOFP		80,000
Cr. Non-Controlling Interest - Equity - SOFP		58,000			

To Correct		
Dr. Property, Plant & Equipment - Non-Current Assets - SOFP	580,000	
Dr. Goodwill - Non-Current Assets - SOFP	78,000	
Dr. Share Capital - Equity - SOFP	500,000	
Dr. Retained Earnings - Equity - SOFP	80,000	
Cr. Bank - Current Assets - SOFP		600,000
Cr. Non-Controlling Interest - Equity - SOFP		58,000
Cr. Suspense		580,000

Working - Goodwill	€/£ '000	€/£ '000
Consideration Transferred	600	
+ Non-Controlling Interests	<u>58</u>	658

Less		
Net Fair Value of identifiable assets acquired and liabilities		
Share Capital	500	
Pre-acquisition Retained Earnings	<u>80</u>	580

Goodwill arising on acquisition 78

Issue 5

Should Have Happened

Dr. Audit Fees - Administrative Expenses - P/L - SOPL & OCI	7,500	
Cr. Accruals - Current Liabilities - SOFP		7,500

Actually Happened

Nothing

To Correct

Dr. Audit Fees - Administrative Expenses - P/L - SOPL & OCI	7,500	
Cr. Accruals - Current Liabilities - SOFP		7,500

Issue 6

Should Have Happened

Dr. Trade Payables - Current Liabilities - SOFP	462	
Cr. Discount Received - P/L - SOPL & OCI		462

Actually Happened

Dr. Trade Payables - Current Liabilities	462	
Dr. Discount Allowed - Expenses - P/L - SOPL & OCI	426	
Cr. Suspense		888

To Correct

Dr. Suspense	888	
Cr. Discount Received - P/L - SOPL & OCI		462
Cr. Discount Allowed - Expenses - P/L - SOPL & OCI		426

b)

Suspense Account

Per Trial Balance	569,384	4	Share Capital - Equity - SOFP	500,000
1 Trade Payables - Current Liabilities - SOFP	4,864	4	Retained Earnings - Equity - SOFP	80,000
1 Trade Receivables - Current Assets - SOFP	4,864			
6 Discount Received - P/L - SOPL & OCI	462			
6 Discount Allowed - Expenses - P/L - SOPL & OCI	426			
	<u>580,000</u>			<u>580,000</u>

EXAMINER'S COMMENTS ON QUESTION TWO

Question two was the second best answered question. The typical errors in this question were:

- Candidates unable to account correctly for the corrective journal entries needed in particular;
 - Incorrectly calculating the finance cost and accrual on the bank loan;
 - Not including the dividend as a credit to retained earnings;
 - Incorrectly calculating goodwill and non-controlling interests
 - Incorrect accounts for the discount allowed and received amounts;

Note: Candidates should always lead with the debit when producing a journal entry. Numerous times, candidates started their journal entry with a credit entry.

QUESTION THREE: Darjo Limited

a)

Working - Property, Plant & Equipment	Premises	Total
Cost	3,620,000	3,620,000
- Accumulated Depreciation	(1,220,000)	(1,220,000)
Carrying Value b/d at 1st January 2015	2,400,000	2,400,000
Addition	450,000	450,000
	2,850,000	2,850,000
Disposal - Cost	(1,400,000)	(1,400,000)
Disposal - Accumulated Depreciation	420,000	420,000
	1,870,000	1,870,000
Depreciation - Premises - 2% Straight Line Basis on Cost	(79,900)	(79,900)
	1,790,100	(79,900)
Revaluation Loss	(40,100)	(40,100)
Carrying Value c/d at 31st December 2015	1,750,000	1,750,000

Calculation of Depreciation Expense

Carrying Value at 1st January 2015	Cost	Deprn. - 2%
Cost	3,620,000	72,400
Additions - 10 Months depreciated i.e. 01.03.15 - 31.12.15	450,000	7,500
Total Depreciation for the Year		79,900

Note 1

The disposal happens on 31st December 2015 so it is included for a full years depreciation

b)

	€/£	€/£
Purchase of Premises		
Dr. Property, Plant & Equipment (PPE) - Non-Current Assets - SOFP	450,000	
Cr. Bank - Current Assets - SOFP		450,000
Reverse Entries Incorrectly Inputted		
Dr. Property, Plant & Equipment (PPE) - Non-Current Assets - SOFP	816,000	
Cr. Depreciation Expense - P/L - SOPL & OCI		16,000
Cr. Bank - Current Assets - SOFP		800,000
Sale of Premises		
Dr Other Receivables - Current Assets - SOFP	800,000	
Cr. Disposal Account		800,000

Profit/(Loss) on Disposal of Premises

Dr. Accumulated Depreciation - PPE - Non-Current Assets - SOFP	420,000	
Cr. Disposal Account		420,000
Dr. Disposal Account	1,400,000	
Cr. Property, Plant & Equipment (PPE) - Non-Current Assets - SOFP		1,400,000
Dr. Loss on Disposal - Expenses - P/L - SOPL & OCI	180,000	
Cr. Disposal Account		180,000

Calculation of Accumulated Depreciation

Date of Purchase	01/01/2001
Date of Sale	31/12/2015
Length	15 Years
Depreciation Rate	2%
Cost	<u>1,400,000</u>
Accumulated Depreciation - €/£ 1,400,000*2%*15 yrs	<u><u>420,000</u></u>

Depreciation

Dr. Depreciation Expense - P/L - SOPL & OCI	79,900	
Cr. Accumulated Depreciation - PPE - Non-Current Assets - SOFP		79,900

Revaluation

Dr. Revaluation Loss - Expenses - P/L - SOPL & OCI	40,100	
Cr. Property, Plant & Equipment (PPE) - Non-Current Assets - SOFP		40,100

EXAMINER'S COMMENTS ON QUESTION THREE

Question three was the least well answered question on the paper, although candidates still performed better than on question three last year.

Typical errors in question three were:

- Candidates unsure how to prepare a Property, Plant and Equipment (PPE) working;
- Including the incorrect amount for the addition to PPE;
- Including the incorrect amount for the disposal to PPE;
- Incorrectly calculating the depreciation and revaluation loss amount;
- Not including the full journal entries in relation to a disposal of PPE;
- Candidates unsure about how to correctly prepare journals for a revaluation loss.

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