UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2018/19

FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC5001

Date: Tuesday 15 January 2019 **Time: 10.00 – 1.00**

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; answer ALL 3 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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Accountancy
Semester 1 Examination 2018/2019
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Section A answer all 3 questions

Question 1

One of your clients (Sadiq Star Limited) is a manufacturer of fireworks supplying organised firework registered display companies. None of its products are for sale to the general public. The finance director Mo Sadiq has provided you with the following information and trial balance for the year ended 31 December 2018:

Information

At 31 December 2018 the land was revalued to £300,000 and this revaluation is not incorporated in the trial balance. The company accounts for any revaluations as other comprehensive income and transfers any gains on revaluation to a revaluation reserve in equity.

The company depreciates its assets using the following policy:

Buildings 4% straight line
Equipment 40% reducing balance
Vehicles 25% straight line

Depreciation is to be allocated as follows:

	Cost of Sales	Distribution Costs	Administrative expenses
Buildings	50%	25%	25%
Equipment	60%	20%	20%
Vehicles	-	70%	30%

Question 1 continues over the page
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Question 1 continued

The company valued inventory at 31 December 2018 at a value of £119,000

Trade receivables include an amount of £8,000 which is to be written off (not included in the provision for doubtful debts) and the provision is to be adjusted to 4% of the receivables balance once this debt has been written off.

Corporation tax amounting to £30,000 is to be provided for.

25% of wages and salaries were paid to distribution staff, 50% to production staff and 25% to the administration staff.

Administration expenses include interest of £9,000.

Directors fees are to be accounted for as Administration expenses.

A final dividend (in addition to the £20,000 interim dividend that was paid in the year) of 20 pence per share has been proposed at the 31 December 2018 year end. All dividends are paid out of the retained earnings reserve.

Question 1 continues over the page

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Trail balance as at 31 December 2018	**Dr £000**	**Cr £000**
Land at cost	120	
Buildings at cost	250	
Equipment at cost	196	
Vehicles at cost	284	
Intangible assets at cost	300	
Accumulated depreciation - Buildings		90
Accumulated depreciation – Equipment		76
Accumulated depreciation - Vehicles		132
Inventory 1 January 2018	107	
Trade receivables and payables	183	117
Provision for doubtful debts		8
Bank		63
Ordinary shares £1 each		200
Retained earnings (1 January 2018)		503
Sales		1,432
Purchases	488	
Directors fees	150	
Wages and salaries	276	
Distribution costs	101	
Administrative expenses	186	
Dividends paid	20	
Rents received		40
Totals	***2,661***	***2,661***

Question 1 continued.

Required:

Prepare the Statement of comprehensive income and the statement of financial position for Sadiq Star Limited for the 31 December 2018 year-end following the International Accounting Standard 1 (IAS1) format suitable for publication. Round all figures to the nearest £000 and reference any workings (using the T account format where applicable) to the figures presented in your answers.

(Total 30 Marks)

End of question 1

Questions continue over the page

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Question 2

You are the financial accountant for Brothers Bridge Limited, a company that supplies steel supports to the construction industry. You have been provided with the income statement and the statement of financial position for the year ended 31 December 2018 which your junior has prepared. These are detailed below:

Income statement for the year ended 31 December 2018	£000
Revenue	22,400
Cost of sales	(12,320)
Gross profit	10,080
Gain on disposal of equipment	224
Distribution costs	(4,704)
Administration expenses	(2,240)
Finance costs (interest)	(91)
Profit before tax	3,269
Tax expenses	(1,344)
Profit for the year	1,925

Question 2 continues over the page

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Question 2 continued

Statements of financial position as at 31 December 2018	2018 £000	2017 £000
Non-current assets		
Equipment	25,171	24,100
Current assets		
Inventory	3,696	2,464
Trade receivables	3,360	2,464
Cash and cash equivalents	-	129
Total Assets	**32,227**	**29,157**
Equity and liabilities		
Equity		
Ordinary share capital	2,200	2,000
Share premium	800	500
Retained earnings	24,990	23,065
Non-current liabilities		
Bank loans	1,300	800
Current liabilities		
Trade payables	1,232	1,848
Tax liability	1,344	944
Bank overdraft	361	-
Total Equity and liabilities	**32,227**	**29,157**

Question 2 continues over the page
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Question 2 continued

The following information is also relevant in relation to the year end 31 December 2018 financial statements:

- Depreciation totalling £3,545,000 was charged in the year.
- Equipment costing £976,000 with accumulated depreciation of £355,000 was sold in the year and a profit of £224,000 was generated from this sale.
- All sales and purchases were made on credit with all other expenses being paid for in cash.
- There were no dividends paid or proposed during the year.

Required:

Prepare a statement of cashflows for Brothers Bridge Limited for the year to 31 December 2018 in accordance with the requirements of IAS7 using the indirect method.

(Total 25 Marks)

End of question 2

Questions continue over the page

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Question 3

Rosena plc is a manufacturing company and is considering investing in another company (a supplier) to enable cost and efficiency savings in their core manufacturing company, as well as limiting supplies to its main competitors. Rosena plc has identified two potential target companies A Ltd and B Ltd and their financial statements for the year ended 31 December 2018 are detailed below:

Income statements for the year ended 31 December 2018	A Ltd £000	B Ltd £000
Sales	15,160	12,260
Cost of sales	(10,720)	(8,680)
Gross profit	4,440	3,580
Operating expenses	(2,160)	(1,620)
Profit before interest and taxation	2,280	1,960
Interest payable	(520)	(40)
Profit before taxation	1,760	1,920
Taxation	(440)	(480)
Profit after taxation	1,320	1,440

Question 3 continues over the page

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Question 3 continued

Statements of financial position as at 31 December 2018	A Ltd £000	B Ltd £000
Assets		
Non-current assets	13,120	8,480
Current assets		
Inventory	1,580	1,260
Trade receivables	1,720	1,360
Bank	-	280
Total Assets	16,420	11,380
Equity and liabilities		
Equity		
Share capital	6,000	6,000
Retained earnings	3,880	3,440
Non-current liabilities		
Loans	3,500	500
Current liabilities		
Trade payables	1,920	960
Taxation	440	480
Bank	680	-
Total equity and liabilities	16,420	11,380

Question 3 continues over the page

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Question 3 continued

The current price of each share is £1.65 in A Ltd and £2.40 in B Ltd. The directors feel that A Ltd is the better option as the share price is lower, it has a higher turnover, gross profit and more asset values than B Ltd.

Required:
In so far as the information permits compute the following ratios for both A Ltd and B Ltd:

- Return on capital employed
- Current ratio
- Quick ratio
- Trade payables payment period
- Trade receivables collection period
- Capital gearing ratio

The ratios for the 2 companies for the previous year are as follows:

	A Ltd	B Ltd
Return on capital employed	18.5%	18.9%
Trade receivables collection period	38 days	42 days
Current ratio	1.2:1	2.1:1
Quick ratio	0.7:1	1.1:1
Trade payables payment period	49 days	39 days
Capital gearing	11%	5%

Taking these ratios into account with those calculated for the current year write a report to the directors of Rosena plc (all calculations should appear as an appendix to your report) advising on your recommendation which company Rosena plc should invest in. Your report should also provide reasons behind your advice.

(Total 25 Marks)

End of question 3

End of section A

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Section B answer ONE question only in this section

Question 4

You are a qualified accountant working at a highly regarded firm of accountants and you were taken on as a result of receiving a high-class Accountancy degree from the University of Bolton. One of the partners has returned from a meeting with one of the firms' new clients which has just incorporated to become a limited company. The company wishes to make a multi-million-pound investment in property plant and equipment and seeks advice as to how it should go about the process, and any financial reporting considerations it should be aware of.

The company is considering financing the investment though both bank loans which will bear interest for specific assets it may construct internally, and government grants for other purchased assets which will be transported from overseas and both import duties and legal fees will be incurred in respect of such purchases.

Due to the type of production equipment being considered, a significant amount of expenditure would be incurred in reinforcing the factory floor, utilising existing production staff and also a large investment in the training of two members of staff to operate this specialised production equipment.

Required:

Write a briefing paper for the partner of the considerations that the client needs to be aware of in respect of its year-end financial reports, as well as the methods available to the company to account for all relevant costs/transactions during this capital investment process. It is expected that your briefing paper will refer to applicable International Accounting/Financial Reporting Standards (IAS/IFRS).

(Total 20 Marks)

End of question 4
Questions continue over the page

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Question 5

One of your clients (Mr Graham) operates as a sole trader manufacturing and selling bespoke mobile phone covers for all current mobile phone models. He is constantly having to update his range of products due to the fast-changing nature of the mobile phone industry. He values his inventory at historical cost. He has decided to incorporate his business as he has been told he can keep his personal possessions safe if he does this. He employs seven members of staff, 4 in production, one in sales, one in administration and the other arranging deliveries and dealing with customer returns for damaged or faulty goods.

Required:
Write a report to Mr Graham outlining the differences between operating as a sole trader and as a limited company. Your report should include specific requirements of annual reporting and returns as well as the differences between share capital and capital introduced as a sole trader as well as general differences between limited liability companies and sole traders.

(Your report should also refer to any international accounting standards in relation to inventory as Mr Graham intends to float his company on the stock market within two years of incorporation.)

(Total 20 Marks)

End of question 5

END OF QUESTIONS