UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

IDM BOTSWANA

BA (HONS) ACCOUNTANCY

ACC6001 – ADVANCED FINANCIAL ACCOUNTING AND REPORTING

Date: 15th March 2019 **Time: 3 hours**

INSTRUCTIONS TO CANDIDATES:

There are 4 questions on this paper.

Answer all 4 questions

All questions carry equal marks.

Additional material provided:

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Question 1

A summary of the financial position of ABC Ltd at 31 December 2017 is given below:

	£'000		£'000
Ordinary shares of £1 each (fully paid)	12,000	Product development costs	1,400
12% preference shares of £1 each (fully paid)	8,000	Sundry Assets	32,170
Share premium	4,000	Cash & bank	5,450
Retained profits	4,600		
Payables	10,420		
	39,020		39,020

During the year ended 31 December 2018 the following transactions took place

a On 4th January the company issued for cash £2,400,000 10% debentures of £1 each at a discount of 2 ½ %

b The company wrote off the balance on product development costs

c On 12th January the company issued for cash 6,000,000 ordinary shares at a premium of 10p per share. This was a specific issue to help redeem the preference shares. The preference shares had been issued at a premium of 2p per share

d At the end of January the company redeemed the 12% preference shares and included in the payment 1 months dividend

e The company made a bonus issue to all shareholders of one fully paid ordinary share for every 20 held

f During the year the company made a net profit of £275,000 from its normal trading operations. This was reflected in the cash balance at the end of the year.

Required

a. Write up the accounts of ABC Ltd (in extended trial balance or other format) for the transactions listed above. **(10 marks)**

b. Prepare the company's statement of financial position at the 31 December 2018. **(5 marks)**

c. Discuss the reasons why a business might purchase its own shares **(10 marks)**

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Question 2

The following are the statements of financial position of X plc, its subsidiary Y Ltd and its associate Z Ltd at 31 / 12 / 2017

Statements of Financial Position at 31/12/X7	**X plc**	**Y Ltd**	**Z Ltd**
	£	**£**	**£**
Assets			
Non Current Assets			
Land at Cost	240,000		84,000
Land at Valuation		180,000	
Investment in Y Ltd	300,000		
Investment in Z Ltd	72,000		
Investments	18,000		
Current Assets			
Inventories	15,000	99,000	5,400
Trade Receivables	33,000	98,400	1,200
Current Account - Y Ltd	18,000		
Current Account - Z Ltd	2,400		
Cash	6,600	67,200	300
Total Assets	**705,000**	**444,600**	**90,900**
Equity and Liabilities			
Ordinary Shares	300,000	120,000	30,000
Revaluation reserve		90,000	
Retained earnings	270,000	216,000	57,600
Current Liabilities			
Trade Payables	135,000	3,600	900
Current Account - X Plc		15,000	2,400
Total equity and liabilities	**705,000**	**444,600**	**90,900**

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Question 2 - continued

On 1/1/13 X Plc acquired Y Ltd or £300,000 when Y Ltd share capital and reserves were £252,000. Prior to the acquisition the net book value of Y Ltd's non current assets was £90,000. Y Ltd revalued it's non current assets immediately prior to acquisition to fair value and included the revaluation in its statement of financial position.

On 1/1/55 X Plc acquired 20% of Z Ltd for £72,000 when the fair value of Z Ltd's net assets were £42,000

Goodwill has been impaired in Y Ltd by £75,000 and in Z Ltd by £30,000

At 31/12/17 X Plc has inventory acquired from Y Ltd. Y Ltd had invoiced the inventory for £6000 and it had cost £1200. X Plc also held inventory of £3,000 acquired from Z ltd. This had cost Z Ltd £1,800.

Non controlling interests are measured using Method 1.

Required

a. Prepare the consolidated statement of financial position for X Plc at 31/12/17. **(20 marks)**

b. Explain how the accounts of Y Ltd and Z Ltd would be presented in the consolidated income statement of X plc. **(5 marks)**

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Question 3

ABC Ltd prepares financial statements to the 3st December. On 1/7/17 it leased machinery on the following terms

i) Lease rental of £50,000 payable half yearly for 5 years
ii) The rate of interest implicit in the lease is 4% per half year
iii) On completion of the primary lease the company has the option to lease the assets for a further 2 years at a rental of £25,000 payable half yearly in arrears. At the start of the lease it was considered unlikely that the business would exercise this option.
iv) The estimated useful economic life of the machinery at the inception of the lease was 12 years

Required

a. Compute the carrying value of the "right of use asset" in the statement of financial position at 31/12/17 and 31/12/18. **(4 marks)**

b. Compute the finance cost for the years ended 31/12/17 and 31/12/18.

(4 marks)

c. Compute the lease liability that will be included in the statement of financial position at 31/12/17 and 31/12/18 and show the split into the current and non current portions. **(7 marks)**

d. State the factors that indicate that a lease is a finance lease under IFR16 and discuss the extent to which this is still relevant. **(10 marks)**

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Question 4

At the start of the year to 31/12/18 CDE Ltd entered into a number of financial instruments and is considering how to classify these under IFRS9. These instruments are as follows:

i. Investment in 3% government bonds for £2million. The bonds were acquired when they were issued at their nominal value of £2million. By the end of the year ended 31 December interest rates had fallen and the bonds had a market value of £2,025,000.
ii. Investment in shares of a listed company for £1,300,000. At the end of the year the investment had fallen in value and was estimated to be worth £1,200,000
iii. Borrowed £5million at a floating rate of interest and to hedge the interest rate took out an interest rate swap (floating to fixed) on the loan. The swap cost nothing to enter into but by the end of the year it had a fair value of £50,000 (liability) because interest rates had fallen. The business does not use hedge accounting.

Required

a. Discuss how each of the investments could be classified and measured under IFRS9. **(15 marks)**

b. The approach in IAS39 to the impairment of financial assets was flawed because it did not allow financial institutions to recognise the true losses they expected on loans at the time they had made the loans. How does the final version of IFRS 9 address this issue. **(10 marks)**

END OF QUESTIONS