



ICM

PILOT PAPER

REGULATORY FRAMEWORK

Instructions to candidates:

- Time allowed: Three hours (plus an extra ten minutes' reading time at the start – do not write anything during this time)
 - Answer ALL questions
 - Marks for each question are shown in []
 - Non-programmable calculators are permitted in this examination
1. You work as the accountant of a company called TOA Ltd and have just taken out the trial balance as at 31 May 2016:

	£000	£000
Sales		125,000
Purchases	68,000	
Inventory (stock 01 06 15)	6,000	
Distribution costs	9,000	
Commissions paid to sales staff	2,000	
Administration expenses	4,000	
Manufacturing payroll costs	3,500	
Interest paid	500	
Administration payroll costs	5,000	
Debenture loan (5%)		20,000
Equity share capital		65,000
Retained earnings (01 06 15)		12,000
Accounts receivable	14,000	
Accounts payable		16,000
Cash	500	
Bank	4,500	
Land and buildings	100,000	
Accumulated depn. (L and B)		8,000
Equipment	40,000	
Accumulated depn. (equip)		10,000
Accruals		1,000
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	257,000	257,000
	=====	=====

Notes at 31 May 2016:

- Inventory was valued at £8,000,000
- Depreciation is to be provided for the year 31 May 2016 as follows:
Land and buildings 4% per annum straight line basis
Equipment 20% per annum reducing balance basis
- Depreciation is to be apportioned: cost of sales 50%; distribution costs 30%; administration expenses 20%.
- A bad debt of £2,000,000 is to be written off
- The directors wish to provide £2,800,000 for taxation
- A dividend of 10 pence per equity share has been agreed

TASKS

- Prepare the statement of profit or loss and other comprehensive income for the year ended 31 May 2016 – in accordance with IAS 1. [25]
- Prepare the statement of financial position as at 31 May 2016 – in accordance with IAS 1. [25]

continued overleaf

2. Explain why accounting standards were developed. [20]
3.
 - a) Define the term **inventories**. [10]
 - b) Explain the phrase '**inventories must be valued at the lower of cost or net realisable value**'. [10]
4. Discuss the contents of IAS 10 – events after the reporting period. [10]