Desk Number: ____________________________

Student Number:___________________________

Assessment Centre: ________________________

FINAL ADMITTING EXAMINATION
INTERIM ASSESSMENT

ADVANCED APPLICATION OF FINANCIAL REPORTING PRINCIPLES (AAFRP)

25 APRIL 2015: 10.00 am - 11.50 am

INSTRUCTIONS TO CANDIDATES

- Answers may only be written on the pages of this answer book.
- Student may not write on the answer book at any time before the Invigilator announces the official start of the assessment.
- You are required to remain seated at your desk until the Invigilator has collected this answer book from you.

DO NOT REMOVE THIS ANSWER BOOK FROM THE EXAMINATION HALL

- **This paper is divided into three sections.**
- **All questions in each section must be answered.**
- **In all questions, students should ignore any issues which might arise due to taxation implications (current or deferred) unless specifically directed otherwise.**

There are five questions in **Section 1**. Each question contains background information. You are required to consider this information, exercise judgement and decide what journal entry, if any, is required.

The possible numerical solutions will be given in a table, titled "Figures for Journal Adjustment (if required) €/£" and you must choose which numbers are correct and then use these to complete the double entry template provided. If you believe that no adjustment is required, then the "no adjustment required" box should be ticked.

In **Section 1**, space is provided for workings/rough work. However, students should carefully note the following:

1. NO credit is given for workings in **Section 1**. The full answers are adjudicated as either "right" or "wrong". In this context, it is important to get the full journal entry correct for questions in **Section 1**.
2. Students are encouraged to include a note of their assumptions when responding to questions. As with any examination, assumptions are always considered and (if valid) appropriate credit given for the subsequent response.
3. Students should also note that workings, even where partial credit is not given, can provide evidence of an approach taken by a student. As in 2 above, if the approach is a valid one, the appropriate credit may be given (assuming that the answer given is correct in the context of that approach)

There are three questions in **Section 2**, each examining a different disclosure. This is a "close" type question. Background information is supplied and a draft disclosure or other similar information will be drafted. You are required to assess whether the draft provided is complete or whether other information is required. Guidance on the completion of these questions is given as part of the requirement each time. Partial credit can be awarded in **Section 2**, so you should ensure that you include any assumptions and workings in the spaces provided.

There are three questions In **Section 3**. Each question will contain background information and you are required to consider this information, exercise judgement and decide what journal, if any, is required. Questions in **Section 3** may be presented in such a way as to necessitate making key assumptions. Partial credit can also be awarded in **Section 3**, so you should ensure that you include any assumptions and workings in the spaces provided.

The following terminology will appear throughout the paper.

SPLOCI =	**Statement of Profit or Loss and Other Comprehensive Income**
SOCI =	**Statement of Comprehensive Income**
SOFP =	**Statement of Financial Position**
P/L =	**Profit or Loss**
OCI =	**Other Comprehensive Income**

SECTION 1

(Overall Suggested time – 34 minutes)

QUESTION 1.1: JOHN MOORE

John Moore runs a small hardware store and prepares his accounts up to 31 December each year. On 22 December 2014, one customer purchased and paid for goods with a net value of €/£ 10,000 and a gross value of €/£ 11,000 (10% VAT being charged). The original purchase price of the goods to John Moore was €/£ 8,000. The sales invoice for these goods was correctly accounted for and the goods were removed from the inventory listing on 22 December 2014. On 30 December, the customer returned the goods as they were unsuitable and asked for a credit note to be raised against future purchases. John Moore has not yet accounted for the return of the goods or the credit note.

Requirement:

At the year end, no entries have yet been made to reflect the return of the goods or the credit note. Show the journal required to reflect the above transaction.

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

Figures for journal adjustment (if required) €/£

12,000	**11,000**	**10,000**	**9,000**	**8,000**
7,000	**6,000**	**5,000**	**2,000**	**1,000**

Answer Template

	Debit	Credit
Inventory - SOFP		
Revenue - SPLOCI		
COS - SPLOCI		
VAT - SOFP		
Trade receivables		
Trade payables		

No adjustment required ☐

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Rough Work Space (please note these workings will NOT be marked)

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QUESTION 1.2: WYLIE Ltd

On 1 January 2014, Wylie Ltd ("WYLIE") entered into a finance lease agreement for an asset having a fair value of €/£ 12,000 and paid a deposit of €/£ 1,500, leaving a balance of €/£ 10,500 to be financed by a finance lease with an implicit annual rate of interest of 7%. The asset has a useful economic life of four years. Four further annual rental payments of €/£ 3,100 were required with the first payment falling due on 31 December 2014. Residual value of the asset is expected to be zero.

Requirement:

At the year end, no entries have yet been made to reflect the initial purchase of the asset or the first loan repayment made on 31 December 2014. Show the journal required to reflect the above transaction.

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

Figures for journal adjustment (if required) €/£

12,000	**11,000**	**10,500**	**8,135**	**8,000**
4,600	**3,100**	**3,000**	**735**	**435**

Answer Template

	Debit	**Credit**
Asset cost -SOFP		
Asset accumulated depn - SOFP		
Finance lease obligation		
Bank		
Interest - SPLOCI		
Depreciation - SPLOCI		

No adjustment required ☐

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QUESTION 1.3: STYLES plc

Styles plc ("STYLES") has a year end of 31 December 2014 and a functional currency of €/£. On 28 November 2014, STYLES bought goods from a supplier in Ruritania for 286,000 Ruritanian dollars (R$286,000). On 16 December, STYLES paid the supplier in full. The goods remained in inventory at the year end.

Exchange rates
28 November 2014 €/£ 1 = R$ 11.16
16 December 2014 €/£ 1 = R$ 10.87
31 December 2014 €/£ 1 = R$ 11.02

The accountant has not made any entries to reflect the above transactions.

Requirement:

At the year end, no entries have yet been made to reflect the purchase of the goods or subsequent payment. Show the journal required to reflect the above transactions.

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

Figures for journal adjustment (if required) €/£

52,622	**51,254**	**26,311**	**25,953**	**25,627**
716	**684**	**65**	**358**	**326**

Answer Template

	Debit	**Credit**
Inventory - SOFP		
Bank		
Cost of sales		
Other operating expense – FX		
Trade payables		

No adjustment required ☐

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QUESTION 1.4: HEALTHCARE plc

Healthcare plc (“HEALTHCARE”) is a private clinic providing operations and medical procedures for people who have private medical insurance or other means of paying for appropriate treatments.

In November 2014, a patient died in the hospital as a result of a mistake during an operation. The hospital’s past experience and lawyers’ advice indicate that, in these circumstances, it is highly likely the patient’s relatives will commence legal proceedings, and, if the matter comes to court, the clinic will be found guilty of negligence. The policy of the clinic is therefore to attempt to resolve the matter before it reaches court. It is difficult to assess damages, but the clinic would expect the damages payable to be in the region of €/£250,000.

By the date on which the financial statements are authorised for issue in February 2015, the clinic has not yet received notice of legal proceedings against it.

At the year end, no entries have yet been made to reflect the potential legal proceedings in the financial statements

Requirement:

Show the required journal, if any, necessary to reflect the correct accounting treatment in HEALTHCARE for the year ended 31 December 2014.

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

Figures for journal adjustment (if required) €/£

500,000	**450,000**	**400,000**	**350,000**	**300,000**
250,000	**200,000**	**150,000**	**100,000**	**50,000**

Answer Template

	Debit	**Credit**
SPLOCI		
Payables		
Other creditors		
Provisions		

No adjustment required ☐

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QUESTION 1.5: ROBINSON plc

Robinson plc ("ROBINSON") has been awarded a government grant towards the purchase of a building which has historical significance. The grant is for €/£ 1,000,000 and the purchase cost of the building is €/£5,000,000. ROBINSON purchased the building on 1 October 2014 but is still waiting for the funds from the grant awarding body. The estimated useful life of the building is 25 years and it is the policy of ROBINSON to depreciate on a monthly basis from the date of acquisition.

On 31 December 2014, ROBINSON also received a grant of €/£ 300,000 in relation to environmental costs over a period of 5 years. The total expenditure will be recognised as an expense in the profit or loss as follows:

	€/£
2014	100,000
2015	200,000
2016	300,000
2017	400,000
2018	500,000
TOTAL	**1,500,000**

To date ROBINSON has incurred and paid costs for €/£ 100,000 relating to the year ended 31 December 2014.

ROBINSON adopts the deferred income approach when accounting for Capital grants, when appropriate.

To date the following journal entries have been posted in respect of the above transactions:

	€/£	€/£
Dr Non-current assets	5,000,000	
Cr Bank		5,000000
Being purchase of buildings		

	€/£	€/£
Dr Bank	300,000	
Cr Other income – SPLOCI		300,000
Being grant for environmental costs		

Requirement:

Show the adjustment required, if any, to correctly reflect the correct accounting treatment in the financial statements of ROBINSON for the year ended 31 December 2014.

Students should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

Figures for journal adjustment (if required) €/£

5,000,000	**1,270,000**	**1,200,000**	**1,000,000**	**560,000**
300,000	**280,000**	**270,000**	**50,000**	**40,000**

(Question 1.5 continues on the next page)

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QUESTION 1.5 *(Cont'd)*

Answer Template

	Debit €/£	**Credit €/£**
Other income - SPLOCI		
Depreciation - SPLOCI		
Non-current assets cost		
Non-current assets acc depn		
Other receivables		
Deferred income		

No adjustment required ☐

Rough Work Space (please note these workings will NOT be marked)

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PLEASE TURN OVER FOR SECTION 2

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SECTION 2

(Overall suggested time – 40 minutes)

QUESTION 2.1 DEXTER plc

Dexter plc ("DEXTER") is a manufacturer of laboratory equipment. DEXTER purchases 75% of its component parts from Labtech plc ("LABTECH") and has been trading with LABTECH for ten years. Due to its longstanding trade relationship, DEXTER benefits from significant trade discounts passed on by LABTECH. LABTECH is a large multinational which is listed on the stock exchange.

During the year ended 31 December 2014, the purchases made from LABTECH amounted to €/£ 1,250,000 (2013: €/£ 1,100,000). At 31 December 2014, DEXTER owed LABTECH €/£ 130,000 (2013: €/£ 90,000).

DEXTER primarily produces parts for Experiment plc ("EXPERIMENT"), with sales to EXPERIMENT accounting for approximately 60% of its revenue on an annualised basis (2014: €/£ 1,350,000, 2013: €/£900,000). The balance owed by EXPERIMENT at the 31 December 2014 was €/£ 300,000 (2013: €/£250,000).

DEXTER has two directors, Ms G Simpson and Mr N Davidson. Ms G Simpson owns 55% of the shares with Mr N Davidson owning 5% of the shares. Ms G Simpson is also one of three non-executive directors of EXPERIMENT. Mr N Davidson is one of several non-executive directors of LABTECH. As a non-executive director, he doesn't have input into the day-to-day operational decisions of LABTECH. The remuneration of the chief executive of DEXTER, who is not a director of the company, was as follows:

	€/£
Salary	140,000
Bonuses	85,000
Share options	25,000
Pension contributions	20,000
Travel expenses	16,000

Requirement:

Using the information above, please complete the following disclosure for the year ended 31 December 2014 for DEXTER. Assume all accounting policies have been disclosed appropriately.

- ***You should first complete the required amounts in the given boxes. (It is appropriate to leave the box blank if no input is required).***
- ***Please then either:***
    - ***Select the option "No further information/additions required"; OR***
    - ***Draft any additional disclosures required and indicate (by way of an asterisk) where the insert(s) might be included.***

Extract from notes to the financial statements:

Related party

DEXTER enters into related party transactions in the normal course of business. During the year ended 31 December 2014, the following transactions were entered into with EXPERIMENT, a company of which Ms Simpson is also a director:

(Question 2.1 continues on the next page)

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QUESTION 2.1 *(Cont'd.)*

	2014 €/£	2013 €/£
Sales	1,350,000	900,000

No further amendment(s) required ☐

<u>OR</u>

The following amendment(s) is (are) required:

Please include an asterisk (or similar symbol) in the note above to indicate where the amendment should be included.

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Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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QUESTION 2.2: NEMO plc

Flipper Ltd ("FLIPPER") is a division within the Nemo Group ("NEMO") with the principal activity of FLIPPER being the manufacture of diving equipment. Following a strategic review, management has decided that cost savings could be achieved if FLIPPER's manufacturing operations were transferred elsewhere within the group and a new owner is sought for FLIPPER. The assets and liabilities of FLIPPER have been classified as held for sale in the consolidated statement of financial position but do not constitute a discontinued operation.

The assets and liabilities of FLIPPER are included below and are shown at fair value with the exception of the plant and equipment, which is expected to realise €/£ 972,000 with an impairment loss of €/£ 121,000 expected on disposal.

	Flipper
	€/£ '000
Plant and equipment	1,093
Land and buildings	2,672
Investment property	1,000
Trade and other receivables	672
Trade and other payables	(312)
Employee benefits	(15)
Net assets before impairment	**5,110**

Requirement:

Using the information above, please complete the following disclosure for the year ended 31 December 2014 for the consolidated financial statements of NEMO. Assume all accounting policies have been disclosed appropriately.

- ***You should first complete the required amounts in the given boxes. (It is appropriate to leave the box blank if no input is required)***
- ***Please then either:***
  - ***Select the option "No further information/additions required"; OR***
  - ***Draft any additional disclosures required and indicate (by way of an asterisk) where the insert(s) might be included:***

(Question 2.2 continues on the next page)

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QUESTION 2.2 *(Cont'd)*

EXTRACT FROM STATEMENT OF FINANCIAL POSITION 31 DECEMBER 2014 OF NEMO

	2014 €/£ '000	2013 €/£ '000
Current assets		
Trade receivables	62,414	62,021
	------------	-------------
		62,021
Non-current assets	62,893	58,318
	-----------	----------
Total assets		**120,339**
Current liabilities		
Trade payables	35,600	36,654
	--------------	---------
		36,654
Non-current liabilities	25,541	19,653
	-------------	----------
Total liabilities		**56,037**
	-----------	-----------
Net assets		**64,032**
Total equity		**64,032**

Assets and liabilities held for sale

Flipper Ltd ("FLIPPER") is a division within the Nemo Group ("NEMO") with the principal activity of FLIPPER being the manufacture of diving equipment. Following a strategic review, management has decided that cost savings could be achieved if FLIPPER's manufacturing operations were transferred elsewhere within the group and a new owner is sought for FLIPPER. The assets and liabilities of FLIPPER have been classified as held for sale in the consolidated statement of financial position but do not constitute a discontinued operation.

The following major classes of assets and liabilities relating to these operations have been classified as held for sale in the financial statements to 31 December 2014:

	Flipper €/£'000
Plant and equipment	972
Land and buildings	2,672
Investment property	1,000
Trade and other receivables	672

Trade and other payables	312
Employee benefits	15

(Question 2.2 continues on the next page)

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QUESTION 2.2 *(Cont'd)*

The sale of FLIPPER does not constitute a discontinued operation as it does not represent the disposal of a separate major line of business.

No further amendment(s) required ☐

OR

The following amendment(s) is (are) required:

Please include an asterisk (or similar symbol) in the note to indicate where the amendment should be included.

Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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QUESTION 2.3: BAILES plc

Bailes plc ("BAILES") is a sports and leisure goods retailer. On 30 June 2014, BAILES acquired 100% of the equity and voting rights of one of its suppliers, Maxwell plc ("MAXWELL") a manufacturer of leisure goods, for a cash consideration of €/£ 2,250,000. In addition to this cash consideration, BAILES agreed to pay a future consideration if certain profit targets were met. Under the contingent consideration arrangement, BAILES is required to pay the vendors an additional €/£ 500,000 if the profit before tax in each of the years 2015, 2016 and 2017 exceeds €/£ 1,000,000. The average profits of MAXWELL over the last three years have been €/£ 700,000 and BAILES directors do not consider it probable that this payment will be required. The directors of BAILES feel that €/£ 200,000 represents the estimated fair value of this obligation on the acquisition date.

In addition, prior to the acquisition of MAXWELL, BAILES was pursuing a legal claim against this company in respect of damage to goods-in-transit to a customer. Although the directors of BAILES were confident of recovery, this amount had not been recognised in their financial statements as an asset but was recognised in the financial statements of MAXWELL as a contingent liability. BAILES decided to recognise the effective settlement of this legal claim on the acquisition of MAXWELL by including it as a part of the total consideration.

The professional costs of the acquisition amounted to €/£ 100,000.

Any goodwill arising on the acquisition of MAXWELL is due to expected synergies, revenue growth, future market development and the assembled workforce of MAXWELL but none have been included as intangible assets as they do not meet the required definition.

The assets acquired and liabilities recognised by BAILES on acquisition of MAXWELL are listed below:

	€/£
Current assets	
Cash and cash equivalents	200,000
Trade and other receivables	350,000
Non-current assets	
Plant and equipment	2,400,000
Current liabilities	
Trade and other payables	100,000
Provision (legal case)	50,000
Long term liabilities	400,000
	2,400,000

Requirement:

Using the information above, please complete the following disclosure(s) for the year ended 31 December 2014 for consolidated financial statements of BAILES. Assume all accounting policies have been disclosed appropriately. The company has already provided required disclosures under IFRS12.

- ***You should first complete the required amounts in the given boxes. (It is appropriate to leave the box blank if no input is required).***
- ***Please then either:***
    - ***Select the option "No further information/additions required"; OR***
    - ***Draft any additional disclosures required and indicate (by way of an asterisk) where the insert(s) might be included.***

(Question 2.3 continues on the next page)

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QUESTION 2.3 *(Cont'd)*

Business combinations
Subsidiary acquired

Name	**Principal activity**	**Date of acquisition**	**Percentage acquired**	**Consideration transferred**
Maxwell plc				

Consideration transferred

	€/£
Cash	2,250,000
Contingent consideration	

Under the contingent consideration arrangement, BAILES is required to pay the vendors an additional €/£500,000 if the profit before tax in each of the years 2015, 2016 and 2017 exceeds €/£ 1,000,000.

Assets acquired and liabilities recognised:

	€/£
Current assets	
Cash and cash equivalents	200,000
Trade and other receivables	350,000
Non-current assets	
Plant and equipment	2,400,000
Current liabilities	
Trade and other payables	100,000
Provision (legal case)	50,000
Long term liabilities	400,000
	2,400,000

(Question 2.3 continues on the next page)

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QUESTION 2.3 *(Cont'd)*

No further amendment(s) required ☐

<u>OR</u>

The following amendment(s) is (are) required:

Please include an asterisk (or similar symbol) in the note above to indicate where the amendment should be included.

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Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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SECTION 3

(Overall Suggested time – 36 minutes)

QUESTION 3.1: CRAWFORD plc

Crawford plc ("CRAWFORD") is a construction company, specialising in the construction of large-scale developments, such as libraries, performance venues and sporting stadiums. CRAWFORD is usually contracted by commercial entities, large-scale philanthropic entities or government bodies.

On 1 January 2014, CRAWFORD commenced a contract to build a new university building in an urban area. Because of the complexity of the build, CRAWFORD expected the project to take 3 years to complete. The contract price was agreed at €/£ 110,000,000, and CRAWFORD estimated costs of €/£ 85,000,000. In the current environment, CRAWFORD had to agree that any unplanned costs (ie: those not defined in the contract) would have to be covered by CRAWFORD directly (and would not be payable by the customer). CRAWFORD recognises contract revenue and expenses by reference to contract costs to date as a proportion of total contract costs.

Work commenced as anticipated on 1 January 2014. However due to inclement weather, the project was delayed significantly with the total cost of the delay estimated at €/£ 5,000,000. This included all of the corrective action, costs to get the site open and additional labour (at premium rates) which was required over a 5 month period, to make up for the time delay on the project.

At year ended 31 December 2014, the following information was available in relation to the contract:

	€/£ '000
Invoices issued to customer to date *	38,000
Cash received to date	32,000
Costs incurred to date (and all paid by 31 December) **	40,000
Costs due to inclement weather (all paid by 31 December)	5,000
Estimated costs to completion	45,000

** 5% retention of invoice values has been agreed. The retention amount only becomes payable on completion of contract.*
*** Excluding inclement weather costs.*

To date, CRAWFORD has posted the following entries to the financial statements:

	€/£ '000	**€/£ '000**
Dr Bank	32,000	
Cr Trade receivables		32,000
Being to recognise cash received to date		

	€/£ '000	**€/£ '000**
Dr Contract account	45,000	
Cr Bank		45,000
Being to account for costs paid to date		

Requirement:

Assuming that no further entries have been made by CRAWFORD, show the entries required to correctly reflect the above contract in the financial statements of CRAWFORD for the year ended 31 December 2014. Use the space provided to show any workings.

(Question 3.1 continues on the next page)

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QUESTION 3.1 (*Cont'd)*

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

	Debit €/£ '000	**Credit €/£ '000**
SPLOCI – P/L		
Bank		
Provisions		
Trade receivables		
Advances received		
Retentions on contracts		
Contract account		

No adjustment required ☐

Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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QUESTION 3.2: CONTACT plc

Contact plc ("CONTACT") is rolling out a telecommunications network and has incurred a number of costs during this financial year ended 31 December 2014:

1. A feasibility study was carried our prior to the roll out at a cost of €/£ 250,000.

2. The location of suitable sites for transmitters was identified by a consultant at a cost of €/£ 150,000. Following the successful identification of sites, several transmitters used on an earlier network were relocated and the costs of the relocation of this equipment amounted to €/£ 125,000.

3. An existing employee has been assigned to manage the installation on a full time basis and commenced his new role on 1 July 2014. The total cost of employing this engineer including taxes and pension costs amounts to €/£ 60,000 per annum. A contractor was brought in from 1 July 2014 to cover the duties formerly performed by the employee, at a cost of €/£ 40,000 for the 6-month period to 31 December 2014.

4. A number of staff attended training sessions following completion of the construction phase of the new network at a cost to the company of €/£ 300,000.

The following journals have been posted to date:

	€/£	**€/£**
Dr Feasibility study SPLOCI	250,000	
Cr Bank		250,000
Being cost of feasibility study		
	€/£	**€/£**
Dr Non-current assets	275,000	
Cr Bank		275,000
Being cost of identifying sites and moving equipment		
	€/£	**€/£**
Dr Wages SPLOCI	60,000	
Dr Subcontract costs SPLOCI	40,000	
Cr Bank		100,000
Being cost of employee and contractor		
	€/£	**€/£**
Dr Training costs SPLOCI	300,000	
Cr Bank		300,000
Being costs of training sessions		

(Question 3.2 continues on the next page)

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QUESTION 3.2 *(Cont'd)*

Requirement:

Show the adjustment required, if any, to reflect the correct accounting treatment of the above information in the financial statements of CONTACT for the year ended 31 December 2014. Use the space provided to display your workings.

Candidates should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

	Debit €/£	**Credit €/£**
SPLOCI		
Non-current asset		
Inventory		
Bank		

No adjustment required ☐

Workings: (Please note, these workings WILL be considered when marking)

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Workings: (Please note, these workings WILL be considered when marking)

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PLEASE TURN OVER FOR QUESTION 3.3

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QUESTION 3.3: DALLAS plc

Dallas plc ("DALLAS") is currently preparing financial statements for the year ended 31 December 2014. The following information has been used as the basis for preparation of the deferred tax position:

	31 Dec 2014 €/£ '000	31 Dec 2013 €/£ '000
Property (Net Book Value)	9,000	8,000
Plant and equipment (Net Book Value)	5,000	5,500
Inventory	4,000	4,500
Trade receivables	3,000	2,500
Trade payables	6,000	5,500
Cash	2,000	1,750

The value for tax purposes of the property is €/£ 6 million (2013: €/£ 7 million) and the value for tax purposes of the plant and equipment is €/£ 3 million (2013: €/£ 3.5 million). The property has not been revalued.

During the year ended 31 December 2014, the company made a general bad debt provision of €/£ 500,000 and this has been deducted from trade receivables leaving a net balance of €/£ 3 million. There was no comparable provision in previous years.

Assume taxation is paid at 30%.

To date, no entry has been made in the financial statements for deferred taxation and the closing balance from 31 December 2013 has been carried forward unchanged. The tax rate has not changed. No other temporary differences have been identified.

Requirement:

Show the adjustment, if any, required to reflect the accounting for deferred tax in the financial statements of DALLAS for the year ended 31 December 2014. Use the space provided to show any workings.

Students should note that where both debit and credit entries are required for one account, only one entry should be made. This entry should be the net amount of the individual entries: ie: if a journal required the bank to be debited by 100 and credited by 150, the correct net entry would be credit 50.

	Debit €/£ '000	Credit €/£ '000
SPLOCI Depreciation charge		
SPLOCI Tax charge		
SOFP Deferred tax		
SOFP Trade payables		

No adjustment required ☐

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Workings: (Please note, these workings WILL be considered when marking)

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