

## Section A

Question	Correct Answer	Marks																
<b>1</b>	<p><b>A and D</b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;"><b>Dr</b></td> <td style="width: 60%;"><b>Operating expenses</b></td> <td style="width: 15%; text-align: right;"><b>\$200,000</b></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="text-align: center;"><b>Cr</b></td> <td><b>Accruals</b></td> <td style="text-align: right;"><b>\$200,000</b></td> </tr> </table> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; text-align: center;"><b>Dr</b></td> <td style="width: 60%;"><b>Prepayments</b></td> <td style="width: 15%; text-align: right;"><b>\$300,000</b></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td style="text-align: center;"><b>Cr</b></td> <td><b>Operating expenses</b></td> <td style="text-align: right;"><b>\$300,000</b></td> </tr> </table> <p>Increase in accruals            = \$800,000 - \$600,000            = <b>\$200,000</b></p> <p>Increase in prepayments            = \$400,000 - \$100,000            = <b>\$300,000</b></p>	<b>Dr</b>	<b>Operating expenses</b>	<b>\$200,000</b>			<b>Cr</b>	<b>Accruals</b>	<b>\$200,000</b>	<b>Dr</b>	<b>Prepayments</b>	<b>\$300,000</b>			<b>Cr</b>	<b>Operating expenses</b>	<b>\$300,000</b>	2
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<b>2</b>	<p><b>B and C</b></p> <p><b>Receivables collection period of 16 days</b>  <b>Quick (Acid test) ratio of 1.0:1</b></p> <p>Receivables collection period            = (Trade receivables ÷ Credit sales) × 365 days            = (\$18m ÷ \$400m) × 365 days            = <b>16 days</b></p> <p>Quick (Acid test) ratio            = (Current assets - Inventories) : Current liabilities            = (\$36.8m - \$14.2m) : \$22.2m            = \$22.6m : \$22.2m            = <b>1.0:1</b></p>	2																
<b>3</b>	<p><b>\$800,000</b></p> <p>Prepayment for four months of insurance invoiced in advance            = 4/5 months × \$1m            = <b>\$800,000</b></p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 2px;">800</span></p>	2																

4	<p><b>A and D</b></p> <p><b>Goods despatched note</b></p> <p><b>Customer invoice</b></p> <p>A goods despatched note is sent alongside goods sent out from an entity's warehouse. A customer invoice is also sent to a customer and states the ordered goods or services and the amount of consideration due to the entity in exchange for this. Both, therefore, represent goods or services sold (the sales process).</p> <p>A purchase order is sent to a supplier to order goods or services. A supplier invoice is received from a supplier to state the ordered goods or services and the amount of consideration due to the supplier in exchange for this. Both, therefore, represent goods or services purchased (the purchases process).</p>	2
5	<p><b>B and D</b></p> <p><b>A supplier invoice received was incorrectly entered into the purchases system as \$800 instead of \$300</b></p> <p><b>No invoice was issued on the sales system for goods delivered to the customer on the year-end date</b></p> <p>As the purchases module is fully integrated, the appropriate journal entries will be made automatically and there is nothing in the trial balance to indicate this incorrect amount.</p> <p>An omission of a single sales invoice cannot be identified as it does not appear on the trial balance (i.e., its absence amongst other sales is not visible).</p> <p>For the other two items, an entry to the suspense account would automatically be made as they are imbalanced journal entries; therefore, this could be identified (i.e., a suspense account exists on the trial balance which is then investigated).</p>	2

6	<p><b>A and D</b></p> <p><b>Amounts in asset, equity and liability accounts in the general ledger should be carried forward to the next period</b></p> <p><b>Amounts in income and expense accounts in the general ledger should be transferred to retained earnings at the period end</b></p> <p>Balances represent the position “as at” a point in time. The amounts should be carried forward to the next period and then be presented “as at” the end of the next period following any movements to those balances.</p> <p>Transactions represent the performance “for the period ended” (e.g., for the financial year); therefore, must be “reset” to zero at the start of the next, new accounting period. This is achieved by transferring totals, ultimately, to retained earnings.</p>	2
7	<p><b>D</b></p> <p><b>\$13.8m</b></p> <p>Staff costs  = Gross wages and salaries + Additional employer contributions  = \$12m + \$1.8m  = <b>\$13.8m</b></p>	2
8	<p><b>C</b></p> <p><b>Current ratio</b></p> <p>Operating profit margin, return on capital employed and interest cover are all measures of profitability and performance.</p>	2
9	<p><b>C</b></p> <p><b>\$105.7m</b></p> <p>Cash received from customers  = Opening trade receivables + Revenue - Closing trade receivables  = \$12m + \$118.2m - \$24.5m  = <b>\$105.7m</b></p>	2

10	<p><b>C</b></p> <p><b>\$2.625m</b></p> <p>Total depreciation charge  = (1/20 years × \$50m) existing + (6/240 months × \$5m) addition  = \$2.5m + \$125,000  = <b>\$2.625m</b></p>	2
11	<p><b>B and C</b></p> <p><b>A trade discount is applied when an invoice is issued</b></p> <p><b>A settlement discount is applied on payment of an invoice</b></p> <p>Trade discounts are offered, unconditionally, on the list price of goods or services. Therefore, they are applied when issuing the invoice.</p> <p>Settlement discounts are offered, conditionally, on the prompt payment of a supplier invoice. Therefore, they cannot be applied until the condition of paying the invoice is met.</p>	2
12	<p><b>A and C</b></p> <p><b>A decrease in the allowance for irrecoverable debts</b></p> <p><b>The subsequent receipt of cash on a debt previously written off</b></p> <p>A decrease in the allowance for irrecoverable debts credits (decreases) the irrecoverable debt expense when recorded; therefore, increases profit.</p> <p>The subsequent receipt of cash on a debt previously written off credits (decreases) the irrecoverable debt expense when recorded; therefore, increases profit.</p> <p>An increase in the allowance for irrecoverable debts debits (increases) the irrecoverable debt expense when recorded; therefore, decreases profit.</p> <p>The write off of an irrecoverable debt debits (increases) the irrecoverable debt expense when recorded; therefore, decreases profit.</p>	2

13	<p><b>B</b></p> <table border="1" data-bbox="376 271 1339 353"> <tr> <td><b>Dr</b></td> <td><b>Suspense account</b></td> <td><b>\$2,700</b></td> <td></td> </tr> <tr> <td></td> <td><b>Cr</b></td> <td><b>Trade payables</b></td> <td><b>\$2,700</b></td> </tr> </table> <p>Suspense account  = \$6,300 - \$3,600  = <b>\$2,700 (Cr)</b></p>	<b>Dr</b>	<b>Suspense account</b>	<b>\$2,700</b>			<b>Cr</b>	<b>Trade payables</b>	<b>\$2,700</b>	2				
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14	<p><b>A</b></p> <table border="1" data-bbox="376 629 1339 748"> <tr> <td><b>Dr</b></td> <td><b>Bank</b></td> <td><b>\$300,000</b></td> <td></td> </tr> <tr> <td></td> <td><b>Cr</b></td> <td><b>Share capital</b></td> <td><b>\$100,000</b></td> </tr> <tr> <td></td> <td><b>Cr</b></td> <td><b>Share premium</b></td> <td><b>\$200,000</b></td> </tr> </table> <p>Rights issue  = 1/4 rights issue × 400,000 shares  = 100,000 shares</p> <p>Cash proceeds  = 100,000 shares × \$3.00 rights price  = <b>\$300,000</b></p> <p>Share capital  = 100,000 shares × \$1.00 nominal value  = <b>\$100,000</b></p> <p>Share premium  = \$300,000 cash proceeds - \$100,000 share capital  = <b>\$200,000</b></p>	<b>Dr</b>	<b>Bank</b>	<b>\$300,000</b>			<b>Cr</b>	<b>Share capital</b>	<b>\$100,000</b>		<b>Cr</b>	<b>Share premium</b>	<b>\$200,000</b>	2
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	<b>Cr</b>	<b>Share premium</b>	<b>\$200,000</b>											
15	<p><b>A</b></p> <p><b>The directors</b></p> <p>Directors are ultimately responsible for the preparation of a reporting entity's financial statements.</p>	2												

16	<p><b>A</b></p> <p><b>1 and 2 only</b></p> <p>IAS 16 <i>Property, Plant and Equipment</i> states that both the depreciation methods used and the useful lives (or depreciable rates) must be disclosed.</p> <p>IAS 2 <i>Inventories</i> states that the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity (e.g., raw materials, work in progress and finished goods for a manufacturing entity) must be disclosed.</p> <p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> states that additional provisions made during the period is only one of several required disclosures.</p>	2
17	<p><b>Relevance - Fundamental</b>  <b>Verifiability - Enhancing</b>  <b>Timeliness - Enhancing</b>  <b>Comparability - Enhancing</b></p> <p>As stated in the <i>Conceptual Framework for Financial Reporting</i>, the fundamental qualitative characteristics are relevance and faithful representation.</p> <p>The enhancing qualitative characteristics are verifiability, timeliness, comparability and understandability.</p>	2
18	<p><b>A</b></p> <p><b>\$7m liability</b></p> <p>Bank overdraft (i.e., a liability) per bank statement  = \$30m overdraft + \$20m outstanding lodgements + \$3m error  = <b>\$7m liability</b></p>	2

19	<p><b>A</b></p> <p><b>1 only</b></p> <p>Correcting for the omission of a supplier invoice for legal services received increases both operating expenses and trade payables.</p> <p>Profit decreases (due to increased expenses).</p> <p>A trade payable – not an accrual – is recognised due to the enforceable right to payment that a supplier invoice demands. Services were received as was the invoice; both within the financial period.</p>	2
20	<p><b>Delivery of trees from supplier – Cost recognised in inventories</b></p> <p><b>Direct labour costs for production – Cost recognised in inventories</b></p> <p><b>Electricity costs for heated warehouse – Cost recognised in inventories</b></p> <p><b>Delivery of timber to customers – Expense charged to profit or loss</b></p> <p>IAS 2 <i>Inventories</i> states which costs are part of inventories and which are expenses charged to profit or loss.</p> <p>The delivery of trees from a supplier, direct labour costs for production and any storage costs necessary for the production process are all costs which should be included in inventories.</p> <p>Costs related to the delivery of timber to customers are selling expenses and must be charged to profit or loss.</p>	2

21	<p><b>A</b></p> <p><b>On initial recognition, the investment in Heart Co is recognised at cost</b></p> <p>IAS 28 <i>Investments in Associates and Joint Ventures</i> states that, under the equity method, on initial recognition the investment in Heart Co is recognised at cost.</p> <p>Goodwill relating to Heart Co is included in the carrying amount of the investment.</p> <p>Heart Co's financial statements must be prepared using uniform accounting policies for like transactions and events in similar circumstances.</p> <p>There should not be any accounting relating to the balances and transactions of Heart Co on a line-by-line basis under the equity method of accounting.</p>	2
22	<p><b>Purchase of a license to sell goods - Capitalised</b></p> <p><b>Patent successfully applied for - Capitalised</b></p> <p><b>Advertising expenses - Expensed</b></p> <p><b>Internally generated brand - Expensed</b></p> <p>IAS 38 <i>Intangible Assets</i> provides the requirements related to which items should be capitalised.</p> <p>Licenses and patents are both examples of intangible assets.</p> <p>Advertising expenses and any costs related to the creation of an internally generated brand must be expensed to profit or loss.</p>	2

23	<p><b>\$6m</b></p> <p>The average gross profit margin for the year is 25%:</p> <table border="1" data-bbox="376 349 1339 510"> <thead> <tr> <th></th> <th>%</th> <th>\$m</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>100</td> <td>4</td> </tr> <tr> <td>Cost of sales</td> <td>75</td> <td></td> </tr> <tr> <td><b>Gross profit (margin)</b></td> <td><b>25</b></td> <td></td> </tr> </tbody> </table> <p>Cost of sales = (\$4m ÷ 100%) × 75% = \$3m</p> <p>Cost of sales = Opening inventories + Purchases - Closing inventories</p> <p>∴ Closing inventories = Opening inventories + Purchases - Cost of sales = \$2m + \$7m - \$3m = <b>\$6m</b></p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="6"/></p>		%	\$m	Revenue	100	4	Cost of sales	75		<b>Gross profit (margin)</b>	<b>25</b>		2
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24	<p><b>C</b></p> <table border="1" data-bbox="376 1178 1339 1261"> <tbody> <tr> <td><b>Dr</b></td> <td><b>Non-current assets</b></td> <td><b>\$50,000</b></td> <td></td> </tr> <tr> <td></td> <td><b>Cr</b></td> <td><b>Cash</b></td> <td><b>\$50,000</b></td> </tr> </tbody> </table> <p>Furniture and fittings are capitalised as a non-current asset (debit in nature). Therefore, a debit is required to the general ledger account.</p> <p>A reduction in cash, an asset (debit in nature), is a credit to the account in the general ledger.</p>	<b>Dr</b>	<b>Non-current assets</b>	<b>\$50,000</b>			<b>Cr</b>	<b>Cash</b>	<b>\$50,000</b>	2				
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	<b>Cr</b>	<b>Cash</b>	<b>\$50,000</b>											

25	<p><b>C</b></p> <p><b>Cash repayment of borrowings</b></p> <p>Cash repayment of borrowings decreases debt and so decreases the gearing ratio.</p> <p>An issue of bonus shares has no net effect on equity and so has no effect on the gearing ratio.</p> <p>An issue of loan notes increases debt and so increases the gearing ratio.</p> <p>Cash settlement of trade payables has no effect on long-term debt and so has no effect on the gearing ratio.</p>	2								
26	<p><b>B and D</b></p> <p><b>Installation of a new boiler on entity's head office property</b></p> <p><b>Safety guards on machinery</b></p> <p>IAS 16 <i>Property, Plant and Equipment</i> provides the requirements related to which costs are capitalised as part of a non-current asset's carrying amount.</p> <p>Installation (bringing the asset to the location) and safety guards (items purchased for safety or environmental reasons) must both be capitalised.</p> <p>Advertising and servicing of an item should be expensed to profit or loss.</p>	2								
27	<p><b>D</b></p> <table border="1" data-bbox="376 1559 1337 1641"> <tr> <td><b>Dr</b></td> <td><b>Revenue</b></td> <td><b>\$6,000,000</b></td> <td></td> </tr> <tr> <td></td> <td><b>Cr</b></td> <td><b>Deferred income</b></td> <td><b>\$6,000,000</b></td> </tr> </table> <p>Deferred income for three months of services not yet earned  = 3/4 months × \$8m  = <b>\$6m</b></p>	<b>Dr</b>	<b>Revenue</b>	<b>\$6,000,000</b>			<b>Cr</b>	<b>Deferred income</b>	<b>\$6,000,000</b>	2
<b>Dr</b>	<b>Revenue</b>	<b>\$6,000,000</b>								
	<b>Cr</b>	<b>Deferred income</b>	<b>\$6,000,000</b>							

28	<p data-bbox="373 197 400 226"><b>C</b></p> <p data-bbox="373 275 1281 344"><b>Pixie Co provided for a customer’s balance in its allowance for irrecoverable debts</b></p> <p data-bbox="373 394 1289 577">Pixie Co provided for a customer’s balance in its allowance for irrecoverable debts; meaning that there is no change in the trade receivables general ledger account – only in the irrecoverable debt expense and the allowance for irrecoverable debts general ledger accounts.</p> <p data-bbox="373 627 1307 810">Pixie Co entered a \$1,000 cash receipt in the computerised accounting system when the actual amount received from the customer was \$100; meaning that the customer’s records will show an amount owing of \$900 higher than in Pixie Co’s accounting records.</p> <p data-bbox="373 860 1331 965">A customer sent an electronic payment for an invoice but this has not yet cleared Pixie Co’s bank account; meaning there is a timing difference.</p> <p data-bbox="373 1014 1318 1120">Pixie Co issued a credit note in the computerised accounting system but the customer has not yet received this; meaning there is a timing difference.</p>	2
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<b>29</b>	<b>A</b>	<b>2</b>																								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;"><b>Dr</b></td> <td style="text-align: center;"><b>Trade receivables</b></td> <td style="text-align: center;"><b>\$1,200,000</b></td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;"><b>Cr</b></td> <td style="text-align: center;"><b>Revenue</b></td> <td style="text-align: center;"><b>\$1,000,000</b></td> </tr> <tr> <td></td> <td style="text-align: center;"><b>Cr</b></td> <td style="text-align: center;"><b>Sales tax account</b></td> <td style="text-align: center;"><b>\$200,000</b></td> </tr> </table> <p>Revenue, inclusive of sales tax at 20%, is \$1.2m:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">%</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue, excluding sales tax (net)</td> <td style="text-align: center;">100</td> <td></td> </tr> <tr> <td>Sales tax at 20%</td> <td style="text-align: center;">20</td> <td></td> </tr> <tr> <td><b>Trade receivables, including sales tax (gross)</b></td> <td style="text-align: center;"><b>120</b></td> <td style="text-align: center;"><b>1,200,000</b></td> </tr> </tbody> </table> <p>Trade receivables = <b>\$1.2m</b></p> <p>Revenue = <math>(\\$1.2m \div 120\%) \times 100\%</math> = <b>\$1m</b></p> <p>Sales tax = <math>(\\$1.2m \div 120\%) \times 20\%</math> = <b>\$0.2m</b></p>	<b>Dr</b>	<b>Trade receivables</b>	<b>\$1,200,000</b>			<b>Cr</b>	<b>Revenue</b>	<b>\$1,000,000</b>		<b>Cr</b>	<b>Sales tax account</b>	<b>\$200,000</b>		%	\$	Revenue, excluding sales tax (net)	100		Sales tax at 20%	20		<b>Trade receivables, including sales tax (gross)</b>	<b>120</b>	<b>1,200,000</b>	
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<b>30</b>	<b>\$20m</b>	<b>2</b>																								
	<p>Income tax expense = \$25m estimated liability - \$5m prior year over-provision = <b>\$20m</b></p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 2px;">20</span></p>																									

31	<p><b>B</b></p> <p><b>\$1.60m</b></p> <p>The gross profit markup was 40%:</p> <table border="1" data-bbox="376 427 1339 589"> <thead> <tr> <th></th> <th>%</th> <th>\$m</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td>140</td> <td>28</td> </tr> <tr> <td>Cost of sales</td> <td>100</td> <td></td> </tr> <tr> <td><b>Gross profit (markup)</b></td> <td><b>40</b></td> <td></td> </tr> </tbody> </table> <p>Gross profit on intercompany sales  <math>= (\\$28m \div 140\%) \times 40\%</math>  <math>= \\$8m</math></p> <p>20% of these goods remained in inventories at the year-end:</p> <p>Unrealised profit in inventories  <math>= 20\% \times \\$8m</math>  <math>= \mathbf{\\$1.60m}</math></p>		%	\$m	Revenue	140	28	Cost of sales	100		<b>Gross profit (markup)</b>	<b>40</b>		2
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<b>Gross profit (markup)</b>	<b>40</b>													
32	<p><b>\$16,440</b></p> <p>Residual profit  <math>= \text{Profit} - \text{Salaries} + \text{Interest}</math>  <math>= \\$65,000 \text{ profit} - (2 \times \\$20,000) \text{ salaries} + (10\% \times 2 \times 12 \text{ months} \times \\$1,000) \text{ interest}</math>  <math>= \\$65,000 \text{ profit} - \\$40,000 \text{ salaries} + \\$2,400 \text{ interest}</math>  <math>= \\$27,400</math></p> <p>Share of residual profit  <math>= \frac{3}{5} \text{ share} \times \\$27,400</math>  <math>= \mathbf{\\$16,440}</math></p> <p>Note: the figure which should be inserted into the answer area is  <input data-bbox="376 1570 464 1603" type="text" value="16440"/></p>	2												

<p><b>33</b></p>	<p><b>D</b></p> <p><b>None of the above</b></p> <p>The year-end date of Frame Co is 31 July 20X7.</p> <p>IAS 10 <i>Events after the Reporting Period</i> provides the requirements relating to adjusting and non-adjusting events.</p> <p>All three events are examples where the conditions arose after the reporting period. The flooding and legal action both occurred after 31 July 20X7. Negotiations commencing before 31 July 20X7 for the acquisition of Candle Co are not sufficient to make this an adjusting event – the actual acquisition took place after the year end.</p> <p>For an event to be ‘adjusting’, it would require that it provides evidence of conditions that existed at the end of the reporting period.</p>	<p>2</p>
<p><b>34</b></p>	<p><b>\$21,000</b></p> <p>Closing inventories in units  = 120,000 units - 80,000 units + 100,000 units - 130,000 units  = 10,000 units</p> <p>Using the first-in, first-out (FIFO) method to measure cost, the 10,000 units remaining in closing inventories are – in substance – part of 100,000 units purchased on 9 December 20X8 at a cost of £2.10 per unit. Under the FIFO method, we must assume that all units purchased on 11 April 20X8 have subsequently been sold by the year end as they were purchased first.</p> <p>Closing inventories at carrying amount  = 10,000 units × \$2.10  = <b>\$21,000</b></p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 0 5px;">21</span></p>	<p>2</p>

35	<p><b>A and B</b></p> <p><b>An entity shall not recognise a contingent asset</b></p> <p><b>An entity shall not recognise a contingent liability</b></p> <p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> states that a provision is a liability of uncertain timing or amount. It also states that provisions shall not be recognised for future operating losses.</p> <p>Contingent assets and contingent liabilities should not be recognised in the financial statements, but disclosure may be necessary.</p>	2
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## Section B

Question	Correct Answer
36	<p><b>Task 1 (11 marks)</b></p> <p><b>The heading of the financial statement should be - Consolidated statement of profit or loss for the year ended 31 May 20X6 (1 mark)</b></p> <p>Note: all answers below are in \$'000</p> <p><b>Revenue - \$8,400 + \$3,200 - \$1,500 (2 marks)</b>  The revenue of both the parent company (Pastel Co) and the subsidiary company (Tower Co) needs to be added together. This figure then needs to be reduced by the sales price of the intragroup transfer of goods (\$1,500) so that the consolidated financial statements do not show any sales made between group companies.</p> <p>The journal entry to eliminate this intragroup sale in the consolidated financial statements would be:</p> <p>Dr Revenue \$1,500  Cr Cost of sales \$1,500</p> <p>Parent + Subsidiary – Intragroup transfer of goods  = \$8,400 + \$3,200 - \$1,500</p> <p><b>Cost of sales - \$4,600 + \$1,700 – \$1,500 + (30% x \$500) (2 marks)</b>  As with revenue, cost of sales needs to include the results of the parent and the subsidiary with an adjustment for the sales price of the intragroup transfer of \$1.5m. A further adjustment is then needed for unrealised profit on this transaction.</p> <p>It is important to note that, although the goods had originally cost Pastel Co \$1,000, the internal sale to Tower Co was for a sales price of \$1,500. Therefore, Pastel Co will have recorded the internal transaction as a purchase of \$1,500 and this is what needs to be eliminated from cost of sales – not the original \$1,000 cost to Pastel Co. This is why the journal entry noted above affects both revenue and cost of sales</p> <p>In addition, as 30% of the goods remained in inventories at the year end, both cost of sales and inventories need to be adjusted to remove this unrealised profit. As a journal entry, this would be recorded as a debit to cost of sales and a credit to inventories.</p> <p>The total profit from the intragroup sale was \$500 (\$1,500 - \$1,000), and therefore the unrealised profit will be calculated as 30% x \$500.</p>

<p>Parent + Subsidiary – Intragroup transfer of goods + Intragroup unrealised profit in inventories = \$4,600 + \$1,700 - \$1,500 + (30% x \$500)</p> <p><b>Selling expenses - \$2,010 (1 mark)</b> This is the combined results of the parent and subsidiary</p> <p>Parent + Subsidiary = \$1,500 + \$510</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="2010"/></p> <p><b>General and administrative expenses - \$1,150 (1 mark)</b> This is the combined results of the parent and subsidiary</p> <p>Parent + Subsidiary = \$700 + \$450</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="1150"/></p> <p><b>Interest expenses on borrowings - \$90 (0.5 mark)</b> This is the combined results of the parent and subsidiary</p> <p>Parent + Subsidiary = \$50 + \$40</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="90"/></p> <p><b>Income tax expense - \$740 (0,5 mark)</b> This is the combined results of the parent and subsidiary</p> <p>Parent + Subsidiary = \$600 + \$140</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="740"/></p> <p><b>Owners of the parent – Group profit for the year – Non-controlling interests (1 mark)</b> In a consolidated statement of profit or loss, the final profit/loss figure needs to be split to present the amount of that profit/loss which is attributable to the owners of the parent (i.e. the parent company's shareholders) and the amount attributable to the non-controlling interests in any subsidiary companies in the group.</p> <p>The amount attributable to owners of the parent can be calculated as the group profit for the year less the non-controlling interests.</p>
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<p><b>Non-controlling interests - \$72 (2 marks)</b></p> <p>As Pastel Co only owns 80% of the share capital of Tower Co, this means that 20% of Tower Co’s profit relates to non-controlling interests.</p> <p>This can be calculated as the NCI% x Subsidiary profit              = 20% x \$360              = \$72</p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 2px;">72</span></p> <p><b>Task 2 (4 marks)</b></p> <p>The main factor that illustrates the existence of a parent - subsidiary relationship is whether the parent <b>controls</b> the subsidiary.</p> <p>Control can be achieved in a number of ways, but the most common would be to own more than 50% of the ordinary (equity) share capital of a company. Ordinary share capital has voting rights attached to it, so owning more than 50% of the ordinary share capital will allow that owner to control what the company does. Owning debt or preference shares in a company would not provide such voting rights and would not allow control of the company.</p>	
<p>Significant influence</p>	<p><b>No</b></p> <p>“Significant influence” is not the same as control and is generally indicated by owning between 20% and 50% of a company’s ordinary share capital. Having significant influence over a company indicates that the company may be an associate but does not indicate the existence of a parent - subsidiary relationship.</p>
<p>Control</p>	<p><b>Yes</b></p> <p>Control is generally indicated by owning more than 50% of ordinary share capital. Controlling a company will indicate the existence of a parent - subsidiary relationship.</p>
<p>Non-controlling interests of 10%</p>	<p><b>Yes</b></p> <p>If there are non-controlling interests of 10% then the parent company must own 90% of the ordinary share capital and therefore control the</p>

		company, meaning there is a parent - subsidiary relationship.
	Greater than 50% of the equity shares being held by an investor	<b>Yes</b> Owning more than 50% of a company's ordinary share capital will indicate control and so a parent - subsidiary relationship exists.
	100% of the equity shares being held by an investor	<b>Yes</b> As owning more than 50% of a company's ordinary share capital will indicate control, owning all of the shares also indicates control and so a parent - subsidiary relationship exists.
	Greater than 50% of the preference shares being held by an investor	<b>No</b> Preference shares do not provide voting rights, so owning more than 50% of a company's preference shares will not indicate control and is not an example of where a parent - subsidiary relationship exists.
	50% of all debt being held by an investor	<b>No</b> As with preference shares, owning the debt of a company does not provide any voting rights. Therefore, there will be no control over that company and a parent - subsidiary relationship does not exist.
	Greater than 50% of the preference shares and debt being held by an investor	<b>No</b> As neither preference shares nor debt confer any voting rights, even holding more than 50% of both would not indicate that a parent - subsidiary relationship exists.

Question	Correct Answer							
37	<p><b>Task 1 (4 marks)</b></p> <p><b>Buildings at cost, plant at cost, bank balance, cash, trade payables, trade receivables, equity shares \$1 and share premium account – Yes</b></p> <p>All of these items relate to balances which will be reported in the statement of financial position. Buildings and plant at cost will be presented net of accumulated depreciation and trade receivables will be presented net of the allowance for irrecoverable debts, but the figures themselves do not require any year-end adjustments.</p> <p><b>Accumulated depreciation (buildings and plant), net purchases, inventory, the allowance for irrecoverable debts and retained earnings – No</b></p> <p>Although these items will be used when preparing the final figures to be reported on the statement of financial position, they all require a year-end adjustment.</p> <p><b>Revenue and administrative expenses – No</b></p> <p>These are items in the statement of profit or loss, not the statement of financial position.</p> <p><b>Task 2 (3 marks)</b></p> <table border="1" data-bbox="379 1245 1457 2033"> <tbody> <tr> <td data-bbox="379 1245 735 1675">Trade receivables</td> <td data-bbox="735 1245 1046 1675"><b>No debit or credit</b></td> <td data-bbox="1046 1245 1457 1675">Trade receivables would be credited if this were a write off of an irrecoverable debt, but not for an adjustment to the allowance for irrecoverable debts. Therefore, no adjustment to trade receivables is required.</td> </tr> <tr> <td data-bbox="379 1675 735 2033">Administrative expenses</td> <td data-bbox="735 1675 1046 2033"><b>Debit</b></td> <td data-bbox="1046 1675 1457 2033">An increase in the allowance for irrecoverable debts is an operating expense in the statement of profit or loss. In this case, the question states that the company records these as administrative expenses</td> </tr> </tbody> </table>		Trade receivables	<b>No debit or credit</b>	Trade receivables would be credited if this were a write off of an irrecoverable debt, but not for an adjustment to the allowance for irrecoverable debts. Therefore, no adjustment to trade receivables is required.	Administrative expenses	<b>Debit</b>	An increase in the allowance for irrecoverable debts is an operating expense in the statement of profit or loss. In this case, the question states that the company records these as administrative expenses
Trade receivables	<b>No debit or credit</b>	Trade receivables would be credited if this were a write off of an irrecoverable debt, but not for an adjustment to the allowance for irrecoverable debts. Therefore, no adjustment to trade receivables is required.						
Administrative expenses	<b>Debit</b>	An increase in the allowance for irrecoverable debts is an operating expense in the statement of profit or loss. In this case, the question states that the company records these as administrative expenses						

		and so a debit to administrative expenses is required.
Allowance for irrecoverable debts	<b>Credit</b>	Since this is an increase in the allowance for irrecoverable debts, a credit is required in the allowance for irrecoverable debts general ledger account.
Revenue	<b>No debit or credit</b>	Although the debt must have arisen initially from a sale, we do not decrease revenue when the debt becomes irrecoverable or an allowance for the debt is required. Instead, the irrecoverable debt expense is recorded as an operating expense in the statement of profit or loss – in this case within administrative expenses.
<p>The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is <b>\$6,000</b></p> <p>Trade receivables per the trial balance is \$320,000. As the allowance for irrecoverable debts at 31 October 20X7 is to be increased to 5% of trade receivables, this is calculated as 5% x \$320,000 = \$16,000</p> <p>The allowance for irrecoverable debts at 1 November 20X6 per the trial balance is \$10,000. Therefore, the increase in the allowance for irrecoverable debts is calculated as \$16,000 - \$10,000 = <b>\$6,000</b></p> <p>Note: the figure which should be inserted into the answer area is <span style="border: 1px solid black; padding: 0 2px;">6</span></p> <p><b>Task 3 (5 marks)</b></p>		
Administrative expenses	<b>No debit or credit</b>	The question states that depreciation is recorded in cost of sales, therefore no

			adjustment to administrative expenses is needed.
	Cost of sales	<b>Debit</b>	Depreciation is an expense which must be charged to the statement of profit or loss. Exactly where it is recorded in the statement of profit or loss will be a decision made by the company and will depend on the nature of the asset and how it is used. In this case, the question states that all depreciation is recorded in cost of sales. Therefore, a debit to cost of sales is required which will incorporate both plant and buildings depreciation.
	Buildings at cost	<b>No debit or credit</b>	Annual depreciation charges are accumulated within an 'accumulated depreciation' account and do not adjust the 'cost' of the asset.
	Plant at cost	<b>No debit or credit</b>	Annual depreciation charges are accumulated within an 'accumulated depreciation' account and do not adjust the 'cost' of the asset.
	Buildings accumulated depreciation	<b>Credit</b>	Each asset will have a separate accumulated depreciation account. The annual depreciation charge will be debited to the statement of profit or loss and credited to the relevant accumulated depreciation account.

Plant accumulated depreciation	<b>Credit</b>	Each asset will have a separate accumulated depreciation charge. The annual depreciation charge will be debited to the statement of profit or loss and credited to the relevant accumulated depreciation account.
<p>The depreciation charge for <b>buildings</b> for the year ended 31 October 20X7 is <b>\$37,000</b></p> <p>As depreciation on buildings is charged at 5% per annum on their original cost (per the trial balance), this will be calculated as <math>5\% \times \\$740,000</math> = <b>\$37,000</b></p> <p>This is an example of ‘straight-line’ depreciation.</p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="37"/></p> <p>The depreciation charge for <b>plant</b> for the year ended 31 October 20X7 is <b>\$22,000</b></p> <p>In this question, depreciation on plant is calculated using the ‘diminishing-balance’ method. This means that the depreciation charge is calculated based on the carrying amount (i.e. cost less accumulated depreciation) of the asset, rather than its cost.</p> <p>In the trial balance, plant has a cost of \$220,000 and accumulated depreciation at 1 November 20X6 of \$110,000. This means that the carrying amount of plant at 1 November 20X6 is \$110,000 (\$220,000 cost - \$110,000 accumulated depreciation).</p> <p>Therefore, depreciation on plant for the year ended 31 October 20X7 will be calculated as <math>20\% \times (\\$220,000 - \\$110,000)</math> = <b>\$22,000</b></p> <p>Note: the figure which should be inserted into the answer area is <input type="text" value="22"/></p> <p><b>Task 4 (1.5 marks)</b></p> <p><b>\$1,225,000</b></p>		

Cost of sales = Opening inventories + Purchases - Closing Inventories  
= \$160,000 + \$1,140,000 - \$75,000  
= **\$1,225,000**

Note: the figure which should be inserted into the answer area is

**Task 5 (1.5 marks)**

As an invoice for energy costs for the quarter ended 30 November 20X7 was received after the year end, an accrual is required for the amount which relates to the year ended 31 October 20X7.

In this question, energy costs are included in administrative expenses. As energy costs are an expense, this will require a debit to administrative expenses. An accrual will be recorded and presented in the statement of financial position as a current liability, which will require a credit to accruals:

**Dr Administrative expenses**

**Cr Accruals**

The amount to be posted within the year end double entry is **\$10,000**

The invoice relates to the quarter ended 30 November 20X7 and Waves Co has an accounting year end of 31 October so the energy costs for September and October need to be accrued. This will be two-thirds of the amount of the quarterly invoice.

Accrued energy costs for the two months ended 31 October 20X7  
= 2/3 months x \$15,000  
= **\$10,000**

Note: the figure which should be inserted into the answer area is