UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

BA (HONS) ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2019/20

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Monday 13 January 2020 **Time: 10.00 - 1.00**

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; Answer ALL THREE questions from section A and ONE question from section B:

This is a closed book examination.

You must hand in this exam paper with your answer booklet.

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Section A answer ALL 3 questions

Question 1

You are the financial accountant working at Pento Ltd a company that produces technological equipment for the aircraft industry. The financial year to 31 December 2019 has just ended and your assistant has prepared the financial statements for Pento Ltd and also another company (Anton Ltd) that Pento Ltd purchased on 1 July 2019. The financial statements for the year ended 31 December 2019 for both companies are detailed below:

Statement of comprehensive income for the year ended 31 December 2019	Pento Ltd £000's	Anton Ltd £000's
Revenue	85,000	42,000
Cost of sales	(63,000)	(32,000)
Gross profit	22,000	10,000
Selling and distribution costs	(2,000)	(2,000)
Administration expenses	(6,000)	(3,200)
Finance costs	(300)	(400)
Profit before taxation	13,700	4,400
Taxation	(4,700)	(1,400)
Profit for the year	9,000	3,000

Question 1 continues over the page

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Question 1 continued

Statements of financial position as at 31 December 2019	Pento Ltd £000's	Anton Ltd £000's
Non-current assets		
Property plant and equipment	40,600	12,600
Current assets		
Inventory	7,000	1,600
Trade receivables	8,000	2,000
Cash	1,000	3,000
	16,000	6,600
Total Assets	**56,600**	**19,200**
Equity and liabilities		
Ordinary shares (£1 par value each)	10,000	4,000
Retained earnings	35,400	6,500
	45,400	10,500
Non-current liabilities		
10% loan notes	3,000	4,000
Current liabilities		
Trade payables	3,200	1,700
Accruals	2,000	1,500
Taxation payable	3,000	1,500
	8,200	4,700
Total Equity and liabilities	**56,600**	**19,200**

Question 1 continues over the page

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Question 1 continued

Additional information:

- **i)** Pento acquired 60% of Anton Ltd in a share for share exchange, at the date of acquisition the shares of Anton had a market value of £6 each. This acquisition has not been reflected in the draft financial statements of Pento Ltd.
- **ii)** At the date of acquisition the fair value of an item of plant held by Anton was £2million in excess of its carrying value, Anton Ltd has an accounting policy whereby plant is depreciated over 5 years on a straight line basis.
- **iii)** Sales from Anton Ltd to Pento Ltd during the period 1 July to 31 December 2019 amounted to £8 million which includes a mark-up of 40%, of these sales Pento Ltd sold £5.2million to third party customers.
- **iv)** Included within the trade receivables of Anton Ltd was an amount of £600,000 due from Pento Ltd. However Pento Ltd has a trade receivable with Anton Ltd of £400,000. The difference relates to a payment that Pento Ltd sent to Anton Ltd on 28 December 2019, due to the Christmas postal delays this was not received by Anton Ltd until 8th January 2020.
- **v)** The fair value of the Non-controlling interests at the date of acquisition amounted to £5.9 million.
- **vi)** At the reporting period end date, the directors conducted an impairment review and made the decision that goodwill is not impaired.

Required:

Prepare the consolidated statement of financial position **and** statement of comprehensive income for the 31 December 2019 financial year end.

Clearly show all workings.

(30 Marks)

End of question1

Questions continue over the page

Question 2

Part a

As a new first-class graduate from the University of Bolton you were quickly head hunted for the position of financial accountant at a blue-chip public limited company that manufactures equipment for the military. Your appointment coincides with the preparation of the year ended 31 December 2019 financial statements. The finance director is aware that accounting standards have changed since he studied and is relying for your help in relation to two transactions that occurred during the past two financial years.

On 1 January 2018 the company entered into a non-cancellable agreement whereby some state-of-the-art production equipment was leased. The lease documentation has been provided to you and after reading it you have arrived at the conclusion that this is a finance lease. The company has leased the asset for a period of 6 years and 2 months, the company will depreciate this asset over 6 years which is a similar life of the companies existing production equipment, the accounting policy for such equipment is on the straight-line basis. The value of the asset upon commencement of the lease was £61,570. The company pays quarterly amounts of £3,000 on 1 January 2018 and every quarter thereafter for 26 payments, the interest rate implicit in the lease is 2%.

Required:

Prepare a lease table for each year of the lease over the full life of the asset, prepare the extracts from the Statement of comprehensive income and the statement of financial position for the year ended 31 December 2019. **(20 Marks)**

Part b

On 1 July 2019 the company also leased another asset under a non-cancellable lease for a period of 10 years. The company is to pay £6,000 half yearly in advance for the use of this asset. After reading the terms of the lease you have arrived at the decision that this is to be treated as an operating lease.

Required:

Prepare a brief report for the finance director that suggests the accounting treatment and disclosures for the lease (your report should include the amounts that should appear in the financial statements and an example of the disclosures). **(5 Marks)**

(Total 25 Marks)

End of question 2

Questions continue over the page – Please turn the page

Question 3

Gordongofer Plc manufactures plastic coloured pellets in the use of plastic extrusion for a range of electronic lawnmowers. In 2015 the company purchased a piece of production equipment for £256,000 that has a useful economic life of 5 years, your review of the accounting policies has highlighted that the company depreciates its equipment on the straight line basis. The new equipment will be eligible for capital allowances for tax purposes for the years ended 31 December as follows:

2015 - £102,400
2016 - £ 38,400
2017 - £ 28,800
2018 - £ 21,600
2019 - £ 16,200

Gordengofer Plc has consistently reported pre-tax profits after charging depreciation of £500,000 for each year from 2015 to date. The tax rate is 20%.

Required
Prepare a deferred taxation schedule computing the deferred tax provision and the movement in the deferred tax asset/provision for each of the 5 years to 2019. In addition prepare the extracts from the income statement from the profit before tax, the tax expense (including movements to/from the deferred tax asset/provision) to the profit after taxation.

(25 Marks)

End of Question 3

End of Section A

Questions Continue Over The Page

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Section B Answer <u>ONE</u> question <u>ONLY</u> from this section

Question 4

a) Suggest how IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines contingent assets and contingent liabilities? **(5 marks)**

(b) Outline the information that should be disclosed in financial statements with regard to contingencies? **(6 marks)**

(c) Suggest, with reasons, how you would account for the following items:

(i) The directors of a company have discovered a painting in a cupboard and have sent it to an auction house, which has confirmed that it should sell for £1 million in the following month's auction.

(3 marks)

(ii) A claim has been made against a company for injury suffered by a pedestrian in connection with building work by the company. Legal advisers have confirmed that the company will probably have to pay damages of £200,000 but that a counter claim made against the building sub-contractors for £100,000 would probably be successful.

(3 marks)

(iii) The manufacturer of a snooker table has received a letter from a professional snooker player who was defeated in the final of a major snooker competition, threatening to sue the manufacturer for £1 million, being his estimate of his loss of earnings through failing to win the competition, on the grounds that the table was not level.

(3 marks)

(Total 20 marks)

End of question 4
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Question 5

Extracts from the statement of financial position of Radar as at 1 April 2018 are:	£000	£000
Ordinary shares of 25 pence each		4,000
8% Irredeemable preference shares		1,000
Reserves:		
Share premium	700	
Capital reserve	1,300	
Revaluation reserve	90	
Retained earnings	750	
		2,840
		7,840
10% Convertible loan notes		2,000

Note: the above are extracts from the **opening** statement of financial position for the current reporting year.

The following draft statement of profit or loss has been prepared for the year to 31 March 2019, prior to the declaration of the final ordinary dividend for the year:

	£000	£000
Profit before interest and tax		1,800
Loan interest		(200)
Profit before tax		1,600
Taxation		
− provision for 2019	300	
− deferred tax	390	
		(690)
		910
Dividends declared in the year – Ordinary	320	
– Preference	80	
		400

Question 5 continues over the page

Question 5 continued

The following information is relevant:

(i) A bonus issue of one new share for every eight ordinary shares held was made on 7 September 2018.

(ii) A fully subscribed rights issue of one new share for every five ordinary shares held at a price of 50 pence each was made on 1 January 2019. Immediately prior to the issue the market price of Radar's ordinary shares was £1.40 each.

(iii) The terms of conversion of the 10% loan notes are:

Year	*Loan notes*	*Ordinary shares*
2021 to 2022	£100	100
2024	£100	120

Income tax is to be taken as 33%.

(iv) The profit before interest and taxation includes stage profits of £150,000 relating to construction contracts that have been calculated in accordance with IFRS15 Revenue recognition.

(v) The statement of financial position includes an asset of deferred development expenditure of £114,000. The directors are confident that the development project will be a success.

(vi) Plant and equipment was revalued on 1 April 2016 giving a surplus of £150,000. At that time it had a remaining life of five years. It is being depreciated, based on its revalued amount, on a straight-line basis. The excess depreciations for the years to 31 March 2017 and 2018 have been transferred from the revaluation reserve to retained earnings.

(vii) The earnings per share (EPS) was correctly reported in last year's accounts at 8 pence.

Required:

(a) Calculate the earnings per share (EPS) for Radar for the year ended 31 March 2019:

(i) on a basic basis (including the comparative figure)

(ii) on a diluted basis (ignore the comparative figure)

and state which figures need to be disclosed in the financial statements (ignore comparatives). (14 marks)

(b) Explain why it is useful to disclose the EPS calculated on a diluted basis in addition to the basic basis. (6 marks)

(Total: 20 marks)

End of questions

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