

UNIVERSITY OF BOLTON

**SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES**

ACCOUNTANCY PATHWAY

SEMESTER 1 EXAMINATION 2010/2011

**FINANCIAL REPORTING AND REGULATORY
FRAMEWORK**

MODULE NO: ACC3003

Date: Friday 21st January 2011

Time: 2.00pm – 5.00pm

INSTRUCTIONS TO CANDIDATES:

SECTION A is **COMPULSORY**

Answer **THREE** questions from SECTION B

The recommended textbook may be referred to in the examination.

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SECTION A

Question 1 is compulsory and MUST be attempted

Question 1

On 30 June 2007 DK plc bought 35,000 shares in HD Ltd when the balance on the retained earnings was £30,000. No goodwill amortisation is required as goodwill is assumed to have an indefinite life and annual impairment reviews confirm its ongoing value.

On 30 March 2010 HD Ltd dispatched goods to DK plc and on the same day invoiced them £2,200. DK plc did not receive the goods until 4 April 2010 and has not taken this transaction into account as at 31 March 2010.

Included within the inventory balance of DK plc at 31 March 2010 are goods purchased from HD Ltd for £3,800. The mark up on cost made by HD Ltd on its sales to DK plc is 20%.

Below are the draft financial statements of both companies.

Statement of Financial Position as at 31 March 2010

	DK plc £	HD Ltd £
Non current assets		
Property	-	95,000
Plant, machinery and vehicles	82,800	65,000
Investment in HD	210,000	-
Current assets		
Inventory	22,100	18,500
Receivables	35,530	23,200
Current account DK	-	26,700
Dividend receivable	2,870	-
Cash at bank and in hand	7,200	1,500
	<u>360,500</u>	<u>229,900</u>
Equity and liabilities		
Ordinary shares of £1	80,000	40,000
Retained earnings	158,600	91,400
7% debentures	-	50,000

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QUESTION ONE CONTINUED

Payables	26,860	25,770
Taxation	25,000	12,000
Current account HD	24,500	-
Bank overdraft	39,900	7,450
Dividend payable	<u>5,640</u>	<u>3,280</u>
	<u>360,500</u>	<u>229,900</u>

Required:

Prepare the consolidated Statement of Financial Position for the DK Group as at 31 March 2010.

(Total 25 marks)

Note: a Statement of Changes in Equity is not required.

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SECTION B
Answer THREE questions from this section

Question 2

Tar plc acquired 90% of ordinary shares and 10% of the 5% bonds in Zan Ltd on 31 March 2010. All income and expenses are deemed to accrue evenly through the year. On 31 January 2010 Tar plc sold Zan Ltd goods for £6,000 plus a mark up of one third. 75% of these goods remained in stock at the year end. There was also a goodwill impairment loss of £4,000 during the year.

Both companies are in the same business sector.

Set out below are the individual Statements of Comprehensive Income for each company for the year ended 31 December 2010.

	Tar plc £	Zan Ltd £
Turnover	100,000	60,000
Cost of Sales	<u>(30,000)</u>	<u>(30,000)</u>
Gross profit	70,000	30,000
Expenses	(20,541)	(15,000)
Interest payable on 5% bonds	-	(5,000)
Interest receivable on Zan Ltd bonds	500	-
Dividends received from Zan Ltd	<u>2,160</u>	<u>-</u>
Profit before tax	52,119	10,000
Taxation	<u>(7,002)</u>	<u>(3,000)</u>
Profit for the year	<u>45,117</u>	<u>7,000</u>

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QUESTION TWO CONTINUED

Required

- a) Prepare a consolidated Statement of Comprehensive Income (in IFRS format) for the year ended 31 December 2010 for the Tar plc Group, ensure the amounts attributable to both Equity shareholders and Non controlling interests are clearly disclosed. (15 Marks)
- b) Justify the reasons for any adjustments you have made. (10 Marks)

(Total 25 Marks)

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Question 3

Singleton plc is a small textile manufacturing company controlled by the directors and the Singleton family.

Below is the Statement of Financial Position of the company as at 31st December 2010.

Statement of Financial Position as at 31st December 2010

Non-current assets:	£
Intangible – Goodwill	60,000
Development costs	85,000
Tangible - Land & buildings	250,000
Plant & machinery	320,000
Current assets:	
Stocks	450,000
Debtors	<u>533,000</u>
	<u>1,698,000</u>
Equity and Liabilities	
Capital and reserves:	
Share capital (£1 Ordinary shares)	800,000
Share premium	50,000
Retained Earnings	<u>(302,000)</u>
	548,000
Current liabilities:	
Trade creditors	400,000
Bank loans and overdrafts	<u>750,000</u>
	<u>1,698,000</u>

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QUESTION THREE CONTINUED

Due to overseas competition, demand for their products has declined. However, investment has been made on the development of a new range of products and as a result the directors are considering the adoption of the following proposed reconstruction scheme:

- (a) The shares of £1 will be reduced to 20p per share and then every five shares of 20p each will be consolidated as one fully paid share of £1.
- (b) A rights issue will be set up for existing shareholders - 2 new ordinary shares of £1 for every share held after the above change.
- (c) One of the trade creditors has agreed to exchange their trade balance of £180,000 for 180,000 ordinary shares of £1 each fully paid.
- (d) In full satisfaction of the bank loan and overdrafts the bankers have agreed to accept an immediate payment of £100,000 and convert the balance owing into a loan, on which an interest rate of 15% per annum will be charged. The capital sum to be repaid in 6 equal installments starting on 31 March 2011.
- (e) Goodwill, retained earnings and share premium accounts are to be eliminated as part of the reconstruction.

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QUESTION THREE CONTINUED

(f) The following assets are to be revalued as follows:

Plant and machinery	£100,000
Stock	£235,000
Debtors	£450,000
Land & Buildings	£440,000

Required

- (i) Prepare the revised Statement of Financial Position after the proposed scheme of reconstruction and re-organisation. Clear workings must be shown.
(15 marks)
- (ii) Appraise the legal conditions that would have to be fulfilled in order for the above reconstruction to take place, and discuss the reasons for these.
(5 marks)
- (iii) Critically evaluate the viability of the above proposal from the point of view of the various interested parties.
(5 marks)

(Total 25 marks)

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Question 4

You are the financial accountant of Newdrug Limited a company that is taking advice about the implications of becoming listed on the stock exchange (i.e. become a plc). One of the items the directors are interested in is the requirements to report year-end financial statements under International Financial Reporting Standards (IFRS). The company is in the pharmaceutical sector and has large amounts of expenditure on both manufacturing equipment for specialised medicines and also research into new products. In addition as part of the growth strategy the company has previously acquired a number of subsidiary companies.

The finance director has been to some IFRS seminars and has provided you with the following extract from his notes:

IAS 38 – Intangible Assets identifies the criteria that need to be satisfied before expenditure can be capitalized as an asset. IAS 38 also specifies the subsequent accounting treatment of intangible assets that satisfy the recognition criteria and can therefore be recognised in the statement of financial position.

Required:

- a) Draft a report for the finance director suggesting why IAS 38 imposes a rigid set of rules which prevent the capitalisation of all research expenditure and make it difficult to capitalise development expenditure and whether the requirements of IAS 38 are likely to discourage companies from investing in research activities. In addition the finance director has asked that for the benefit of the board of directors you include a section on how internally generated and purchased goodwill arise and the accounting treatment or both within the financial statements of an organisation.

(15 marks)

- b) Corporate Governance frameworks amongst others things include: Non Executive Directors (NED's), Remuneration Committees, Audit Committees, Internal audit and External audit. Critically evaluate the role each of these has within the corporate governance frameworks of organizations.

(10marks)

(Total 25 marks)

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Question 5

You are the financial accountant for Orca plc. The purchasing director has informed you that he has signed a lease agreement on behalf of the company (the board of directors approved this lease agreement at a recent board meeting) for a new piece of CNC robotic machinery to be used in the production of motorized scooters. He has provided you with the following information:

Cost of leased asset	£100,000
Lease term	5 years
Rentals (payable 6 monthly in advance)	£12,000
Residual asset value	£10,000
Lessee's interest in residual value	97%
Economic life	10 years
Lease start date	1/1/2007
Company year- end date	31 December
Implicit rate of interest (applied every half year)	5.4%

Required

- a) Compose the Statement of Comprehensive Income and Statement of Financial Position extracts at 31 December 2007 and 2010. (Show any workings clearly).
(15 marks)
- b) Analyse how you would distinguish between a finance lease and an operating lease and how each are treated within the financial statements of an organization.
(10 marks)

(Total 25 marks)

END OF QUESTIONS

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