INSTRUCTIONS TO CANDIDATES

PLEASE READ CAREFULLY

Candidates must indicate clearly whether they are answering the paper in accordance with the law and practice of Northern Ireland or the Republic of Ireland.

In this examination paper the €/£ symbol may be understood and used by candidates in Northern Ireland to indicate the UK pound sterling and by candidates in the Republic of Ireland to indicate the Euro.

Answer ALL THREE questions in Section A and TWO of the THREE questions in Section B. If more than TWO questions are answered in Section B, then only the first TWO questions, in the order filed, will be corrected.

Candidates should allocate their time carefully.

All workings should be shown.

All figures should be labelled, as appropriate, e.g. €’s, £’s, units etc.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on Page 2 overleaf.
SECTION A

Answer ALL THREE Questions in this Section

QUESTION 1

(a) Explain both the rules based approach and the principle based approach in relation to Ethics. (4 Marks)

(b) Discuss the influence that the accounting profession exercises over a business. (6 Marks)

(c) Explain with the aid of an example what is meant by the term Corporate Social Responsibility (CSR). (5 Marks)

(d) Section 13 of FRS 102 deals with accounting for Inventories. Under this section inventories must be valued at the lower of cost and net realisable value (NRV)
(i) Outline how net realisable value (NRV) is calculated (5 Marks)
(ii) Outline what is included in the cost of a product for inventory valuation purposes (5 Marks)

Total: 20 Marks

QUESTION 2

The following multiple choice question consists of TEN parts, each of which is followed by FOUR possible answers. There is ONLY ONE right answer in each part.

Each part carries 1½ Marks.

Requirement
Indicate the right answer to each of the following TEN parts.

Total: 15 Marks

Candidates should answer this question by ticking the appropriate boxes on the special answer sheet which is contained within the answer booklet.

The following information relates to MNO Ltd as at:

<table>
<thead>
<tr>
<th></th>
<th>€/£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory at 01/01/2016</td>
<td>35,000</td>
</tr>
<tr>
<td>Inventory at 31/12/2016</td>
<td>48,000</td>
</tr>
<tr>
<td>Cash purchases during 2016</td>
<td>251,000</td>
</tr>
<tr>
<td>Credit purchases during 2016</td>
<td>428,000</td>
</tr>
<tr>
<td>Cash sales during 2016</td>
<td>300,000</td>
</tr>
<tr>
<td>Credit sales during 2016</td>
<td>505,000</td>
</tr>
<tr>
<td>Trade receivables at 31/12/2016</td>
<td>49,000</td>
</tr>
<tr>
<td>Trade payables at 31/12/2016</td>
<td>59,000</td>
</tr>
<tr>
<td>Bank overdraft at 31/12/2016</td>
<td>40,000</td>
</tr>
<tr>
<td>Cash at 31/12/2016</td>
<td>71,000</td>
</tr>
<tr>
<td>Other receivables at 31/12/2016</td>
<td>22,000</td>
</tr>
<tr>
<td>Other payables at 31/12/2016</td>
<td>17,000</td>
</tr>
</tbody>
</table>

1. The Gross Profit margin for year ended 31/12/2016 was? (answer to two decimal places):
   (a) 14.52%
   (b) 18.34%
   (c) 17.27%
   (d) 25.55%
2. The acid test ratio at 31/12/2016 was?
   (a) 1.22:1.00
   (b) 1.00: 1.50
   (c) 1.64:1.00
   (d) 1.53:1.00

3. The trade receivables day ratio at 31/12/2016 was? (answer to two decimal places)
   (a) 22.22 days
   (b) 26.34 days
   (c) 41.25 days
   (d) 35.42 days

4. The trade payables days ratio at 31/12/2016 was? (answer to two decimal places)
   (a) 48.95 days
   (b) 31.72 days
   (c) 50.32 days
   (d) 74.63 days

5. The inventory turnover period during 2016 was? (answer to two decimal places)
   (a) 16.05 times
   (b) 17.34 times
   (c) 4.51 times
   (d) 8.66 times

6. Section 2 of FRS 102 identifies ten qualitative characteristics, one of which is reliability. Which of the following best describes reliability of information?
   (a) Information that is primarily concerned with the decision making needs of users;
   (b) Information about the transactions with an entity’s main customer;
   (c) Information that faithfully presents the economic transactions of an entity in terms of its financial position, performance and financial adaptability;
   (d) Information that only relates to the current financial period.

7. Section 21.5 of FRS 102 states the definition of an asset. Which of the following is the definition given for an asset?
   (a) A resource owned by an entity as a result of a past event and from which future economic benefits are expected to flow to the entity;
   (b) Tangible resources controlled by an entity as a result of a past event and from which future economic benefits are expected to flow to the entity;
   (c) Resources that will be controlled by an entity in the future and from which future economic benefits are expected to flow to the entity;
   (d) A resource controlled by an entity as a result of a past event and from which future economic benefits are expected to flow to the entity.
8. Section 10 of FRS 102 deals with corrections of prior period errors. Which of the following statements is correct in relation to prior period errors?
   (a) An entity must correct all prior period errors in the financial statements of the period in which they were identified;
   (b) All prior period error corrections must be made against the opening balance of the retained earnings figure at the start of the current financial period;
   (c) An entity has a choice to not adjust for prior period errors identified;
   (d) An entity must correct all material prior period errors retrospectively in the first set of financial statements issued to users of financial information after the discovery of the error.

9. Novo Ltd. constructed a warehouse during 2016 and incurred the following costs:

<table>
<thead>
<tr>
<th>Item</th>
<th>€/£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site purchase cost</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Construction costs</td>
<td>6,000,000</td>
</tr>
<tr>
<td>General administration costs</td>
<td>450,000</td>
</tr>
<tr>
<td>Architect costs for warehouse design</td>
<td>25,000</td>
</tr>
</tbody>
</table>

A quantity of materials purchased were faulty and this required these materials to be replaced. The replacement costs for these materials was €/£100,000 and this cost is included in the above construction costs of €/£6,000,000.

How much of the above expenditure should Novo Ltd. capitalise on its statement of financial position?
   (a) €/£7,475,000  
   (b) €/£7,025,000  
   (c) €/£6,925,000  
   (d) €/£7,375,000

10. Section 13 of FRS 102 deals with accounting for inventory. Which of the following costs are excluded from inclusion as part of the cost of inventory?
   (a) Direct materials;  
   (b) Selling and marketing costs;  
   (c) Production overheads;  
   (d) Direct labour.

   Total: 15 Marks
QUESTION 3
The following list of balances was extracted from the ledger of Cotton Limited at 31 December 2016:

<table>
<thead>
<tr>
<th></th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued Ordinary share capital €/£1</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Share premium</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings at 31/12/2015</td>
<td>170,000</td>
<td></td>
</tr>
<tr>
<td>10% Loan notes</td>
<td>200,000</td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>144,000</td>
<td></td>
</tr>
<tr>
<td>Loan note interest paid</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Bank overdraft interest</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>4,700,000</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>3,180,000</td>
<td></td>
</tr>
<tr>
<td>Wages &amp; Salaries</td>
<td>644,000</td>
<td></td>
</tr>
<tr>
<td>Directors remuneration</td>
<td>90,000</td>
<td></td>
</tr>
<tr>
<td>Interim dividend paid</td>
<td>38,000</td>
<td></td>
</tr>
<tr>
<td>Distribution costs</td>
<td>106,000</td>
<td></td>
</tr>
<tr>
<td>Administration expenses</td>
<td>101,000</td>
<td></td>
</tr>
<tr>
<td>Inventory at 01/01/2016</td>
<td>450,000</td>
<td></td>
</tr>
<tr>
<td>Trade receivables/payables</td>
<td>384,000</td>
<td>102,000</td>
</tr>
<tr>
<td>Land at cost</td>
<td>110,000</td>
<td></td>
</tr>
<tr>
<td>Buildings at cost</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation of buildings at 01/01/2016</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Plant &amp; equipment at cost</td>
<td>600,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation of plant &amp; equipment at 01/01/2016</td>
<td>180,000</td>
<td></td>
</tr>
<tr>
<td>Vehicles at cost</td>
<td>128,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation of vehicles at 01/01/2016</td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,248,000</strong></td>
<td><strong>6,248,000</strong></td>
</tr>
</tbody>
</table>

The following notes should be taken into account at 31st December 2016:

(i) The authorised share capital consisted of 800,000 €/£1 ordinary shares

(ii) Closing inventory at 31 December 2016 was valued at €/£500,000. This excluded an item of inventory that was not fully complete at year end. This item had incurred costs to date of €/£20,000. The costs to complete were €/£10,000 and it was estimated that this item would then sell for €/£29,000.

(iii) Depreciation is to be calculated as follows:
    Building 5% on cost
    Plant & equipment 10% reducing balance method
    Motor vehicles 25% reducing balance method

The depreciation is to be allocated as follows:

<table>
<thead>
<tr>
<th></th>
<th>Cost of sales</th>
<th>Distribution costs</th>
<th>Administration costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building</td>
<td>50%</td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>Vehicles</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plant &amp; equipment</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(iv) The loan notes were issued in July 2015. Provide for any loan note interest outstanding at year end.

(v) Wages due were €/£38,000 and wages is split equally between cost of sales and administration costs.
Cotton Ltd estimated that their tax liability for the year ended 31 December 2016 was €/£175,000.
On 31 December 2016 Cotton Ltd got the land professionally valued at €/£250,000 and want to incorporate this valuation into their financial statements.
Having reviewed the trade receivables at year end Cotton Ltd have decided to write off a bad debt of €/£4,000 and create a receivable allowance against the remaining receivables of 5%.
On 10 January 2017 the Board of Directors of Cotton Ltd proposed and authorised a final dividend of 4c/p per share.

Required:

Prepare the following financial statements for Cotton Ltd in accordance with the requirements of FRS 102:

(a) Statement of Comprehensive Income for the year ended 31 December 2016.  
(b) A Statement of Changes in Equity for the year ended 31 December 2016. 
(c) A Statement of Financial Position as at 31 December 2016. 

Presentation (2 Marks)
Total: 25 Marks

SECTION B

Answer TWO of the THREE questions in this Section

QUESTION 4

At the 1 January 2016 MHG Ltd has the following opening balances in their financial statements: 

<table>
<thead>
<tr>
<th>Description</th>
<th>€/£</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land at cost</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Buildings at cost</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Vehicles at cost</td>
<td>450,000</td>
</tr>
<tr>
<td>Accumulated depreciation of Buildings</td>
<td>2,200,000</td>
</tr>
<tr>
<td>Accumulated depreciation of vehicles</td>
<td>210,000</td>
</tr>
</tbody>
</table>

MHG has the following depreciation policy
Buildings straight line over 50 years
Vehicles 20% reducing balance
A full year’s depreciation is charged in the year of purchase and none in the year of sale

During the year ended 31 December 2016 the following transactions took place:
(i) Two new motor cars were purchased at a cost of €/£35,000 each.
(ii) On 1 July a car that was purchased for €/£40,000 in 2014 was sold for €/£21,000.
(iii) On 1 July MHG Ltd had the land professionally valued at €/£800,000 and want to incorporate this valuation into the financial statements.
(iii) On 31 December MHG Ltd has the buildings professionally valued at €/£3,000,000 and want to incorporate this valuation into the financial statements. At this date it was estimated that the remaining useful life of buildings was 40 years.
Required:
(a) Prepare the note to the financial statements for property, plant and equipment for the year ended 31 December 2016 as required by Section 17 Property Plant and Equipment of FRS 102.

(13 Marks)

(b) Prepare the relevant extracts of the Statement of Comprehensive Income for the year ended 31 December 2016.

(5 Marks)

Presentation (2 Marks)
Total: 20 Marks

QUESTION 5

(a) FRS 102 Section 20 Leases identifies two types of leases, finance leases and operating leases.

Required:
Explain the differences between both types of leases.

(4 Marks)

(b) Outline the characteristics that are identified in Section 20 of FRS 102 which would tend to imply that a lease is a finance lease.

(5 Marks)

(c) On 1st January 2016 ONO Ltd. leased a machine from Paris Ltd. for a period of 4 years. The leased asset had a useful life of 4 years. Lease payments of €/£40,000 p.a. are made in advance with the first payment on 1st January 2016. The fair value of the machine was €140,000 and the present value of the minimum lease payments was €/£139,440 on 1st January 2016. The lease has been classified as a finance lease in accordance with Section 20 of FRS102. The rate of interest implicit in the lease is 10%.

(i) Prepare the journal accounts to record all of the relevant transactions in relation to both the finance lease and leased asset in the financial statements of ONO Ltd. for the financial year ended 31 December 2016.

(7 Marks)

(ii) State, with supporting calculations, how the closing balance in the finance lease obligation account will be presented in the Statement of Financial Position of ONO Ltd as at 31 December 2016.

(2 Marks)

Presentation (2 Marks)
Total: 20 Marks
QUESTION 6

(a) On 1 January 2016 Art Ltd. purchased a new machine for €/£200,000 cash. Art Ltd received a government grant for 30% of the cost of the machine from the government. The machine has a useful life of 5 years.

Required:
Prepare all the relevant journals to record the above transactions in the financial statements for the year ended 31 December 2016.

(6 Marks)

(b) Outline the form of accounting policy or other notes which will be included in the financial statements of Art Ltd. for the year ended 31 December 2016.

(3 Marks)

(c) Explain what is meant by a non-monetary grant and describe how it is accounted for.

(4 Marks)

(d) Explain how a grant that becomes repayable is accounted for.

(2 Marks)

(e) FRS 102 Section 24 Government Grants states that grants are to be recognised either based on the performance model or accrual model.

Outline the conditions that an entity following the performance model must follow.

(3 Marks)

Presentation (2 Marks)
Total: 20 Marks