

UNIVERSITY OF BOLTON

**SCHOOL OF BUSINESS AND CREATIVE
TECHNOLOGIES**

**ACCOUNTANCY PATHWAY BY DISTANCE
LEARNING**

SEMESTER 2 EXAMINATIONS 2009/2010

VIETNAM INTAKE 2

**FINANCIAL REPORTING AND THE REGULATORY
FRAMEWORK**

MODULE NO: ACC3003

Date: 11th September 2010

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.

All questions carry equal marks.

Candidates are advised that the examiners attach importance to legibility of writing and clarity of expression.

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Section A – COMPULSORY question

Q1

The following information relates to two companies, Atlas plc and Samson Ltd.
 Balance sheets as at 30th December 2009:

| | <u>Atlas plc</u> \$000 | <u>Samson Ltd</u> \$000 |
|---------------------------------------|---------------------------|----------------------------|
| Non-current assets | | |
| Tangible fixed assets | 8,820 | 2,460 |
| Investments | <u>2,000</u> | <u>-</u> |
| | <u>10,820</u> | <u>2,460</u> |
| Current assets | | |
| Inventories | 4,020 | 1,930 |
| Trade receivables | 1,544 | 1,600 |
| Bank | <u>30</u> | <u>50</u> |
| | <u>5,594</u> | <u>3,580</u> |
| Current liabilities | <u>2,820</u> | <u>2,240</u> |
| Net current assets | <u>2,774</u> | <u>1,340</u> |
| Total assets less current liabilities | 13,594 | 3,800 |
| Non-current liabilities | <u>(4,000)</u> | <u>(600)</u> |
| | <u>9,594</u> | <u>3,200</u> |
| Equity and reserves | | |
| \$1 Ordinary shares | 8,000 | 2,000 |
| Reserves | <u>1,594</u> | <u>1,200</u> |
| | <u>9,594</u> | <u>3,200</u> |

Notes:

- The investment shown in the balance sheet of Atlas plc represents the purchase of 1,200,000 shares in Samson Ltd on 1st January 2009. On that date the reserves of Samson Ltd were \$200,000.
- The assets of Samson 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 \$250,000, and which was considered to have a fair value of \$750,000 at the date on which Atlas plc acquired the shares.
- At the balance sheet date Samson Ltd owed Atlas plc \$26,000. This amount is included in the respective Receivables and Payables figures in the balance sheets.
- During the year Samson Ltd purchased goods from Atlas plc. At the year end some of these goods, valued at \$60,000, were still in stock. Goods are sold between the two companies at a profit margin of 20%.

**Question 1 continued over
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Question 1 continued

Required:

(a) Using the information supplied above, prepare the consolidated balance sheet as at 31st December 2009.

(18 marks)

(b) Discuss and assess the different accounting treatment for various levels of investment by one company in another.

(7 marks)

TOTAL 25 MARKS

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Section B – answer ANY THREE questions

Q2

The following draft trial balance has been extracted from the books of Tornado Plc on 31st December 2009.

| Trial balance as at 31st December 2009 | | |
|--|--------------|--------------|
| | <u>\$m</u> | <u>\$m</u> |
| Freehold Property (at cost) | 300 | |
| Plant and machinery (at cost) | 724 | |
| Plant and Mach. depreciation (at 31.12.09) | | 520 |
| Bank/cash | 24 | |
| Interest | 20 | |
| Administrative expenses | 256 | |
| Distribution expenses | 88 | |
| Cost of sales | 1,324 | |
| Revenue | | 1,740 |
| Inventories (at 31.12.09) | 160 | |
| Trade receivables | 224 | |
| Trade payables | | 246 |
| Equity (\$1 Ordinary shares) | | 400 |
| Share Premium | | 28 |
| Goodwill | 200 | |
| 10% Debentures | | 200 |
| Government grant | | 64 |
| Retained profit (1.1.09) | | <u>122</u> |
| | <u>3,320</u> | <u>3,320</u> |

You also have the following information:

1. In December 2009 a customer took out an action against the company for damages amounting to \$1.2m. Company lawyers consider that the company was at fault and 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 which has been introduced, and which will result in efficiency savings over the next four years.
3. The Freehold Property has never been depreciated, and has recently been revalued at \$320m and the directors wish to show this valuation in the balance sheet. The property has an estimated useful life of 50 years.
4. In January 2010 the company raised \$50m with the issue of 50m Debentures.
5. The estimated tax liability for the year is \$22m.

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Question 2 continued

Required:

- (a) Discuss and assess how each of the items 1 – 4 above should be treated in accordance with relevant international accounting standards. **(6 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. **(14 marks)**
- (d) Calculate the basic earnings per share. **(3 marks)**

TOTAL 25 MARKS

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Section B continued

Q3 (A)

Nyala Construction plc is currently building a new office block for a private company. The contract commenced in February 2009 and is expected to be completed by March 2011.

Nyala Construction plc's year end is 31st December.

The contract price is \$120m on completion, and the company has agreed to pay Nyala four equal payments of \$30m at intervals throughout the period of construction. The first of these progress payments was received in December 2009.

The construction company is to invoice the company with the value of work completed at various stages.

At 31st December 2009, costs incurred on the contract amounted to \$43m.

Further costs to completion were estimated at \$62m.

Towards the end of 2009 completed work was professionally valued at \$40m, and this amount was invoiced to the local authority. The work was assessed as being 40% complete at this time.

Required:

(i) Discuss and assess how Nyala Construction plc should deal with the above contract in accordance with relevant international accounting standards.
(8 marks)

(ii) Show the relevant extracts from the income statement and balance sheet for the year ending 31st December 2009.
(7 marks)

(B)

Nyala Construction plc issued some redeemable ordinary shares five years ago, and they are now due for redemption.

Required:

Discuss and assess how Nyala might redeem the shares with reference to the maintenance of capital.

(10 marks)

TOTAL 25 MARKS

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Section B continued

Q4 (A)

On January 1st 2009 Roebuck plc acquired a company which operates a cable car ride to the top of a local mountain. The summarised balance sheet of the company on the date of acquisition is given below (stated at fair value):

| | <u>\$000</u> |
|------------------------|----------------------------------|
| Goodwill | 90 |
| Operating licence | 300 (at cost of renewal) |
| Property | 70 (at value in use) |
| Cable track | 95 (at value in use) |
| Cable cars | 150 (at net selling price) |
| Other net assets | <u>70</u> (at net selling price) |
| Purchase consideration | 775 |

The operating licence is for 5 years, commencing January 1st 2009, and cost \$200,000.

There are three cable cars, each having the same value.

The cable track has a net realisable value of \$80,000.

In December 2009, one of the cable cars was irreparably damaged in a freak accident and it was not possible to replace it. It had no scrap value.

Because of the reduced passenger capacity following the accident the estimated value in use of the whole business was assessed at the end of March at \$480,000.

Required:

(a) Discuss and assess the requirement for an accounting standard to review the possible impairment of assets.

(7 marks)

(b) Calculate the carrying value of the assets to be shown in Roebuck's consolidated balance sheet at the end of December 2009.

(6 marks)

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Question 4 continued

(B)

The following information relates to the purchase and installation of new plant by Impala plc for undertaking a contract.

| | <u>\$m</u> |
|-----------------------------|------------|
| Cost of plant | 12 |
| Installation charges | 2 |
| Maintenance contract charge | 0.4 |
| Cost of site clearance | 0.1 |
| Legal charges | 0.04 |

The figure for cost of plant does not take into consideration trade discount of \$100,000. An early payment discount of 0.5% is also available if payment is made within two weeks.

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 approximately \$0.5m). The company is obliged under the contract to return the site to the condition it was in prior to the instalment of the plant. This is expected to cost approximately \$0.2m. Half of the cost of clearing the site relates to the use of Impala plc's own labour. It is expected that there will be finance charges (interest) of at least \$0.05m in respect of loans taken out to finance the project.

Required:

(a) Discuss and assess the requirements under relevant international accounting standards for the valuation of non-current assets.
(7 marks)

(b) Calculate the figure to be used for the cost of the above plant for depreciation purposes.
(5 marks)

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Section B continued

Q5

Eland Contractors entered into an agreement to lease some equipment over the next four years.

The equipment has a fair value of \$108,000 and has an estimated useful life of four years, at the end of which it will have no value.

Eland agreed to pay an initial deposit of \$18,000 on January 1st 2009, followed by two instalments of \$48,000 on December 31st 2009 and December 31st 2010. A final instalment of \$40,781 is to be paid on December 31st 2011.

The rate of interest implicit in the lease agreement is 25%.

Required:

- (a) Discuss and assess how Eland Contractors should deal with this lease in accordance with relevant accounting standards. **(7 marks)**

- (b) Show the relevant extracts in the end of year financial statements for the year ended 31st December 2009. **(13 marks)**

- (c) Discuss and assess the reasons why there is more than one accounting treatment for leases. **(5 marks)**

TOTAL 25 MARKS

END OF QUESTIONS