Question 1 OSCAR

A trial balance has been extracted from the books of account of Oscar as at 31 March 2012 as follows:

	$000	$000
Administrative expenses	210	
Share capital (ordinary shares of $1 fully paid)		600
Receivables	470	
Bank overdraft		80
Income tax (overprovision in 2011)		25
Provision for pollution costs	180	
Distribution costs	420	
Listed financial asset investments		560
Investment income		75
Plant and machinery: Cost	750	
Accumulated depreciation (at 31 March 2012)		220
Retained earnings (at 1 April 2011)		180
Purchases	960	
Inventory (at 1 April 2011)	140	
Trade payables		260
Sales revenue		2,010
Interim dividend paid	120	
	3,630	3,630

Additional information

(1) Inventory at 31 March 2012 was valued at $150,000.

(2) The following items are already included in the balances listed in the above trial balance:

	Distribution costs $000	Administrative expenses $000
Depreciation (for the year to 31 March 2012)	27	5
Hire of plant and machinery	20	15
Auditors' remuneration	–	30
Directors' emoluments	–	45

(3) The income tax rate is 33%.

(4) The income tax charge based on the profits for the year is estimated to be $74,000.

(5) The provision for pollution costs is to be increased by $16,000.

(6) Authorised ordinary share capital consists of 1,000,000 ordinary shares of $1 each.

(7) There were no purchases or disposals of fixed assets during the year.

(8) The market value of the listed financial asset investments, which are classed as "fair value through profit or loss" as at 31 March 2012 was $580,000. There were no purchases or sales of such investments during the year.

Required:

Insofar as the information permits, prepare the company's statement of profit or loss for the year to 31 March 2011 and a statement of financial position as at that date in accordance with IAS 1.

(18 marks)

Question 2 MERCURY

The trial balance of Mercury at 30 June 2012 was as follows:

	Dr	Cr
	$000	$000
7% Preferred shares of $1		500
Ordinary shares of 50 cents		250
Share premium account		180
Retained earnings, at 1 July 2011		70
Inventory, 1 July 2011	450	
Land at cost	300	
Buildings at cost	900	
Buildings, accumulated depreciation, 1 July 2011		135
Plant at cost	1,020	
Plant, accumulated depreciation, 1 July 2011		370
Trade payables		900
Trade receivables	600	
Allowance for doubtful debts, at 1 July 2011		25
Purchases	2,030	
Administrative expenses	205	
Revenue		3,000
Distribution costs	240	
Other expenses	50	
Bank balance	110	
Ordinary dividend paid	25	
10% Loan notes		500
	5,930	5,930

You are provided with the following additional information:

(i) Depreciation on buildings is to be provided at 5% per year on cost and allocated to administrative expenses.

(ii) Plant is to be depreciated at 20% per year using the reducing balance method and included in distribution costs.

(iii) Closing inventory is valued at $500,000.

(iv) The allowance for doubtful debts is to be maintained at 5% of trade accounts receivable balances.

(v) An accrual for distribution wages of $30,000 is required.

(vi) Interest on the loan notes has not been paid during the year.

(vii) During June, a bonus (or scrip) issue of two for five was made to ordinary shareholders. This has not been entered into the books. The bonus shares do not rank for dividend for the current financial year.

(viii) Provisions are to be made for the following:

- the preferred dividend for the year;
- an income tax charge of $55,000 for the year.

Required:

Prepare for Mercury for the year ended 30 June 2012, in accordance with IAS 1 Presentation of Financial Statements:

(a) a statement of profit or loss; and (8 marks)
(b) a statement of changes in equity; and (5 marks)
(c) a statement of financial position. (9 marks)

Notes to the accounts are NOT required.

(22 marks)

Question 3 SULPHUR

The balances listed below were extracted from the records of Sulphur Co on 30 June 2012:

	$
Revenue	530,650
Purchases	298,400
Returns (inwards)	1,880
Delivery vehicles (carrying amount)	19,230
Factory plant and equipment (carrying amount)	24,000
Land and buildings (carrying amount)	350,000
Factory overheads	66,420
Administrative expenses	18,710
Rent received	12,000
Investments (unlisted)	30,000
Investment income	1,500
Inventory at 1 July 2011	24,680
Trade receivables	15,690
Trade payables	34,700
Distribution costs	44,280
Cash in hand	410
Bank overdraft	4,820
Ordinary shares ($1 each)	150,000
Retained earnings at 1 July 2011	160,030

The following transactions and events occurred on 30 June 2012, after the above balances had been extracted:

(1) Sulphur received $460 from a customer.

(2) Inventory was valued at $29,170 at the close of business.

(3) Sulphur received an electricity bill for $1,240 relating to the factory for the three months to 30 June 2012. The bill was paid in July 2012.

(4) Sulphur paid $690 to a supplier in full settlement of an invoice for $700.

(5) The company's land and buildings were valued by a chartered surveyor at $390,000 and the new value is to be included in the statement of financial position.

(6) Depreciation was provided on the reducing balance basis at the following annual rates:

Delivery vehicles	20%
Factory plant and equipment	10%

(7) Bonus shares were issued on the basis of one for every two held on 29 June 2012.

(8) Income tax for the financial year ended 30 June 2012 was estimated at $38,100.

Required:

Prepare for Sulphur for the year ended 30 June 2012, in accordance with IAS 1 Presentation of Financial Statements:

(i) a statement of total comprehensive income using the "cost of sales" (i.e. function of expense) method; (7 marks)

(ii) a statement of changes in equity; and (3 marks)

(iii) a statement of financial position. (7 marks)

Notes to the financial statements are NOT required.

(17 marks)

Question 4 CAYMAN

Cayman prepares annual financial statements to 30 September. At 30 September 2011, the company's list of account balances was as follows:

	$000	$000
Revenue		7,400
Production costs	4,140	
Inventory at 1 October 2010	695	
Distribution costs	540	
Administrative expenses	730	
Loan interest expense	120	
Land at valuation	5,250	
Buildings – cost	4,000	
– accumulated depreciation at 1 October 2010		1,065
Plant and equipment		
– cost	6,400	
– accumulated depreciation at 1 October 2010		1,240
Trade accounts receivable	2,060	
Trade accounts payable		1,120
Bank overdraft		40
Issued shares (50 cent ordinary) at 30 September 2011	7,000	
Share premium account at 30 September 2011		2,000
Revaluation surplus		1,500
Retained earnings		1,570
12% loan (payable 2018)		1,000
	23,935	23,935

The following matters are relevant to the preparation of the financial statements for the year ended 30 September 2011:

(1) Inventory at 30 September 2011 amounted to $780,000 at cost before adjusting for the following:

(i) Items which had cost $40,000 and which would normally sell for $60,000 were found to be faulty. $10,000 needs to be spent on these items in order to sell them for $45,000.

(ii) Goods sent to a customer on a sale or return basis have been omitted from inventory and included as sales in September 2011. The cost of these items was $8,000 and they were included in revenue at $12,000. The goods were returned by the customer in October 2011.

(2) Depreciation is to be provided on cost as follows:

Buildings:	2% per year
Plant and equipment:	20% per year

80% of the depreciation is to be charged to cost of sales and 10% to each of distribution costs and administrative expenses.

(3) Land is to be revalued to $5,000,000.

(4) Accrued expenses and prepayments were:

	Accrued expenses	Prepayments
	$000	$000
Distribution costs	95	60
Administrative expenses	35	30

(5) During the year 4 million ordinary shares were issued at 75 cents each. The directors of Cayman declared an interim dividend of 2 cents per share in September 2011. No dividends were paid during the year.

(6) Loan interest is paid annually, in arrears, on 30 September each year.

Required:

Prepare for Cayman for the year ended 30 September 2011:

(i) a statement of total comprehensive income; (10 marks)
(ii) a statement of financial position; and (10 marks)
(iii) a statement of changes in equity, (6 marks)

in accordance with IAS 1 Presentation of Financial Statements.

Notes to the financial statements are NOT required.

(26 marks)

(8 marks)

Question 13 ADJUSTMENTS

Adjustments manufactures items for use in engineering products. You note that amongst its many tangible non-current assets it has the following:

(a) A lathe was purchased on 1 January 2005 for $150,000. The plant had an estimated useful life of twelve years, residual value of nil. Depreciation is charged on the straight line basis. On 1 January 2011, when the asset's carrying amount is $75,000, the directors decide that the asset's total useful life is only ten years.

(b) A grinder was purchased on 1 January 2008 for $100,000. The plant had an estimated useful life of ten years and a residual value of Nil. Depreciation is charged on the straight line basis. On 1 January 2011, when the asset's carrying amount is $70,000, the directors decide that it would be more appropriate to depreciate this asset using the sum of digits approach. The remaining useful life is unchanged.

(c) The company purchased a fifty year lease some years ago for $1,000,000. This was being depreciated over its life on a straight line basis. On 1 January 2011, when the carrying amount is $480,000 and twenty-four years of the lease are remaining, the asset is revalued to $1,500,000. This revised value is being incorporated into the accounts.

Required:

As the company's financial accountant, prepare a memorandum for the attention of the board explaining the effects of these changes on the depreciation charge and indicating what additional disclosures need to be made in the accounts for the year to 31 December 2011.

(15 marks)

Question 15 FAM

Fam had the following tangible non-current assets at 31 December 2010:

	Cost	Depreciation	Carrying amount
	$000	$000	$000
Land	500	–	500
Buildings	400	80	320
Plant and machinery	1,613	458	1,155
Fixtures and fittings	390	140	250
Assets under construction	91	–	91
	2,994	678	2,316

In the year ended 31 December 2011 the following transactions occur:

(1) Further costs of $53,000 are incurred on buildings being constructed by the company. A building costing $100,000 is completed during the year.

(2) A deposit of $20,000 is paid for a new computer system which is undelivered at the year end.

(3) Additions to plant are $154,000.

(4) Additions to fixtures, excluding the deposit on the new computer system, are $40,000.

(5) The following assets are sold:

	Cost	Depreciation brought forward	Proceeds
	$000	$000	$000
Plant	277	195	86
Fixtures	41	31	2

(6) Land and buildings were revalued at 1 January 2011 to $1,500,000, of which land is worth $900,000. The revaluation was performed by Messrs Jackson & Co, Chartered Surveyors, on the basis of existing use value on the open market.

(7) The useful economic life of the buildings is unchanged. The buildings were purchased ten years before the revaluation.

(8) Depreciation is provided on all assets in use at the year end at the following rates:

Buildings	2% per year straight line
Plant	20% per year straight line
Fixtures	25% per year reducing balance

Required:

Show the disclosure under IAS 16 in relation to non-current assets in the notes to the published accounts for the year ended 31 December 2011.

(14 marks)

Question 16 STOAT

The directors of Stoat, a limited liability company, are reviewing the company's draft financial statements for the year ended 30 June 2012.

Two matters under discussion are depreciation and non-current asset valuation – several directors are of the opinion that the company's depreciation methods and rates are unsatisfactory, and that the statement of financial position values of some of the non-current assets are unrealistic.

Required:

Draft a memorandum for the directors dealing with the following matters:

(a) The purpose of depreciation and the factors affecting the assessment of useful life according to IAS 16 "Property, Plant and Equipment". (7 marks)

(b) Three items of evidence obtainable from inside or outside the company, to check whether the company's depreciation rates are in fact likely to be too low. (3 marks)

(c) The disclosures, if any, which would be required in the financial statements if the company decided to change its depreciation methods. (4 marks)

(d) The requirements of IAS 16 "Property, Plant and Equipment" regarding revaluation of non-current assets. (6 marks)

(20 marks)

(8 marks)

Question 19 PERSEUS

The list of account balances of Perseus, a limited liability company, contains the following items at 31 December 2011:

	Dr	Cr
	$	$
Opening inventory	3,850,000	
Accounts receivable ledger balances	2,980,000	1,970
Accounts payable ledger balances	14,300	1,210,400
Prepayments	770,000	
Cash at bank A	940,000	
Overdraft at bank B		360,000

The closing inventory amounted to $4,190,000, before allowing for the adjustments required by items (2) and (3) below.

In the course of preparing the financial statements at 31 December 2011, the need for a number of adjustments emerged, as detailed below:

(1) The opening inventory was found to have been overstated by $418,000 as a result of errors in calculations of values in the inventory sheets.

(2) Some items included in closing inventory at cost of $16,000 were found to be defective and were sold after the end of the reporting period for $10,400. Selling costs amounted to $600.

(3) Goods with a sales value of $88,000 were in the hands of customers at 31 December 2011 on a sale or return basis. The goods had been treated as sold in the records and the full sales value of $88,000 had been included in trade receivables. After the end of the reporting

period, the goods were returned in good condition. The cost of the goods was $66,000.

(4) Accounts receivable amounting to $92,000 are to be written off.

(5) An allowance for doubtful debts is to be set up for 5% of the accounts receivable total.

(6) The manager of the main selling outlet of Perseus is entitled, from 1 January 2011, to a commission of 2% of the company's profit after charging that commission. The profit amounted to $1,101,600 before including the commission, and after adjusting for items (1) to (5) above. The manager has already received $25,000 on account of the commission due during the year ended 31 December 2011.

Required:

(a) (i) Explain how adjustment should be made for the error in the opening inventory, according to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. (Assume that it constitutes a material error.)

(ii) State two disclosures required by IAS 8 in the financial statements at 31 December 2011 for the adjustment in (i) above. (6 marks)

(b) Sho v how the final figures for current assets should be presented in the statement of financial position at 31 December 2011. (14 marks)

(20 marks)

Question 20 JENSON

The timing of revenue (income) recognition has long been an area of debate and inconsistency in accounting. Industry practice in relation to revenue recognition varies widely; the following are examples of different points in the operating cycle of businesses that revenue and profit can be recognised:

- on the acquisition of goods;
- during the manufacture or production of goods;
- on delivery/acceptance of goods;
- when certain conditions have been satisfied after the goods have been delivered;
- receipt of payment for credit sales;
- on the expiry of a guarantee or warranty.

In the past the “critical event” approach has been used to determine the timing of revenue recognition. The International Accounting Standards Board in its “Conceptual Framework for Financial Reporting (Framework)” has defined the “elements” of financial statements, and it uses these to determine when a gain or loss occurs.

Required:

(a) Explain what is meant by the critical event in relation to revenue recognition and discuss the criteria used in the Framework for determining when a gain or loss arises. (5 marks)

(b) For each of the stages of the operating cycle identified above, explain why it may be an appropriate point to recognise revenue and, where possible, give a practical example of an industry where it occurs. (12 marks)

(c) Jenson has entered into the following transactions/agreements in the year to 31 March 2012:

(i) Goods, which had cost of $20,000, were sold to Wholesaler for $35,000 on 1 June 2011. Jenson has an option to repurchase the goods from Wholesaler at any time within the next two years. The repurchase price will be $35,000 plus interest charged at 12% per year from the date of sale to the date of repurchase. It is expected that Jenson will repurchase the goods.

(ii) Jenson owns the rights to a fast food franchise. On 1 April 2011 it sold the right to open a new outlet to Mr Cody. The franchise is for five years. Jenson received an initial fee of $50,000 for the first year and will receive $5,000 per year thereafter. Jenson has continuing service obligations on its franchise for advertising and product development that amount to approximately $8,000 per year per franchised outlet. A reasonable profit margin on rendering the continuing services is deemed to be 20% of revenues received.

(iii) On 1 September 2011 Jenson received total subscriptions in advance of $240,000. The subscriptions are for 24 monthly publications of a magazine produced by Jenson. At the year end Jenson had produced and despatched six of the 24 publications. The total cost of producing the magazine is estimated at $192,000 with each publication costing a broadly similar amount.

Required:

Describe how Jenson should treat each of the above examples in its financial statements in the year to 31 March 2012. (8 marks)

(25 marks)

Question 21 XYZ

A lessor, ABC, leases an asset, which it purchased for $4,400, to XYZ under a finance lease. It estimates that its residual value after five years will be $400 and after seven years will be zero.

The lease is for five years at a rental of $600 per half year in advance, with an option of two more years at nominal rental. The lease commences on 1 January 2011. The directors of XYZ consider that the asset has a useful life of seven years. The finance charge is to be allocated using the sum of digits ("rule of 78") method. Title to the asset will pass to XYZ at the end of seven years if the option is exercised. It is likely that it will be.

Required:

(a) Show the relevant extracts from the accounts of XYZ at the year-end 31 December 2011. (9 marks)

(b) Show the allocation of the finance charge for XYZ using the actuarial before tax method (using the interest rate implicit in the lease). Compare this with the sum of the digits allocation in (a) above. (5 marks)

The rate of interest implicit in the lease is 7.68% per half year.

(14 marks)

Question 22 SNOW

On 1 January 2011, Snow entered into the following finance lease agreements:

(a) Snowplough

To lease a snowplough for 3 years from Ice. The machine had cost Ice $35,000.

A deposit of $2,000 was payable on 1 January 2011 followed by 6 half yearly instalments of $6,500 payable in arrears, commencing on 30 June 2011. Finance charges are to be allocated on a sum of digits basis.

(b) Snow machine

To lease a snow machine for 5 years from Slush. The snow machine cost Slush $150,000 and is estimated to have a useful life of 5 years.

Snow has agreed to make 5 annual instalments of $35,000, payable in advance, commencing on 1 January 2011.

The interest rate implicit in the lease is 8.36%.

Required:

Show the relevant extracts from the accounts of Snow for year ended 31 December 2011.

(15 marks)

Question 24 ROVERS (IASs 10, 37 & 38)

The directors of Rovers are reviewing the company's most recent draft financial statements and the following points have been raised for discussion:

(a) Research and development

This year the company has begun a substantial programme of research and development. To spread the cost fairly over the years, the draft financial statements have been prepared on the basis that all such costs are to be capitalised and written off on the straight-line basis over three years, beginning in the year in which the expenditure is incurred. (5 marks)

(b) Provision/Contingent liability

An ex-director of the company has commenced an action against the company claiming substantial damages for wrongful dismissal. The company lawyers have advised that the ex-director is unlikely to succeed with his claim. The lawyers' potential liabilities are:

	$000
– legal costs (to be incurred whether the claim is successful or not)	50
– settlement of claim if successful	500
	550

At present there is no provision or note for this contingency.

(4 marks)

Required:

State with reasons whether or not you consider the accounting treatments in draft financial statements, as described above, are acceptable. Include in your answer, where appropriate, an explanation of the relevant provisions of IFRS.

(9 marks)

Question 25 LAMOND

Lamond, a limited liability company, is engaged in a number of research and development projects. Its accounting policy as regards research and development is to capitalise expenditure as far as allowed by IAS 38 "Intangible Assets". At 30 June 2011 the following balances existed in the company's accounting records:

Project A — Development completed 30 June 2009. Total expenditure $200,000. Being amortised over five years on the straight line basis in accordance with the company's standard policy. Balance at 30 June 2011: $120,000.

Project B — A development project commenced 1 July 2009. Total expenditure in the years ended 30 June 2010 and 30 June 2011 totalled $175,000. During the year ended 30 June 2012, it became clear that a competitor had launched a superior product and the project was abandoned. Further development expenditure in the year ended 30 June 2012 amounted to $55,000.

Project C — Development commenced 1 October 2010. Expenditure to date:

Year ended 30 June 2011	$85,000
Year ended 30 June 2012	$170,000

All expenditure on Project C meets the criteria for capitalisation in IAS 38.

Project D — In addition, research project D commenced on 1 July 2011. Expenditure to date (all research):

Year ended 30 June 2012	$80,000

Required:

(a) State the conditions which must be met if development expenditure is to be recognised as an intangible asset. (6 marks)

(b) Calculate the amounts which should appear in the company's statement of profit or loss and statement of financial position for research and development for the year ended 30 June 2012. (7 marks)

(c) Prepare the notes which IAS 38 requires in the financial statements for the year giving supporting figures for the items in the statement of profit or loss and statement of financial position. (7 marks)

(20 marks)

Question 27 SAMPI (IAS 2)

(a) IAS 2 "Inventories" requires inventories of raw materials and finished goods to be valued in financial statements at the lower of cost and of net realisable value.

Required:

(i) Describe three methods of arriving at cost of inventory which are acceptable under IAS 2 and explain how they are regarded as acceptable. (5 marks)

(ii) Explain how the cost of an inventory of finished goods held by the manufacturer would normally be arrived at when obtaining the figure for the financial statements. (3 marks)

(b) Sampi is a manufacturer of garden furniture. The company has consistently used FIFO (first in, first out) in valuing inventory, but it is interested to know the effect on its inventory valuation of using weighted average cost instead of FIFO

At 28 February 2012 the company had inventory of 4,000 standard plastic tables, and has computed its value on each side of the two bases as:

Basis	Unit cost	Total value
	$	$
FIFO	16	64,000
Weighted average	13	52,000

During March 2012 the movements on the inventory of tables were as follows:

Received from factory:

Date	Number of units	Production cost per unit
		$
8 March	3,800	15
22 March	6,000	18

Revenue:	Number of units
12 March	5,000
18 March	2,000
24 March	3,000
28 March	2,000

On a FIFO basis the inventory at 31 March was $32,400.

Required:

Compute what the value of the inventory at 31 March 2012 would be using weighted average cost (5 marks)

In arriving at the total inventory values you should make calculations to two decimal places (where necessary) and deal with each inventory movement in date order.

(13 marks)

Assume the following tax rules in respect of questions 31 – 35:

„

- The tax code allows for the general application of the accounting principles of prudence and accruals, but it does state the following;
  - Tax allowable depreciation is computed according to rules set out in the tax code.
  - Allowance for doubtful debts are only deductible under very strict and limited circumstances.
  - Interest is taxable/allowable on a cash basis.
  - Development expenditure is allowable for tax in the period in which it is incurred.

- The tax code defines finance leases but the criteria in the code are stricter than those in IAS 17 with the result that a company may well account for a lease as a finance lease when it is deemed an operating lease for tax purposes. The tax treatment for operating leases is to expense the rentals on an cash basis.

Question 31 SHEP (I)

Shep was incorporated on 1 January 2011. In the year ended 31 December 2011 the company made a profit before taxation of $121,000
This figure was after a depreciation charge of $11,000.
During the period Shep made the following capital additions:

	$
Plant	48,000
Motor vehicles	12,000

Tax Authorities put following values

Plant	40000
Motor Vehicles	10000

Shep charges depreciation @ 10% straight line while tax authorities charge depreciation @ 25% reducing balance method. Depreciation calculated by authorities on assets other than purchased was $7500.

Corporate tax is chargeable at the rate of 30%.

Required:

(a) Calculate the corporate income tax liability for the year ended 31 December 2011.

(b) Calculate the deferred tax balance that is required as at 31 December 2011.

(c) Prepare a note showing the movement on the deferred tax account and thus calculate the deferred tax charge for the year ended 31 December 2011

(d) Prepare the note which shows the compilation of the tax expense for the year ended 31 December 2011.

Question 32 SHEP (II)

Continuing from the previous year. The following information is relevant for the year ended 31 December 2012:

(a) Capital transactions

	$
Depreciation charged	14,000
Tax allowances	16,000

(b) Interest payable

On 1 April 2012 the company issued $25,000 of 8% convertible loan stock. Interest is paid in arrears on 30 September and 31 March.

(c) Interest receivable

On 1 April Shep purchased debentures having a nominal value of $4,000. Interest at 15% per year is receivable on 30 September and 31 March. The investment is regarded as a financial asset valued at amortised cost.

(d) Provision for warranty

In preparing the financial statements for the year to 31 December 2012, Shep has recognised a provision for warranty payments in the amount of $1,200. This has been correctly recognised in accordance with IAS 37 and the amount has been expensed. Shep operates in a tax regime where warranty expense is deductible only when paid.

(e) Fine

During the period Shep has paid a fine of $6,000. The fine is not tax deductible.

(f) Further information

The accounting profit before tax for the year was $125,000.

Required:

(a) Calculate the corporate income tax liability for the year ended 31 December 2012.

(b) Calculate the deferred tax balance that is required as at 31 December 2012.

(c) Prepare a note showing the movement on the deferred tax account and thus calculate the deferred tax charge for the year ended 31 December 2012.

Question 33 SHEP (III)

Continuing from the previous year. The following information is relevant for the year ended 31 December 2013:

(a) Interest payable/Interest receivable

Shep still has $25,000 of 8% convertible loan stack in issue and still retains its holding in the debentures purchased in 2012.

(b) Provision for warranty

During the year Shep had paid out $500 in warranty claims and provided for a further $2,000.

(c) Development costs

During 2013 Shep has capitalised development expenditure of $17,800 in accordance with the provisions of IAS 38

(d) Further information

	$
Profit before taxation	175,000
Depreciation charged	18,500
Tax allowable depreciation	24,700

(e) Entertainment

Shep paid for a large office party during 2013 to celebrate a successful first two years of the business. This cost $20,000. This expenditure is not tax deductible.

Required:

(a) Calculate the corporate income tax liability for the year ended 31 December 2013.

(b) Calculate the deferred tax balance that is required as at 31 December 2013.

(c) Prepare a note showing the movement on the deferred tax account and thus calculate the deferred tax charge for the year ended 31 December 2013.

Question 34 SHEP (IV)

Using the information provided in “Shep III” answer, assume that the government changed the rate of tax to 28% during 2013.

Required:

(a) Calculate the corporate income tax liability for the year ended 31 December 2013.

(b) Calculate the deferred tax balance that is required as at 31 December 2013.

(c) Prepare a note showing the movement on the deferred tax account and thus calculate the deferred tax charge for the year ended 31 December 2013.

Question 35 BROKEN DREAMS

Broken Dreams, a manufacturing company, has consistently adopted a progressive policy towards deferred taxation. The accountant is, however, unsure of his next move and has turned to you for advice.

The poor demented man supplies you with the following information in respect of the year ended 30 June 2012:

(a) The company made an accounting profit of $900,000.

(b) Freehold properties were revalued from $240,000 to $300,000 in the period. The company has no intention of disposing of the properties.

(c) The remaining non-current assets comprised plant and machinery. On 1 July 2011 this amounted to

	$
Tax written down value	500,000
Carrying amount	1,300,000

During the year to 30 June 2012 depreciation amounted to $260,000 and capital allowances of $175,000 were claimed.

(d) The company entered into a five year lease on 1 July 2011 for an item of plant with a useful economic life of ten years. The lease rentals (which have all been paid on time to date) were to be as follows:

	$
Initial payment (1 July 2011)	110,000
Rentals (30 June 2012, 2013, 2014, 2015, 2016)	50,000 per rental

(e) Broken Dreams now realises that a programme of research and development is essential to set itself apart from its competition, and has adopted a policy of deferring development expenditure. In the current year (the first year in which deferrals have occurred) expenditure of $80,000 was deferred.

Required:

Prepare the note to the statement of financial position at 30 June 2012 for deferred taxation on the basis of IAS 12 Income Taxes.

(15 marks)

Question 50 STANDARD

The summarised statements of financial position of Standard at 31 December 2010 and 2011 are as follows:

	2011	2010
	$	$
Issued share capital	150,000	100,000
Share premium	35,000	15,000
Retained earnings	41,000	14,000
Non-current loans	30,000	70,000
Payables	63,000	41,500
Bank overdraft	–	14,000
Tax payable	33,000	21,500
Depreciation		
Plant and machinery	54,000	45,000
Fixtures and fittings	15,000	13,000
	421,000	334,000

	2011	2010
	$	$
Freehold property at cost	130,000	110,000
Plant and machinery at cost	151,000	120,000
Fixtures and fittings at cost	29,000	24,000
Inventories	51,000	37,000
Trade receivables	44,000	42,800
Long-term investments	4,600	–
Cash at bank	11,400	200
	421,000	334,000

Extract from the statement of changes in equity:

Dividends paid in year	7,500	5,000

The following information is relevant:

(a) There had been no disposal of freehold property in the year.

(b) A machine tool which had cost $8,000 (in respect of which $6,000 depreciation had been provided) was sold for $3,000, and fixtures which had cost $5,000 (in respect of which depreciation of $2,000 had been provided) were sold for $1,000. Profits and losses on those transactions had been dealt with through the statement of profit or loss.

(c) The statement of profit or loss charge in respect of tax was $22,000.

(d) The premium paid on redemption of the non-current loan was $2,000, which has been written off to the statement of profit or loss.

(e) Interest received during the year was $450. Interest charged in the statement of profit or loss for the year was $6,400. Accrued interest of $440 is included in payables at 31 December 2010 (nil at 31 December 2011).

(f) The government stock is a long term investment.

Required:

Prepare a statement of cash flows for the year ended 31 December 2011, together with notes as required by IAS 7 Statement of Cash flows.

(20 marks)

Question 51 FALLEN

Fallen has prepared the following rough draft accounts for the year ended 31 December 2011:

Statement of profit or loss

	$000
Revenue	11,563
Cost of sales	(5,502)
Gross profit	6,061
Distribution costs	(402)
Administration expenses	(882)
Interest payable	(152)
Operating profit before tax	4,625
Taxation (35%) including deferred tax	(1,531)
Profit after tax	3,094

Extract from the statement of changes in equity

Dividends	700

Statements of financial position

	31 December 2011	31 December 2010
	\$000	\$000
Leasehold premises (net)	6,600	5,700
Plant, machinery and equipment (net)	5,040	3,780
Investments at cost	2,406	2,208
Inventories	2,880	1,986
Receivables	2,586	1,992
Bank	–	576
	19,512	16,242

	31 December 2011	31 December 2010
	\$000	\$000
Share capital (25 cent ordinary)	2,280	1,800
Share premium	2,112	1,800
Retained earnings	9,108	6,714
Deferred taxation	202	138
Non-current loan (10%)	1,240	1,800
Provision for deferred repairs	1,202	1,016
Payables	1,416	936
Overdraft	222	–
Income tax	1,730	2,038
	19,512	16,242

The following data is relevant:

(1) The 10% non-current loan was redeemed at par.

(2) Plant and equipment with a written down value of \$276,000 was sold for \$168,000. New plant was purchased for \$2,500,000.

(3) Leasehold premises costing \$1,300,000 were acquired during the year.

Required:

Prepare the statement of cash flows and supporting notes in accordance with IAS 7 Statement of Cash Flows for Fallen for 2011.

(20 marks)

Question 52 WITTON WAY

The following information has been extracted from the accounts of Witton Way:

Statements of profit or loss for the year to 30 April	2011	2012
	$000	$000
Turnover (all credit sales)	7,650	11,500
Less Cost of sales	(5,800)	(9,430)
Gross profit	1,850	2,070
Other expenses	(150)	(170)
Loan interest	(50)	(350)
Profit before taxation	1,650	1,550
Taxation	(600)	(550)
Profit after taxation	1,050	1,000
Extract from the statement of changes in equity:		
Dividends	300	300

Statements of financial position at 30 April	2011	2012
	$000	$000
Assets		
Non-current assets		
Tangible assets	10,050	11,350
Current assets		
Inventories	1,500	2,450
Trade receivables	1,200	3,800
Cash	900	50
	3,600	6,300
	13,650	17,650
Equity and liabilities		
Capital and reserves		
Called-up share capital	5,900	5,900
Retained earnings	5,000	5,700
	10,900	11,600
Non-current liabilities	350	3,350
Current liabilities	2,400	2,700
	13,650	17,650

Additional information

During the year to 30 April 2012 the company tried to stimulate sales by reducing the selling price of its products and by offering more generous credit terms to its customers.

Required:

(a) Calculate six accounting ratios, specifying the basis of your calculations, for each of the two years to 30 April 2011 and 2012 which will enable you to examine the company's progress during 2012. (9 marks)

(b) From the information available to you, including the ratios calculated in part (a) of the question, comment upon the company's results for the year to 30 April 2012 under the heads of "profitability", "liquidity" and "efficiency". (11 marks)

(20 marks)

Question 53 RAPIDO

You are an independent financial advisor and have been given the following details relating to Rapido:

Summary statements of financial position	31 December		
	2010 Actual $000	2011 Budget $000	2011 Actual $000
Assets			
Non-current assets			
Tangible assets	957	1,530	1,620
Current assets			
Inventory	205	290	325
Trade receivables	305	720	810
Cash and bank balances	175	–	–
	685	1,010	1,135
Total assets	1,642	2,540	2,755
Equity and liabilities			
Capital and reserves			
Equity shares	800	800	800
Share premium account	200	200	200
Retained earnings	280	420	460
	1,280	1,420	1,460
Non-current liabilities			
Secured loans	–	(360)	(360)
Current liabilities			
Trade and other payables	175	505	545
Bank overdraft	187	255	390
	362	760	935
Total liabilities and equity	1,642	2,540	2,755

Statements of profit or loss	31 December 2010 Actual $000	2011 Budget $000	2011 Actual $000
Revenue	2,560	4,500	5,110
Cost of sales	(1,700)	(3,150)	(3,580)
Gross profit	860	1,350	1,530
Administration and distribution	(655)	(880)	(1,084)
Operating profit	205	470	446
Interest payable	–	(20)	(35)
	205	450	411
Taxation	(86)	(202)	(182)
	119	248	229
Extract from the statement of changes in equity:			
Dividends	82	108	49

The opening inventory figure was $135,000 2010 actual and $210,000 2011 budget.

Required:

Using the above information and appropriate ratios, prepare a report for the board of directors of Rapido assessing the profitability, liquidity and solvency of the company and briefly suggesting the necessary action to be taken.

(18 marks)