

UNIVERSITY OF BOLTON

BUSINESS & CREATIVE TECHNOLOGIES

**ACCOUNTANCY PATHWAY BY DISTANCE
LEARNING**

MALAYSIA – I-SYSTEMS (INTAKE 4)

SEMESTER ONE EXAMINATION 2009/2010

**FINANCIAL REPORTING AND THE REGULATORY
FRAMEWORK**

MODULE NO: ACC3003

Date: Sunday 13th December 2009

Time: 3 Hours

INSTRUCTIONS TO CANDIDATES:

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

Section A – Question 1 is compulsory

Section B – Answer only 3 questions

Answer **FOUR** questions in total.

All questions carry equal

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Section A Compulsory question

Q1 (a)

The following information relates to two companies, Salmon plc and Trout Ltd.

Balance sheets as at 30th December 2008:

	<u>Salmon plc</u>	<u>Trout Ltd</u>
	<u>\$000</u>	<u>\$000</u>
Non-current Assets:		
Tangible fixed assets	35,500	7,500
Investments	<u>6,400</u>	<u>-----</u>
	<u>41,900</u>	<u>7,500</u>
Current assets:		
Inventories	7,800	5,100
Trade receivables	5,812	5,200
Bank	<u>120</u>	<u>40</u>
	<u>13,732</u>	<u>10,340</u>
Current liabilities	<u>(11,500)</u>	<u>(8,240)</u>
Net current assets	<u>2,232</u>	<u>2,100</u>
Total assets less current liabilities	44,132	9,600
Non-current liabilities	<u>(16,000)</u>	<u>(2,000)</u>
	<u>28,132</u>	<u>7,600</u>
Equity and reserves:		
\$1 Ordinary shares	22,000	4,000
Reserves	<u>6,132</u>	<u>3,600</u>
	<u>28,132</u>	<u>7,600</u>

Notes:

- The investment shown in the balance sheet of Salmon plc represents the purchase of 1,600,000 shares in Trout Ltd on 1st January 2008. On that date the reserves of Trout Ltd were \$2,000,000.
- The assets of Trout Ltd were considered to be stated at 'fair value' at the date on which the investment was made, with the exception some land which is included in the figure for 'Tangible Fixed Assets' at a cost of \$800,000, and which was considered to have a fair value of \$1,300,000 at the date on which Salmon plc acquired the shares.
- At the balance sheet date Trout Ltd owed Salmon plc \$120,000. This amount is included in the respective receivables and payables figures in the balance sheets above.
- During the year Trout Ltd purchased goods from Salmon plc. At the year end some of these goods, valued at \$144,000, were still in stock. Goods are sold between the two companies at cost plus 20%.

Question 1 continued over...

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Question 1 cont'd...

Required:

- (a) Using the information supplied above, prepare the consolidated balance sheet as at 31st December 2008.

(18 marks)

- (b) Towards the end of the year, Salmon plc purchased shares in two other companies; Ladas Ltd and Trigo Ltd.
The investment in Ladas Ltd was for 5% of the company's equity shares, and for Trigo Ltd the investment was for 40% of Trigo's equity shares.

Discuss and assess how Salmon plc should treat each of these two investments in accordance with relevant international accounting standards

(7 marks)

Total 25 marks

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Section B Answer 3 (three) questions only

Q 2 The following draft trial balance has been extracted from the books of Singapore plc, on 31st December 2008.

Trial balance as at 31st December 2008:

	<u>\$m</u>	<u>\$m</u>
Non-current assets (at cost)	240.0	
Asset depreciation (at 31.12.08)		18.0
Bank/cash	22.0	
Interest	6.4	
Administrative expenses	54.2	
Distribution expenses	32.6	
Cost of sales	104.0	
Revenue		230.0
Inventories (at 31.12.08)	15.0	
Trade receivables	40.2	
Trade payables		17.6
Equity (\$1 Ordinary shares)		200.0
Goodwill	46.0	
10% Debentures		60.0
Government grant		18.0
Retained profit (1.1.08)		<u>16.8</u>
	<u>560.4</u>	<u>560.4</u>

You also have the following information:

1. In December 2008 a customer took out an action against the company for damages amounting to \$6m. 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. The development of the new process commenced early in 2008 and is expected to be completed in the next two years.
3. The figure for non-current assets (at cost) includes \$40m for Freehold Premises. No depreciation has been charged on these to date.
The premises have recently been revalued at \$80m and the directors wish to show this valuation in the accounts.
4. A new issue of 60m \$1 ordinary shares was issued at par on July 1st 2008.
5. The estimated tax liability for the year is \$10m.

Question 2 continued over...
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Question 2 cont'd...**Required:**

- (a) Discuss and evaluate how each of the items 1 – 4 above should be treated in accordance with relevant international accounting standards. **(8 marks)**
- (b) Discuss and assess how the company should account for the goodwill, which relates to the acquisition of a small private company at the start of the year. **(2 marks)**
- (c) Prepare the income statement for the year and a balance sheet at the year end. **(13 marks)**
- (d) Calculate the basic earnings per share. **(2 marks)**
- Total 25 marks**

Q 3 (A)

Flamingo plc owns a company which hires out specialised equipment for the construction industry.

Extracts from Flamingo plc's consolidated balance sheet relating to this company are given below:

	\$m
Goodwill	60
Other intangibles (licences etc)	50
Equipment	80
Premises	20
Other net assets	<u>40</u>
	<u>250</u>

The business has not performed well during the year due to increased competition.

A recent impairment review valued the business as a going concern at \$160m.

The equipment has an estimated realisable value of \$100m.

The intangible assets have an estimated realisable value of \$38m.

Required:

- (a) Discuss and assess the rationale for having an accounting standard which deals with the impairment of assets when there is also a standard for depreciation of assets. **(5 marks)**
- (b) Discuss and evaluate how Flamingo should account for the above impairment in accordance with the relevant international accounting standard, and show the revised values of the various assets **(10 marks)**

**Question 3 continued over...
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Question 3 cont'd**Q3 (B)**

The following information relates to the purchase and installation of new plant for a company, required for carrying out a contract.

	<u>\$</u>
Cost of plant	60m
Installation charges	10m
Maintenance contract charge	1m
Cost of site clearance	0.5m
Legal charges	0.2m

At the end of the contract, which is expected to last for four years, the plant will be dismantled and sold for scrap (expected scrap value is approx. \$2.5m)

The company is obliged to return the site to the condition it was in prior to the instalment of the plant. This is expected to cost approximately \$1.2m.

The company was given trade discount of \$0.05m and were offered a cash discount of 0.25% for payment within three weeks.

Required:

Discuss and evaluate the requirements of the relevant international accounting standard in relation to the valuation of non-current assets, and calculate the figure to be used for the cost of the plant above for depreciation purposes.

(10 marks)**Total 25 marks****Q 4(A)**

Spearmint Contractors Ltd commenced work on building a new road bridge in March 2009.

The work is expected to be completed by January 2011.

The company's year end is 30th September.

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

Costs incurred up to 30 th September 2009	\$1,040,000
Estimated further costs to end of contract	\$1,730,000
Contract price	\$4,200,000
Progress payments received from customer	\$750,000
Progress billings	\$1,000,000

The work was inspected towards the end of September and certified as being 30% complete.

Required:

- (a) Discuss and assess how Spearmint should account for this contract for the year to 30th September 2009 in accordance with relevant accounting standards.

(5 marks)

- (b) Show the relevant extracts from the income statement and balance sheet for the year.

(7 marks)**Please turn the page**

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Q4(B)

Below is an extract from the balance sheet of Centenary plc showing the shareholders' equity.

Balance sheet extract:	<u>\$m</u>
Ordinary shares (\$1 each)	2.4
Redeemable Ordinary Shares (\$1)	6.0
Share premium account	1.2
Reserves	<u>1.8</u>
	<u>11.4</u>
 Net assets	 <u>11.4</u>

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

Required:

- (a) Discuss and assess how Centenary should deal with the redemption of the redeemable shares in relation to the concept of capital maintenance. **(4 marks)**
- (b) Prepare a revised balance sheet to take account of the redemption of the shares if, the shares were initially issued at par, and are redeemed at \$1.30 per share, and to help finance the redemption, a new issue of 2m shares is to be made at \$1.10 per share.

(9 marks)**Total 25 marks****Q 5**

Harvester Construction plc has decided to lease some new equipment for use on a new contract as below:

- (i) Earthmoving equipment, which would cost \$27m to buy, and which has a useful life of 4 years at the end which it would have an estimated scrap value of \$40,000 (0.04m)
 The lease is for a four year period, commencing 1st January 2008.
 Harvester would have to pay an initial deposit of \$4.5m, on 1st January 2008, followed by two instalments of \$12m, payable on 31st December 2008 and 2009, and a final instalment of \$10.2m on 31st December 2010.
 The rate of interest implicit in the lease is 25%.
- (ii) Earth removal trucks which would cost \$5m to buy and have an estimated useful life of 5 years. These would be leased for two years and Harvester would have to pay instalments of \$200,000 (\$0.20m) per year payable on Jan 1st each year.

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Question 5 cont'd...

Required:

- (a) Discuss and assess how the above leases should be accounted for in accordance with recognised accounting principles. **(8 marks)**
- (b) Show the relevant extracts from the income statement and balance sheet for each lease for the year ended December 31st 2008. **(17 marks)**

Total 25 marks

IMPORTANT NOTE

For calculations of allocation of lease payments, work to 2 (two) decimal places only (working in \$millions)

END OF QUESTIONS