UNIVERSITY OF BOLTON

MSC ACCOUNTING & FINANCIAL MANAGEMENT

SEMESTER 2 EXAMINATIONS 2018/19

CORPORATE REPORTING

MODULE NO: ACC7502

Date: **Wednesday 22 May 2019** **Time: 2.00 – 5.00**

INSTRUCTIONS TO CANDIDATES:

There are 5 questions in this examination; answer FOUR questions as follows:

Answer ALL 3 questions in Section A

Answer ONLY 1 question from Section B

This is a closed book examination.

You must hand in this exam paper with your answer booklet.

SECTION A – ANSWER ALL QUESTIONS FROM THIS SECTION

QUESTION 1

You are the group financial accountant for M plc a company that manufactures gym and sports equipment. You have been asked by the Group Finance Director to prepare the 31 March 2019 year end consolidated financial statements which are to be audited next month prior to being released to the shareholders in readiness for the Annual General Meeting. The individual company financial accountants have already prepared the financial statements for each company within the group and these are below.

Statements of financial position as at 31 March 2019

	M plc	G Ltd	H Ltd
ASSETS	**£**	**£**	**£**
Non-current assets			
Buildings and Machinery	106,875	66,853	41,825
Investment in G Ltd	250,000	-	-
Investment in H Ltd	30,400	-	-
Total non-current assets	**387,275**	**66,853**	**41,825**
Current assets			
Inventories	109,250	49,513	18,550
Trade Receivables	90,497	55,420	20,055
Current account – G	20,188	-	-
Current account - H	3,040	-	-
Bank	14,502	17,926	5,810
Total current assets	**237,477**	**122,859**	**44,415**
Total assets	**624,752**	**189,712**	**86,240**
EQUITY AND LIABILITIES			
Ordinary 50p shares	182,875	44,200	26,600
General reserve	78,500	17,850	6,650
Retained earnings	229,368	83,300	27,475
	490,743	**145,350**	**60,725**
Current liabilities			
Trade payables	90,060	16,656	14,295
Taxation payable	43,949	7,518	7,796
Current account – M plc	-	20,188	3,424
Total equity and liabilities	**624,752**	**189,712**	**86,240**

Question 1 continued over the page

Question 1 continued

Statements of comprehensive income for the year ended 31 March 2019

	£	£	£
Revenue	225,625	144,875	76,238
Cost of sales	(84,218)	(60,088)	(27,313)
Gross profit	**141,407**	**84,787**	**48,925**
Expenditure	(78,375)	(36,813)	(29,925)
Dividends received	7,125	-	-
Profit before taxation	**70,157**	**47,974**	**19,000**
Taxation	(24,463)	(5,700)	(4,275)
Profit for the year	**45,694**	**42,274**	**14,725**
Dividends paid in the year	33,250	7,125	4,275

The following information is also relevant:

M plc purchased 85% of the shares on 31 January 2013 in G Ltd when the balance on the retained earnings of G Ltd was £81,527 and the balance on the general reserve of Grind Ltd was £18,550.

On 1 July 2009 M plc acquired 25% of the ordinary shares in H Ltd when the balance on H Ltd's retained earnings was £18,520 and the general reserve £4,300.

On 5 December 2013 G Ltd sold M plc goods for £36,000 which included a mark up of 25%. At the year-end, 50% of these were still held in inventory

In accordance with IAS36 the directors have reviewed the carrying value of goodwill arising on consolidation and agreed that it should be impaired by 50% in the year-end financial statements.

Required:
Prepare the consolidated statement of comprehensive income <u>AND</u> the statement of financial position for the group for the year ended 31 March 2014 (clearly show ALL workings and present your answers to the nearest £).

(30 Marks)

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QUESTION 2

At 31 December 2018 the following was the statement of financial position of S Limited:

Non-current assets	£000
Freehold premises	2,890
Plant and equipment	2,040
Software licences	578
Development costs	408
	5,916
Current assets	
Inventory	2,108
Trade receivables	2,720
	4,828
	10,744
Equity and liabilities	
Ordinary shares of £1 each – 80p paid up	4,080
8% cumulative preference shares of £1 each	5,440
Loan notes	1,306
Retained earnings	(5,046)
	5,780
Current liabilities	
Trade payables	2,176
Other payables	1,020
Bank overdraft	1,768
	4,964
	10,744

Additional information

The directors have agreed the following scheme which has been approved by the shareholders:

I. The unpaid capital on the ordinary shares is to be called up.
II. The ordinary shareholders to agree to a reduction of 70p on each share held with new shares having a par value of 30p fully paid.
III. The preference shareholders to agree to a reduction of 20p per each share held with the new shares having a nominal value of 80p fully paid and the dividend rate increase from 8% to 10%.
IV. The balance on the retained earnings reserve is to be written off

Question 2 continued over the page

Question 2 continued

V. The Freehold premises have been re-valued at 31 December 2018 by a professional valuer at £3,800,000.
VI. Plant and equipment is to be written down by £850,000; software licences are to be written down to £340,000, development costs are to be written off, inventory is to be written down by £406,000 and a provision of 10% for doubtful debts is to be created.
VII. New capital is to be raised by a rights issue with existing ordinary shareholders subscribing for two shares for every ordinary share with 30p payable on application.
VIII. Preference shareholders are to subscribe for one new 80p preference share for every four preference shares held.
IX. The other payables include short term loan creditors who have agreed to write off £420,000 of loans.
X. The remaining other payables have agreed to exchange their debts for 2,000,000 ordinary shares of 30p each.
XI. Any balance remaining on the scheme is to be used to write down the value of the loan notes.

Required:
Process the transactions using 'T' accounts that are to be made to give effect of the above scheme and draft the revised statement of financial position of the company after the completion of the scheme.

(25 Marks)

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QUESTION 3

Fred plc is a company that specialises in providing commercial organisations with motivational courses for employees. The company is new and has just made significant investment in equipment including portable technology for providing training at clients own premises as well as purpose build classrooms for 'in house' classes. The company prepares financial statements to 31 March each year. On 1 April 2014, the company acquired some technical visual teaching equipment which is to be accounted for under IAS16 as a non-current asset at a cost of £348,000. The company directors have a policy of depreciating assets of this nature on a straight line basis over a period of 5 years with nil residual value. Capital allowances for the 5 year period have been forecast as follows:

Year to 31 March 2015	£103,600
Year to 31 March 2016	£ 38,650
Year to 31 March 2017	£ 31,750
Year to 31 March 2018	£ 23,280
Year to 31 March 2019	£ 17,150

Fred plc has a pre-tax profit of £650,000 after depreciation for each of the five years ending 31 March above. There are no other non-current assets and there are no differences between taxable profit and accounting profit other than those relating to depreciation. Tax is expected to be charged at the rate of 23% for the five year period.

Required:

Calculate the deferred tax transfers to/from the deferred tax account for each of the five years to 31 March 2019. In addition prepare the extracts from the statement of comprehensive income which includes the taxable profit, current & deferred tax and total tax charge for each year.

(25 marks)

END OF SECTION A

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SECTION B – ANSWER ONE QUESTION ONLY FROM THIS SECTION

QUESTION 4

You are a new accountancy graduate from the University of Bolton and have been appointed as the financial accountant at Erica plc which recently floated on the stock exchange. One of the main reasons for your appointment was your recent training with international financial reporting and the finance director has asked if you can help him with the earnings per share computations following IAS 33. You have been provided with the following information.

Erica plc had 12,320,000 ordinary shares of 27 pence each in issue throughout its financial year ended 30 April 2019. There are also 1,750,000 convertible 10% preference shares of £1 each in issue. Each preference share is convertible into 1.5 ordinary shares. In addition, there are £2,000,000 convertible 8.5% loan notes. Each £1 loan note is convertible into 2 ordinary shares. Options have been granted to the company's senior employees giving them the right to subscribe to 750,000 ordinary shares at a cost of 50 pence each.

The statement of comprehensive income of Erica plc for the year ended 30 April 2019 shows a profit after taxation of £9,750,000 and the preference dividends had been paid at the year end. Tax on profits is 23% and the average market price of Erica plc's ordinary shares was 65.5 pence for the year ended 30 April 2019.

Required:

Calculate Erica plc's basic AND diluted earnings per share figures for the year ended 30 April 2019 (clearly show all workings).

(20 Marks)

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QUESTION 5

The finance director of J Ltd has asked for your assistance with the preparation of the financial statements for the financial year ended 31 January 2014. He has informed you that On 1 February 2018; the company acquired an asset by means of a finance lease. Details for the finance lease are as follows:

Cash price of leased asset	£50,000
Lease term	6 years
Payments due annually in advance	£10,120
Useful life of the asset	8 years
Residual value	£nil
Implicit rate of interest	8.5% per annum

J Ltd will obtain legal ownership of the asset at the end of the lease term. The company calculates depreciation using the straight line method.

Assuming that the actuarial method is to be used to allocate the finance charge over the lease term, compute the finance and depreciation charges which are to be shown in the company's financial statements for each of the years to 31 January 2019, 2020, 2021, 2022, 2023 and 2024 and create the disclosure notes that would appear in the financial statements in relation to these charges, the finance lease creditor (current and non-current) and the non-current assets.

(Clearly show your workings)

(**20 Marks)**

(Total 20 marks)

END OF QUESTIONS