

UNIVERSITY OF BOLTON
INSTITUTE OF MANAGEMENT
BA (Hons) ACCOUNTANCY
SEMESTER 1 EXAMINATIONS 2021/2022
FINANCIAL ACCOUNTING AND REPORTING
MODULE NO: ACC5001

Date: Tuesday 11th January 2022

Time: 10:00 – 13:00

INSTRUCTIONS TO CANDIDATES:

There are FIVE questions in this examination;

Section A - Answer ALL THREE questions

Section B – Answer ONE question

This is a closed book examination.

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

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SECTION A: Answer ALL THREE questions

Question 1

One of your clients Sound Speaker Limited is a manufacturer and supplier of speakers for wholesale and to the public. You have been provided with the company trial balance and the following information for the year ended 31 December 2021:

At 31 December 2021 the land was revalued at £150,000, this revaluation is not included in the provided trial balance. Sound Speaker Limited 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 20% 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%

- Inventories were physically counted at 31 December 2021 and were valued at £60,000
- Trade receivables includes bad debts of £4,000 which is to be written off this is not included in the provision for doubtful debts
- Provision for doubtful debts is to be adjusted to 2% of the receivables balance after bad debt have been written off.
- The tax charge on profits for the year ended 31 December 2021 is £15,000

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Section A Question 1 continued...

- Wages and Salaries are to be allocated as follows, 25% were paid to distribution staff, 50% to production staff and 25% to the administration staff.
- Director's fees are to be accounted for under administration expenses
- A final dividend of £20,000 is proposed by the directors (in addition to the £10,000 interim dividend that was paid in the year).

Sound Speaker Limited Trial Balance at 31 December 2021 is as follows:

	Dr	Cr
Sales		716
Purchases	244	
Directors fees	75	
Wages and salaries	138	
Distribution costs	51	
Administrative expenses	93	
Rents Received		20
Land at Cost	60	
Buildings at Cost	125	
Equipment at Cost	98	
Vehicles at Cost	142	
Intangible assets at cost	150	
Accumulated depreciation - Buildings		45
Accumulated depreciation - Equipment		38
Accumulated depreciation - Vehicles		66
Inventory 1 January 2018	54	
Trade receivables and payables	92	59
Provision for doubtful debts		4
Bank		32
Ordinary shares £1 each		100
Retained earnings (1 January 2021)		252
Dividends paid	10	
	1331	1331

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Section A Question 1 continued...

Required:

Prepare for Sound Speaker Limited:

- (a) A statement of comprehensive income for the year ended 31 December 2021
(10 marks)

- (b) A statement of financial position as at 30 December 2021
(20 marks)

Round all figures to the nearest £000 and reference any workings to the figures presented in your answers.

(Total 30 Marks)

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Question 2

You are the financial accountant for Time Limited, a company that makes and sells luxury watches to the public. The financial year ended 31st December 2021 has just passed and the Director of Finance has provided you with the companies draft financial statements and has asked you to complete the statement of cashflow for a meeting that is scheduled for next week. These are detailed below:

Income Statement for the Year Ended 31 December 2021

Revenue	33600
Cost of Sales	(18480)
Gross Profit	15120
Gain on disposal of equipment	336
Distribution Costs	(7056)
Administration expenses	(3360)
Finance Costs	(137)
Profit before tax	4904
Tax expense	(2016)
Profit for the year	2888

Statement of financial position as at 31 December 2021

	2021	2020
Non-Current assets		
Equipment	37757	36150
Current assets		
Inventory	5544	3696
Trade receivables	5040	3696
Cash and cash equivalents	0	194
Total Assets	48341	43736
Equity and liabilities		
Equity		
Ordinary share capital	3300	3000
Share premium	1200	750
Retained earnings	37485	34598
Non-current liabilities		
Bank Loans	1950	1200
Current liabilities		
Trade payables	1848	2772
Tax liability	2016	1416
Bank Overdraft	542	
Total Equity and liabilities	48341	43736

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Question 2 continued

The following information is also relevant for the year ended 31 December 2021 financial statements:

- Equipment costing £1,464,000 with accumulated depreciation of £533,000 was sold in the year and a profit of £336,000 was generated from this sale
- Depreciation totalling £5,318,000 was charged in the year
- All sale and purchases were made on credit, all other expenses were paid for in cash
- There were no dividends paid or proposed during the year

Required:

In accordance with IAS 7, prepare the statement of cashflows for Time Limited for the year ended 31 December 2021. Please keep all workings on a separate page to the statement of cash flows.

(Total 25 marks)

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Question 3

You are the financial accountant for Flowerpot plc is a manufacturing company. The directors are looking to grow by acquisition and have identified two potential target companies Bill Ltd and Ben Ltd. The financial statements of the target companies are detailed below:

Income statements for the year ended 31 December 2021

	Bill Ltd	Ben Ltd
Sales	11370	9195
Cost of Sales	(8040)	(6510)
Gross profit	3330	2685
Operating expenses	(1620)	(1215)
profit before interest and taxation	1710	1470
Interest payable	(390)	(30)
Profit before taxation	1320	1440
Taxation	(330)	(360)
Profit after tax	990	1080

Statements of financial position as at 31 December 2021

	Bill Ltd	Ben Ltd
Assets		
Non-Current Assets	9840	6360
Current assets		
Inventory	1185	945
Trade Receivables	1290	1020
Bank		210
Total Assets	12315	8535
Equity and liabilities		
Equity		
Share Capital	4500	4500
Retained Earnings	2910	2580
Non-current liabilities		
Loans	2625	375
Current Liabilities		
Trade Payables	1440	720
Taxation	330	360
Bank	510	
Total equity and liabilities	12315	8535

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Section A Question 3 continued....

The current price of each share is £1.65 in Bill Ltd and £2.40 in Ben Ltd. The directors think that Bill Ltd is the better investment as the share price is lower and it has a higher turnover, gross profit and a higher asset value than Ben Ltd.

Required:

Compute the following ratios for both Bill Ltd and Ben Ltd:

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

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

	Bill Ltd 2020	Ben Ltd 2020
Return on capital employed	18.5%	18.9%
Trade receivables collection period (days)	38	42
Current Ratio	1.2:1	2.1:1
Quick Ratio	0.7:1	1.1:1
Trade payables payment period (Days)	49	39
Capital gearing	11%	5%

Taking these ratios into account with those calculated for the current year write a report to the directors of Flowerpot Plc advising on your recommendation which company Flowerpot Plc should invest in, your report should provide reasons behind your advice. (All calculations should be on a separate page to the report and to one decimal place).

(25 Marks)

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SECTION B: Answer ONE question only from this section

Question 4

Dembo is a public limited company and has financial year ended at 31 March every year. On 5 January 2022 Dembo entered into a sales contract for the construction of an asset with Lamba Ltd. whereby Lamba paid an initial deposit of £20,000. The deposit is refundable only if Dembo fails to complete the construction of the asset. The remainder of £100,000 is payable on delivery of the asset on 5 May 2022. If the customer defaults on the contract prior to completion, Dembo has the right to retain the deposit. Relevant credit checks showed that Lamba can pay for the contract.

The managing director believes that, as completion of the asset is performed over time revenue should be recognised accordingly. He has persuaded the accountant to include the deposit and a percentage of the remaining balance for construction work in revenue for financial reporting in the end of March 2022.

Required:

- a. IFRS 15 Revenue from Contracts with Customers sets out a five-step model for the recognition of revenue earned from customers. Discuss, how Dembo should account for the sales contract in the year ended 31 March 2022, in accordance with the five-step approach under IFRS 15 Revenue from Contracts with Customers.

(15 marks)

- b. In accordance with IFRS 15 Revenue from Contracts with customers, discuss whether revenue arising from the sales contract should be recognised on a stage of completion basis as stated by the managing director.

(5 marks)

(20 marks)

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Section B continued....

QUESTION 5

Pfiza is a pharmaceutical company which develops new products with other pharmaceutical companies that have the appropriate production facilities. When Pfiza acquires a stake in a development project, it makes an initial payment to the other pharmaceutical company. It then makes a series of further stage payments until the product development is complete and it has been approved by the authorities. In the financial statements for the year ended 31 December 2020, Pfiza has treated the different stakes in the development projects as separate intangible assets because of the anticipated future economic benefits related to Pfiza's ownership of the product rights. However, in the year to 31 December 2021, the directors of Pfiza decided that all such intangible assets were to be expensed as research and development costs as they were unsure as to whether the payments should have been initially recognised as intangible assets. This write off was to be treated as a change in an accounting estimate.

Required:

- (i) Outline the criteria in IAS 38 Intangible Assets for the recognition of an intangible asset and discuss whether these are consistent with the Conceptual Framework. **(15 marks)**
- (ii) Discuss the implications for Pfiza's financial statements for both the years ended 31 December 2020 and 2022 if the recognition criteria in IAS 38 for an intangible asset were met as regards the stakes in the development projects above. **(5 marks)**
- (Total 20 marks)**

END OF SECTION B

END OF PAPER