

UNIVERSITY OF BOLTON

BOLTON BUSINESS SCHOOL

**BA (HONS) ACCOUNTANCY PATHWAY BY
DISTANCE LEARNING**

VIETNAM - INTAKE 1/2

SEMESTER 2 EXAMINATIONS 2008/2009

**FINANCIAL REPORTING AND THE REGULATORY
FRAMEWORK**

MODULE NO: ACC3003DL

Date: Tuesday 26th May 2009

Time: 3 hours

INSTRUCTIONS TO CANDIDATES:

There are **FIVE** questions on this paper.

Answer **FOUR** questions.

Section A question is **COMPULSORY**.

Section B - answer **ANY THREE** questions.

Bolton Business School
 BA (Hons) Accountancy Pathway by Distance Learning
 Vietnam – Intake 1/2
 Semester 2 Examinations 2008/2009
 Financial Reporting and the Regulatory Framework
 Module No. ACC3003DL

Section A – Compulsory Question

Q1

The information below relates to two companies, Blackpool plc, and Rhyl plc, for the year 2005.

Blackpool plc acquired 15 million ordinary shares of Rhyl plc on 1st January 2005 for an agreed price of £27 million. The purchase consideration was in the form of a share exchange consisting of three new shares in Blackpool plc for every two shares held in Rhyl plc.

This transaction has not yet been entered in the books of Blackpool plc.

Balance sheets for Blackpool plc and Rhyl plc as at 31st Dec 2008

	Blackpool plc £000	Rhyl plc £000
Non-current Assets	<u>73,600</u>	<u>19,400</u>
Current assets:		
Inventories	18,500	12,400
Trade receivables	16,300	7,400
Cash and Bank	<u>7,400</u>	<u>1,800</u>
	<u>42,200</u>	<u>21,600</u>
Current liabilities:		
Trade payables	27,850	11,200
Taxation	<u>8,760</u>	<u>3,400</u>
	<u>(36,610)</u>	<u>(14,600)</u>
Net current assets	<u>5,590</u>	<u>7,000</u>
Net assets	<u>79,190</u>	<u>26,400</u>
Equity and reserves		
Ordinary shares of £1 each	50,000	20,000
Share Premium	10,000	---
Retained profit:		
At 31st December 2007	14,300	2,400
For year to 31 December 2008	<u>4,890</u>	<u>4,000</u>
	<u>79,190</u>	<u>26,400</u>

**Question 1 continued over
PLEASE TURN THE PAGE...**

Bolton Business School
BA (Hons) Accountancy Pathway by Distance Learning
Vietnam – Intake 1/2
Semester 2 Examinations 2008/2009
Financial Reporting and the Regulatory Framework
Module No. ACC3003DL

Question 1 continued

Additional information:

1. The fixed assets of Rhyl plc are stated at cost less relevant depreciation, and include property shown at book value of £800,000 but which were considered to have a market value of £1,200,000 at the date of acquisition. All other fixed assets are considered to be stated at 'fair value' at the date on which the investment was made.
2. At the balance sheet date Rhyl plc owed Blackpool plc £800,000. This amount is included in the respective figures for trade receivables and trade payables in the above balance sheets.
3. At the date of acquisition, Blackpool plc sold some goods to Rhyl plc for £1,800,000 (mark-up of 25%). All of these goods were still in the stock of Rhyl plc at the year end and are included in Rhyl plc's stock figure.

Required:

- (a) Prepare the consolidated balance sheet of Blackpool and Rhyl as at 31st December 2008. **(20 marks)**
- (b) Discuss and critically evaluate how parent companies should report investments in 'associate' companies? **(5 marks)**

TOTAL 25 MARKS

PLEASE TURN THE PAGE...

Bolton Business School
 BA (Hons) Accountancy Pathway by Distance Learning
 Vietnam – Intake 1/2
 Semester 2 Examinations 2008/2009
 Financial Reporting and the Regulatory Framework
 Module No. ACC3003DL

SECTION B – answer ANY THREE questions

Q2

The following draft trial balance has been extracted from the books of Bangor plc, on 31st December 2008.

Trial balance as at 31st December 2008

	<u>£m</u>	<u>£m</u>
Non-current assets (at cost)	108.0	
Asset depreciation (at 31.12.08)		4.0
Bank/cash	8.4	
Interest	4.0	
Administrative expenses	26.0	
Distribution expenses	15.2	
Cost of sales	47.0	
Revenue		104.0
Inventories (at 31.12.08)	6.0	
Trade receivables	19.4	
Trade payables		8.0
Equity (£1 Ordinary shares)		80.0
Goodwill	16.0	
10% Debentures		40.0
Government grant		6.0
Retained profit (1.1.08)		<u>8.0</u>
	<u>250.0</u>	<u>250.0</u>

You also have the following information:

1. In December 2008 a customer took out an action against the company for damages amounting to £1.5m. Company lawyers consider that it is extremely likely that the customer will succeed with the action.
2. The government grant was received at the start of the year and relates to a new process being developed over the next three years.
3. The figure for non-current assets (at cost) includes £2m for Freehold Premises.
 No depreciation has been charged on these to date.
 The premises have recently been revalued at £10.0m and the directors wish to show this valuation in the accounts. The premises have an estimated useful life of 50 years.
4. In January 2009 the company raised £20m with the issue 20m Debentures.
5. The estimated tax liability for the year is £3m.

**Question 2 continued over
 PLEASE TURN THE PAGE...**

Bolton Business School
BA (Hons) Accountancy Pathway by Distance Learning
Vietnam – Intake 1/2
Semester 2 Examinations 2008/2009
Financial Reporting and the Regulatory Framework
Module No. ACC3003DL

Question 2 continued

Required:

- (a) Discuss and critically evaluate how each of the items 1 – 4 above should be treated in accordance with relevant international accounting standards. **(12 marks)**
- (b) Prepare the income statement for the year and a balance sheet at the year end. **(13 marks)**

TOTAL 25 MARKS

Q3

(A) Rhyl plc is a company manufacturing a range of high quality metal models of local landmarks. One of these is a model of Blackpool Tower.

The present production line employs assets which had a book value (carrying amount) at the end of the year 2008 of £280,000 and which have an estimated scrap value of £12,000 at the end of 2011.

Each model currently sells for £20 and the cost per model is £8.

However, towards the end of the year 2006, the price of one of the essential production materials increased due to a shortage in supply, which is expected to continue for the foreseeable future. The revised cost per model increased to £18 per unit.

As a result of this, the selling price per model had to be raised to £25, which had a big impact on the budgeted sales.

There was an indication, therefore, at the end of 2008, that the net assets employed to produce this model may have been impaired.

The financial manager estimated that the net realisable value of these net assets at the 31st December 2008 would now only be £220,000.

A calculation of the value in use of these assets resulted in a valuation of £264,000.

Required:

- (a) Explain what is meant by 'impairment' of assets. **(4 marks)**
- (b) Discuss and evaluate how the above situation should be dealt with in accordance with the requirements of the relevant international accounting standard? **(8 marks)**

**Question 3 continued over
PLEASE TURN THE PAGE...**

Bolton Business School
 BA (Hons) Accountancy Pathway by Distance Learning
 Vietnam – Intake 1/2
 Semester 2 Examinations 2008/2009
 Financial Reporting and the Regulatory Framework
 Module No. ACC3003DL

Question 3 continued

- (B)** Below is the summarised balance sheet of a company at 31st December 2008.

Balance sheet extract

	<u>£m</u>
Net assets	<u>440</u>
Ordinary shares (£1 each)	200
Redeemable Ord. Shares (£1)	50
Share premium account	40
Retained profit	<u>150</u>
	<u>440</u>

The redeemable shares are due to be redeemed in the near future.

Required:

- (a)** Discuss and evaluate the options open to the company in order to maintain the capital when the shares are redeemed.
(4 marks)
- (b)** Revise the above balance sheet to take account of the following situation.
 The shares were initially issued at par and are to be redeemed at £1.40 per share.
 To help finance the redemption, a new issue of 25m shares is to be made at a premium of 30p per share.
(9 marks)

TOTAL 25 MARKS

PLEASE TURN THE PAGE...

Bolton Business School
BA (Hons) Accountancy Pathway by Distance Learning
Vietnam – Intake 1/2
Semester 2 Examinations 2008/2009
Financial Reporting and the Regulatory Framework
Module No. ACC3003DL

Q4

(A)

IAS 17 'Leases' requires different accounting treatment in the books of the lessee for 'operating' leases and 'finance' leases.

Required:

Discuss the difference between the two types of lease and critically assess the reasons for their different treatment.

(10 marks)

(B)

The directors of Sanspariel plc have decided to lease a computer system for sales ledger control purposes, from 1st January 2006 until Dec 31st 2009.

At the end of this period it is assumed that the system will have no value and will need replacing.

The cost to purchase the system would be £76,000.

The lease terms are four equal annual instalments of £25,000 payable on the 1st January each year.

The first lease payment will be made on 1st January 2006.

Required:

(a) Explain how this lease should be treated in accordance with the requirements of IAS 17

(b) Show the relevant extracts from the financial statements of Sanspariel plc for the year ended 31st December 2006.

(15 marks)

TOTAL 25 MARKS

PLEASE TURN THE PAGE...

Bolton Business School
BA (Hons) Accountancy Pathway by Distance Learning
Vietnam – Intake 1/2
Semester 2 Examinations 2008/2009
Financial Reporting and the Regulatory Framework
Module No. ACC3003DL

Q5

(A)

Amadis Contractors Ltd commenced work on building a new telephone exchange in August 2007. The work is expected to be completed by May 2009.

The company's year-end is 30th June.

Details relating to work on the contract so far are given below:

Costs incurred up to 30 th June 2008	£1,648,000
Estimated further costs to end of contract	£1,860,000
Contract price	£3,800,000
Progress payments received from customer	£1,400,000

The work was inspected towards the end of June 2008 and certified to be 40% complete. The customer was invoiced for £1,800,000 at the end of May 2008.

Required:

- a) Discuss and critically evaluate how Amadis should account for this contract for the year to 30th June 2008 in accordance with the relevant international accounting standard.
(5 marks)
- b) Show the relevant extracts from the income statement and balance sheet for the year.
(9 marks)
- c) Discuss what difference there would be if the contract had commenced in January 2007.
(4 marks)

(B)

Required:

Discuss and critically evaluate the treatment of deferred taxation in year-end financial statements.

(7 marks)

TOTAL 25 MARKS

END OF QUESTIONS