OCD061

UNIVERSITY OF BOLTON

WESTERN INTERNATIONAL COLLEGE FZE

ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2018/19

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Monday 14th January 2019 **Time: 1.00pm – 4.00pm**

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; Answer ALL THREE 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.

Western International College FZE
Institute of Management
Accountancy
Semester 1 Examination 2018/2019
Advanced Financial Accounting & Reporting
Module No. ACC6001

Section A answer ALL 3 questions

Question 1

On 30 June 2015 DK bought 35,000 shares in HD when the balance on the retained earnings was £30,000. No goodwill amortization is required as goodwill is assumed to have an indefinite life and annual impairment reviews confirm its ongoing value.

On 30 March 2018 HD dispatched goods to DK and on the same day invoiced them £2,200. DK did not receive the goods until 4 April 2018 and has not taken this transaction into account as at 31 March 2018.

Included within the inventory balance of DK at 31 March 2018 are goods purchased from HD for £3,800. The mark up on cost made by HD on its sales to DK is 20%.

Below are the draft financial statements of both companies.

Statement of financial position as at 31 March 2018

	DK	HD
	£	£
Property	-	95,000
Plant, machinery and vehicles	82,800	65,000
Investment in HD	210,000	-
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
	360,500	**229,900**
Ordinary shares of £1	80,000	40,000
Retained earnings	158,600	91,400
7% debentures	-	50,000
Payables	26,860	25,770
Taxation	25,000	12,000
Current account HD	24,500	-
Bank overdraft	39,900	7,450
Dividend payable	5,640	3,280
	360,500	**229,900**

Required:

Prepare the consolidated statement of financial position for the DK Group as at 31 March 2018. **(30 marks)**

End of question 1
Please turn the page

Question 2

Tar plc acquired 90% of ordinary shares and 10% of the 5% bonds in Zan limited on 31 March 2018. All income and expenses are deemed to accrue evenly through the year. On 31 January 2018 Tar sold Zan 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 2018.

	Tar plc £	**Zan Ltd £**
Turnover	100,000	60,000
Cost of Sales	(30,000)	(30,000)
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	2,160	-
Profit before tax	52,119	10,000
Taxation	(7,002)	(3,000)
Profit for the year	45,117	7,000

Required

a) Prepare a consolidated statement of comprehensive income (IN STATUTORY FORMAT) for the year ended 31 December 2018 for the Tar plc Group, ensure the amounts attributable to both Equity shareholders and Non-controlling interests are clearly disclosed.

(19 Marks)

b) Had the investment only been for a 30% shareholding in Zan Ltd explain how the accounting and reporting be different in your answer to part (a) above.

(6 Marks)

(Total 25 Marks)

End of question 2

Please turn the page

Question 3

You are the financial accountant working in an engineering company, Longton Ltd. You have just been informed that the company has acquired a new machine for use in production. The information that has been passed to you shows that the finance director had signed a finance lease agreement on 1 July 2016 to acquire a machine. The cash price of the machine would have been £198,000. The lease agreement specified that the company would make four lease payments, each of £67,955, on 30 June 2017, 2018, 2019 and 2020. The interest rate implicit in the lease was 14% per annum. Longton Ltd prepares financial statements to 30 June each year. Ownership of the asset (which has a useful economic life of 5 years and the company policy is to depreciate ALL assets over their UEL) will transfer to Longton Ltd at the end of the lease term.

Required:

a) Using the actuarial method to allocate finance charges over the lease period, calculate the finance charge and the depreciation expense that would be shown in the company's financial statements for each of the years to 30 June 2017, 2018, 2019 and 2020. Also prepare an extract from the statement of financial position showing how the asset and the lease creditor should be disclosed for each of the years at 30 June 2017, 2018 and 2019. **(20 marks)**

b) Describe the accounting treatment if the lease were to be treated as an operating lease. **(5 marks)**

(Total 25 marks)

End of question 3

End of section A

Please turn the page

Section B, ONE question only to be answered

Question 4

You are working as a financial accountant in a large listed company after you graduated with a first-class honour’s degree from the prestigious accounting degree course at the University of Bolton. The directors are seeking some guidance from you in relation to some transactions that the company entered into during the financial year just ended (31 December 2018), these transactions are listed below:

- The company developed a new invention and has now applied for a patent. Development work incurred a cost of £400,000 and the legal fees in relation to the patent application amounted to £200,000. At the present time the invention has no market value, however the directors are confident they will find one soon.
- The company purchased a patented design for a product at a cost of £300,000.
- The company purchased all the share capital of a new company for £6,000,000, this new company has a well-respected brand, however the directors are unable to place a value on the brand.
- Staff training costs incurred in the year in relation to new equipment purchased in the year amounted to £120,000.
- The directors spent £2,000,000 on developing a new brand (this is a separate transaction to the new company acquisition above).

Required:

Prepare a report to the directors with explanations as to the treatment of the above transactions in the 31 December year-end financial statements, your report should make reference to any specific accounting standards in force at the year-end date.

(20 Marks)

End of question 4

Please turn the page

Question 5

Today is 28 April 2019 and you have been provided with the draft financial statements of one of your clients (Roderick Plc) for the 31 December 2018 year-end . These statements have been passed to you for review prior to being sent to the printers for subsequent issue to the shareholders. However, the following information has been sent to you by a junior in your firm as they did not know whether it was relevant whilst they prepared the draft financial statements. The information is as follows:

- A judgement has been handed down in the supreme court on 6 January 2019 in relation to a 2018 product liability case brought by a customer against the company. The judgement renders the Roderick Plc liable for both court costs and compensation totalling £250,000.
- On 15 February 2019 HMRC release details of the change to tax rates in their annual budget, increasing the tax rate from 19% to 35%.
- On 18 January 2019 the warehouse of Roderick Plc is destroyed by a fire, the insurance has informed the company that they were only insured for £300,000 and the cost of renewing the warehouse amounts to £1million.
- On 28 December 2018 an overseas supplier shipped inventory that has been estimated to have a value of £850,000 to Roderick Plc. This inventory was received by Roderick in March 2019, however the actual value once received was determined to be £1,500,000.
- On 21 January 2019 the directors of Roderick Plc entered into a contract to purchase 25% of the ordinary share capital of Bilbo Limited for £750,000.

Required:

Assuming that all of the amounts above are deemed to be material, write a report to the directors of Roderick Plc that outlines your proposed accounting treatment (with reference to any accounting standards) and any subsequent impact on the financial statements for the 31 December 2018 year-end financial statements.

(20 Marks)

End of question 5

END OF QUESTIONS