CERTIFIED PUBLIC ACCOUNTANT

INTERMEDIATE LEVEL EXAMINATIONS

I1.2: FINANCIAL REPORTING

TUESDAY, 29 NOVEMBER 2022

MARKING GUIDE AND MODEL ANSWER

QUESTION ONE

Marking Guide

a) The difference between cash issue, right issue, and bonus issue		Marks
Cash Issue:	Well explained cash issue.	**2**
Right issue:	- Issued to the existing shareholders	**1**
	- Issued at a discount	**1**
Bonus issue:	- Issued to the existing owners.	**1**
	- Issued for no consideration i.e., no cash raised.	**1**
Sub-total		**6**

b) (i)	
A reasonable brief definition (or illustration/ explanation) of Basic EPS	1
A reasonable brief definition (or illustration / explanation) of Diluted EPS	1
Sub-total for Q1 (b) (i)	**2**
ii)	
Weighted average number of shares: Award up to 1 mark for each correct computed weighted average number of shares in year 2020 (0.5 marks for the first 6 months and 0.5 marks for the last 6 months)	1
Annual Basic EPS: Award as below: 1 mark for the correct computation of the Basic EPS for 2020 1 mark for the correct computation of the Basic EPS for 2019	2
Do Not Award: No mark is awarded for a narrative reference to the principles regarding the accounting standard having no lead to the relevant computation as required in this question as the requirement is only computational	
Sub-total	**3**
iii)	
Award 1 mark for the correct computation of the Basic EPS for 2021	1
Award 1 mark for a correct computation of the number of additional ordinary shares after conversion of the convertible loan notes:	1
Award 1 mark for the correct computation of the interest cost saving after tax:	**1**
Award 1 mark for the correct computation of the Diluted EPS	**1**
Award 1 mark for the correct computation of the Dilution (dilutive effect of the convertible loan notes)	**1**
Do Not Award: No mark is awarded for a narrative reference to the principles regarding the accounting standard having no lead to the relevant computation as required in this question as the requirement is only computational	
Sub-total	**5**

c)			
Award 0.5 for computing PV of interest for 4 years and for year 5 including principal. **Note**: If the student used annuity interest factor for computing liability of interest, he/she deserve the total marks			**2.5**
Total PV liability component			**0.5**
Equity Component (Balancing figure)			**1**
Do Not Award: No mark is awarded for a narrative reference to the principles regarding the accounting standard having no lead to the relevant computation as required in this question as the requirement is only computational			
Sub-total			**4**
Grand-Total for Q1			**20**

Model Answer

a) The difference between cash issue, right issue, and bonus issue

A cash issue represents a situation where cash or other resources are introduced into the business during the year as a result of issuing new shares i.e. shares are issued for cash or any other resources usually at the full market price of the share.

A right issue is a situation where ordinary shares are issued to the existing owners of the company (shareholders) at a price below the current market value of the shares, the difference between exercise price and market price of share is a discount.

A bonus issue a situation where ordinary shares are issued to the existing owners of the company (shareholders) for no consideration. In this case the number of shares will increase without a respective increase in cash (or resources).

b)

i) The difference between Basic Earnings Per Share and Diluted Earnings Per Share

Basic Earnings Per Share is a measure of net profit after tax earned as attributable to the ordinary shareholders for each ordinary share for any given company in a given period of time.

Diluted Earnings Per Share is a measure of net profit after tax earned as attributable to the ordinary shareholders for each ordinary share after considering any changes in the profit due to continuing operations and the change in ordinary shares after the effect of all dilutive potential ordinary shares.

ii) Basic Earnings Per Share for the year ending 2019 and 2020.

	2020	2019
	FRW	FRW
Considering the issue of shares on 30th June, which is mid-year, we need to calculate the weighted average number of shares:		
100,000 x 6/12	50,000	-
120,000 x 6/12	60,000	-
Shares:	110,000	100,000
Earnings:	100,000,000	90,000,000
EPS: Earnings/Shares	**909**	**900**

iii) Basic Earnings Per Share, Diluted Earnings Per Share, and Dilution for the year ending 2021.

		2021
		FRW
Before considering the convertible bond, the Basic EPS will be:		
Shares as of 31st December 2021		120,000
Profit after tax and preference dividend		110,000,000
Basic EPS		**917**
After considering the convertible bond, the diluted EPS will be:		
Number of additional ordinary shares due to the conversion of the convertible loan notes:	10,000,000*1/1000 =	**10,000**
Interest cost savings after tax due to the conversion of the convertible loan notes:	10,000,000*20% *70% =	**1,400,000**

New number of ordinary shares (inclusive of the converted ordinary shares)	120,000 + 10,000 =	130,000
New profit after tax (inclusive of the interest cost savings after the conversion of the loan notes)	110,000,000 + 1,400,000 =	111,400,000
Diluted EPS	111,400,000 / 130,000 =	**857**
Dilution (dilutive effect of the convertible loan notes)	917 – 857 =	**60**

c) Calculate the carrying amount of the liability and equity component of a convertible instrument:

Annual interest is computed as follows: 10,000*1,000*12% = 1,200,000

	Description	Cash flow	Interest factor	PV of liability
		FRW		**FRW**
Year 1	Interest	1,200,000	0.847	1,016,400
Year 2	Interest	1,200,000	0.718	861,600
Year 3	Interest	1,200,000	0.609	730,800
Year 4	Interest	1,200,000	0.516	619,200
Year 5	Interest and principal amount FRW 10m+FRW 1.2m	11,200,000	0.437	4,894,400
Total PV of Liability				**8,122,400**
Equity		**10,000,000-8,122,400**		**1,877,600**
Total proceed				**10,000,000**

QUESTION TWO

Marking Guide

QUESTION 2: Award marks as guided below

(i) Goodwill

Consideration transferred	1
NCI on acquisition	1
Share capital	0.5
Retained earnings-pre-acquisition	0.5
Fair value adjustment	1
Impairment	0.5
Goodwill balance on 31 Dec 2021	0.5
Sub-Total	**5**
***(ii)* Non-controlling interests**	
NCI at acquisition:	1
Award 0.5 mark for each correct figure excluding NCI at acquisition and exclude total	2
Sub-total	**3**
(iii) Retained earnings	
Award 0.5 for Retained Earnings for A, B, and C as per SOFP	1.5
Award 0.5 for pre-acquisition profit of company B and C	1
Award 1 mark for extra depreciation	1
Award one mark for goodwill impairment	1
Award 1 mark for unrealized profit	1
Award 1 mark for post-acquisition share in Company B shown on the column of group co	1
Award 1 mark for post-acquisition share in Company C shown on the column of group co	1
Award 0.5 mark for impairment loss from associate company i.e C	0.5
Sub-total	**8**

(iv) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

Assets	**Marks**
Land and Property	1
Equipment	0.5
Investment Property	0.5
Investment in associate	0.5
Goodwill	0.5

Inventories	0.5
Cash	0.5
Prepaid expense	0.5
Equity and Liability	0.5
Share capital	0.5
Retained earning	0.5
Non-controlling interest	0.5
Long-term Loan	0.5
Short term loan	0.5
Accrued expense	0.5
Sub-total	**8**

Workings relating to SOFP (award marks as below either in separate workings or where this is worked directly on the face of the consolidated statement of financial position):

W1 Group Structure	**Marks**
Acquired percentage in B	0.5
Acquired percentage in C	0.5
Sub-total	**1**

W2. Investment in associate	**Marks**
Post-acquisition share of retained earnings	1
Cost of investment	1
Impairment of investment	1
Sub-total	**3**

W3: Unrealized profit on stock	
DNA: Do Not Award marks on W3	
W4. Fair value adjustment on Property (Building of B)	
Extra-depreciation charge	1
Increase in Fair value (Balance after extra-depreciation)	1
Sub-Total	**2**
Grand-Total for Q2	**30**

Model Answers

	FRW Million	FRW Million
(i) Goodwill (acquisition of B)		
Consideration transferred (proceeds)		2,200,000
Non-controlling interest (250,000*FRW 1.65)		412,500
Total company's value		**2,612,500**
Net assets acquired as detailed below:		
Share capital	1,250,000	
Retained earnings at acquisition	800,000	
Fair value adjustment on Building (W7)	500,000	
		(2,550,000)
Goodwill at acquisition		**62,500**
Impairments to date Year-end value		(30,000)
Goodwill balance as at 31 December 2021		**32,500**

(ii) Non-controlling interests

	FRW Million
NCI at acquisition (W2)	412,500
Share of post-acquisition profit (2,300,000 - 800,000) * 80%	300,000
Extra depreciation on Fair value adjustment 500,000/20years*10*20%	(50,000)
Share of goodwill impairment 30,000*20%	(6,000)
Share of Unrealized profit 40,000*20%	(8,000)
Balance c/d	**648,500**

(iii) Retained earnings

	Company A FRW Million	Company B FRW Million	Company C FRW Million
Retained earnings per SFP:	1,500,000	2,300,000	400,000
Retained earnings at acquisition		(800,000)	(300,000)
Extra depreciation on Building in B (Fair value adjustment) 500,000/20years*10		(250,000)	-
Goodwill impairments		(30,000)	
"UP" Unrealized profit (W6)		(40,000)	-
		1,180,000	**100,000**

(iii) Retained earnings

	Company A FRW Million	Company B FRW Million	Company C FRW Million
Post-acquisition share in Company B: 80% *1,180,000	944,000		
Post-acquisition on company C: 30%*100,000	30,000		
Impairment on investment in Associate	(210,000)		
Balance c/d	**2,264,000**		

(iv) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 (in "FRW" millions)

Assets	**FRW Million**
Non-current assets	
Land and Property 2,200,000 + 1,000,000 + 250,000 (W4)	3,450,000
Equipment (500,000 + 100,000)	600,000
Investment in associate (W2)	820,000
Investment Property (308,000 + 300,000)	608,000
Goodwill (i)	32,500
	5,510,500
Current assets	
Inventories 222,000 + 1,000,000 – 40,000 (W3)	1,182,000
Prepaid Expenses (50,000 + 1,600,000)	1,650,000
Cash (50,000 + 100,000)	150,000
	2,982,000
Total Assets	**8,492,500**
Equity and liabilities	
Equity	
Ordinary share capital	3,000,000
Retained earnings (iii)	2,264,000
Total owners' equity	**5,264,000**
Non-controlling interests (ii)	648,500
	5,912,500
Non-current liabilities	
Long-term loan (800,000 + 200,000)	**1,000,000**
Current liabilities	
Short-term loan (470,000 + 250,000)	720,000

Assets	FRW Million
Accrued expenses (760,000 + 100,000)	860,000
Total Current liability	**1,580,000**
Total liabilities	**2,580,000**
Total equity and liabilities	**8,492,500**

Workings (all in "FRW" millions)

1. Group Structure

Acquired Shares in B		1,000,000
Total share issued by B	FRW 1,250,000/FRW 1	1,250,000
Acquired percentage (1,000,000/1,250,000*100%)		**80%**
Retained Earnings at Acquisition		800,000
Acquired Shares in C		300,000
Total shares issued by C	FRW 1,000,000/FRW 1	1,000,000
Acquired percentage (300,000/1,000,000 x 100%)		**30%**
Retained Earnings at Acquisition		300,000

2. Investment in associate

Cost of associate	1,000,000
Post-acquisition share of retained earnings (FRW 400,000-300,000) * 30%	30,000
Impairment on investment in associate	(210,000)
	820,000

3. Unrealised Profit

Sales from B to A:

20%*1,000,000*25/125 = **40,000**

4. Fair value on Property

	Cost as at 1 Jan 2012	Depreciation (10 years) i.e from 1 Jan 2012 to 31 Dec 2021	NBV as at 31 Dec 2021
Buildings	500,000	250,000	250,000
	500,000	**250,000**	**250,000**

QUESTION THREE

Marking Guide

a) IFRS 8 Operating segments: Award marks as below:

	Marks
(i) Operating segment well defined:	2
(ii) Award 1 mark for each criterion based on to identify reportable segment and 1 mark for other valid comment	4
Sub-total	**6**

b) IFRS 16 Leases

Award marks as below:

Correct calculation of the present value of lease payments	1
Correct calculation of the right of Use asset at the beginning of the period	1
Lease Liability balances for the 5 years: (0.5 for each year – max of 2 marks)	2
Right of use asset balances for the 5 years: (0.5 for each year – max of 2 marks)	2
Sub-total	**6**

c) IAS 38: Capitalisation of the development expenditure (intangible asset)

Criteria to capitalize development expenditure (intangible asset)

- Technical feasibility.	1
- Intention of management to complete the development.	1
- The ability to sell or use the asset after its completion.	1
- There must be future economic benefit expected to the company.	1
- There must be technical and financial resources to complete the asset.	1
- Ability to measure the cost reliably.	1
Sub-total	**6**

d) IAS 37:

Award marks as below:

(i) Conditions for recognition of a provision:	**Marks**
- a present obligation (legal or constructive).	0.5
- A reliable estimate of the amount to be settled.	0.5
- Probable (Above 50% chance) that economic resources of the entity will be used to settle the obligation.	1
Sub-total	**2**

(ii) Differentiation between a contingent liability and a contingent asset

Contingent Liability:

- Definition of a contingent liability	1

-Contingent Assets	1
Sub-total	**2**
(iii) Expected disposal of assets per IAS 37	
Award 1 mark for well stated effect of gain on measurement of provision	1
Award 1 mark if explaining that gains on disposal will be treated per related standard of that assets being disposed	1
Sub-total	**2**
e) IAS 36: Impairment loss for a cash-generating unit	
Award marks as below:	
Award 1 mark for computed impairment loss and its working	2
- First, a loss of FRW 30,000,000 will be allocated to goodwill	1
- Secondly, a loss of FRW 70,000,000 will be allocated to the building wholly destroyed.	1
- Allocation of the balance (FRW 59,500,000) of impairment loss to the remaining assets	1
- Identification of the allocation method i.e., pro rata basis	1
Sub-total	**6**
Grand-total	**30**

Model Answer

a) IFRS 8-Operating segment explained below:

(i) Operating segment:

- A reporting segment is a component of an entity that actively engages in business activities from which it may generate revenue and incur expenses.
- Whose operating results are regularly reviewed by the entities by the Chief Operating Decision Maker (CODM), Christine, who is also in copy as requested, and who oversees allocation of resources to each operating segment.
- The segment must always have discrete financial information available.

(ii) Criteria based on to identify reportable segments:

An entity shall report separately information about an operating segment that meets any of the following quantitative thresholds:

a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments
b) The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss.
c) Its assets are 10 per cent or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to users of the financial statements.

For Smart Dealer Ltd, each of the three (3) operating segments produces 15% of the company's revenue which is enough to recognize each as reportable segment.

Listed Entities:

- IFRS 8 specifies that listed entities or those in the process of filling financial statement publicly must comply with full disclosure of segmental information as per the standard.
- Smart Dealer Ltd is listed company which is another reason why disclosure per IFRS 8 is compulsory.

b) IFRS 16: Lease accounting	**FRW**
Present Value of lease payments as of 1 Jan 2021 (10,000,000*3.037)	30,370,000
Right of Use asset as of 1st Jan 2021:	
PV of Lease payments:	30,370,000
Plus: Initial lease payment on lease commencement	10,000,000
Plus: Processing legal fees	2,000,000
Right of Use	**42,370,000**

Lease Liability:	**2021**	**2022**	**2023**	**2024**	**2025**
1st January	30,370,000	34,014,400	26,896,128	18,923,663	9,994,503
Less: Lease rental payments	0	10,000,000	10,000,000	10,000,000	10,000,000
	30,370,000	**24,014,400**	**16,896,128**	**8,923,663**	

Add: Interest at 12%	3,644,400	2,881,728	2,027,535	1,070,840	
31st December	**34,014,400**	**26,896,128**	**18,923,663**	**9,994,503**	

Right of Use Asset	**2021**	**2022**	**2023**	**2024**	**2025**
1 January	42,370,000	33,896,000	25,422,000	16,948,000	8,474,000
Less: Annual depreciation charge (divide by 5 years)	8,474,000	8,474,000	8,474,000	8,474,000	8,474,000
31 December	**33,896,000**	**25,422,000**	**16,948,000**	**8,474,000**	**0**

c) IAS 38: Intangible assets

IAS 38 requires that the following criteria to be met before development costs can be capitalized and recognized as intangible assets effective 1 January 2020 (10 years after 1 January 2010):

- There must be a technical feasibility for Company Y to complete the asset, and that the asset will be available for use.
- Company Y must have the intention to complete the development of the asset.
- Company Y must have the ability to sell or use the asset after its completion.
- There must be future economic benefits expected by Company Y from the use or sell of the asset.
- Company Y must have the technical and financial resources to complete the asset.
- Company Y must be able to measure the cost attributable to the assets reliably.

d) IAS 37: Provisions Contingent Liabilities and Contingent Assets

(i) Recognition criteria for provision under IAS 37

Under IAS 37, a provision should be recognized when all the following criteria are met:

- An entity must have a present obligation (legal or constructive).
- It should be probable that economic resources of the entity will be used to settle the obligation. Means that probability to settle debt is 50% or more.
- There must be a reliable estimate of the amount to be settled.

(ii) Difference between a contingent liability and a contingent asset

Contingent liability: Is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognised because:

- ✓ It is not probable that an outflow of resources embodying economic benefits will be required
- ✓ The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

(iii) Advise on whether to consider expected disposal of assets while measuring provisions

IAS 37 state that Gains from the expected disposal of assets shall not be taken into account in measuring a provision

Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision.

Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard dealing with the assets concerned.

e) IAS 36

The impairment loss of FRW 159,500,000 (230,000,000-70,500,000) will be expensed in profit or loss account for the year ended 31 December 2021.

In the Statement of Financial Position, impairment loss will be allocated as follows:

- First, a loss of FRW 30,000,000 will be allocated to goodwill
- Secondly, a loss of FRW 70,000,000 will be allocated to the building wholly destroyed.
- The remaining balance of FRW 59,500,000 i.e FRW 159.5 million – FRW30 million- FRW70 million) will be allocated to remaining assets on pro-rata basis. The remaining assets will be recorded in the statement of financial position at their recoverable amount of FRW 70,500,000.

SECTION B

QUESTION FOUR

Marking Guide

QUESTION 4:

	Marks
Award 05 mark per each correct computed variance and 0.5 mark for performance in percentage (%) including subtotals	10
Award 1 mark for each correct line shown in the statement of revenue and expenditure excluding totals	9
Award 1 mark for well obtained deficit for the year	1
Grand-Total	20

MODEL ANSWER

(a)BUDGET PERFORMANCE REPORT OF MHC FOR THE YEAR ENDED 30 JUNE 2021

	Approved Budget	**Actual Amount**	**Variance**	**Performance**
	FRW	**FRW**	**FRW**	**%**
Revenue	5,000,000	4,600,000	(400,000)	92%
Grants	10,000,000	10,000,000	0	100%
Other Income	2,500,000	2,300,000	(200,000)	92%
Total receipts	**17,500,000**	**16,900,000**	**(600,000)**	**97%**
Expenditure				
Capital Expenditure	3,700,000	4,300,000	600,000	116%
Salaries and wages	2,200,000	2,400,000	200,000	109%
Revenue Expenditure	5,700,000	5,200,000	(500,000)	91%
Office Supplies	1,250,000	1,700,000	450,000	136%
RSSB contributions	2,900,000	2,800,000	(100,000)	97%
Other expenses	1,750,000	1,500,000	(250,000)	86%
Total expenditure	**17,500,000**	**17,900,000**	**400,000**	**102%**

(b) Statement of revenue and expenditure for the year ended 30 June 2021

	Dr	Cr
	FRW	**FRW**
Revenue		4,600,000
Grants		10,000,000
Other Income		2,300,000
Total revenue		**16,900,000**
Expense		
RSSB contributions	(2,800,000)	
Capital Expenditure	(4,300,000)	
Salaries and wages	(2,400,000)	
Revenue Expenditure	(5,200,000)	
Office Supplies	(1,700,000)	
Other expenses	(1,500,000)	
Total expense		**(17,900,000)**
Deficit for the year		**(1,000,000)**

QUESTION FIVE

Marking Guide

a) Distinction between branch accounts VS department accounts	**Marks**
Award 1 mark for each explained distinction between branch account and departmental accounts (maximum of 4 marks in total)	**4**
Note: The answer may be in a tabular format (similar to the model answer) or developed as separated points for the branch accounts A mark should consider valid point develop by students not necessary meaning that those points tie with model answers	
b) Types of Branches	
Award up to 1 mark for each well-explained branch type Split marks as below	
-Dependent Branches identification	0.5
- Definition of Dependent Branches	0.5
- Independent Branches identification	0.5
- Definition of Independent Branches	0.5
- Foreign Branches identification	0.5
- Definition of Foreign Branches	0.5
Sub-total	**3**

c) (i) Branch debtors Account	
Award 0.5 for each figure posted correctly including any totals to the maximum of 4 marks.	**4**

(ii) Branch profit or loss account
Award 0.5 for each figure posted correctly including any totals to the maximum of 9 marks
DNA: In (c), no marks are awarded for the layout / format of the answers and/or the narrative provided within the lines making the answers
Grand-Total

Model Answer

(a) Branch account vs Department account

	Branch account	**Department account**
Maintenance of accounts	Here the maintenance can either be at head office or at the branch	Here the maintenance is at one place depending on the location of that department.
Allocation of overheads	Here there no concern on how overheads are allocated among branches since each branch can be separately identified.	Here there is a concern on how overheads are allocated among departments. And the basis for overheads is approved by management
Translation of foreign currency.	Here at the end of the reporting period, the foreign currency balances from foreign branch are translated.	There are no foreign currency balances in the department accounts that will necessitate translation.
Reconciliation	There must be a reconciliation between head office and branches to identify cash in transit and goods in transit.	Since the department accounts are developed from the organisation accounts of which with head office being part of, there is no need to reconcile the department accounts to that of head office accounts

Purpose	Branch accounts are prepared to know the performance of branch	Departmental accounts are aimed to know the income earned and expense incurred by each department

(b) Types of Branches

Dependent Branches	These branches have accounting records which are maintained at the head-office. The branches on their own don't maintain their own accounting records.
Independent Branches	Unlike dependent branches, independent branches maintain their own books of accounts and a reconciliation with the branch accounts kept at the head-office is done at the end of each reporting period.
Foreign Branches	Foreign branches can either be dependent or independent. There are branches which operate or are based in different country other than the country in which the head office is located. The operation of foreign branch is carried out in foreign currency such that the foreign accounts must be translated into local currency for it to be combined with accounts of the head office

(c) (i)

Branch debtors Account

	FRW'000		FRW'000
Bal b/d	400,000	Returns from branch debtors (at selling price)	300,000
Credit sales	7,000,000	Cash received from branch debtors	6,300,000
		Discount allowed to debtors	120,000
		Bad debts written off	75,000
		Bal c/d (balancing figure)	605,000
	7,400,000		**7,400,000**

(ii) Branch profit or loss account		
	FRW'000	**FRW'000**
Sales – Cash sales		2,500,000
Sales – Credit sales		7,000,000
Less: Return inwards (from debtors)		(300,000)
Total sales		**9,200,000**
Less: cost of sales		
Opening stock (Branch inventory at cost)	550,000	
Add: Goods sent by head-office to branch	6,000,000	
Less: Goods returned by branch to head office	(150,000)	
Goods available for sale	**6,400,000**	
Less: Goods stolen at branch at cost	(50,000)	
Less: Closing Stock (Branch inventory at cost)	(700,000)	
Less: cost of sales		**(5,650,000)**
Gross Profit		**3,550,000**
Less: Other expenses		
Cash sales stolen at branch (included in other sales)	35,000	
Good stolen at branch at cost	50,000	
Bad debts written off	75,000	
Discount allowed to debtors	120,000	
Expenses of branch paid by head office.	780,000	
Less: Other expenses		**(1,060,000)**
Branch profit		**2,490,000**

END OF MARKING GUIDE AND MODEL ANSWERS