[AC011]

UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

ACCOUNTANCY

SEMESTER 1 EXAMINATIONS 2021/2022

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Monday 10th January 2022 **Time: 10:00 – 13:00**

INSTRUCTIONS TO CANDIDATES:

There are FIVE questions in this examination;

Section A - Answer ALL THREE

Section B – Answer ONE question

This is a closed book examination.

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

University of Bolton
Institute of Management
Accountancy
Semester 1 Examination 2021/2022
Advanced Financial Accounting & Reporting
Module No. ACC6001

SECTION A: Answer ALL THREE questions

Question 1

The statements of comprehensive income for Chester plc, Hunder Ltd and Mill Ltd for the year ended 31 December 2021 were as follows:

	Chester	Hunder	Mill
	£	£	£
Sales	235,000	176,000	102,000
Cost of sales	(59,000)	(28,000)	(30,000)
Gross Profit	**176,000**	**148,000**	**72,000**
Administration costs	(15,670)	(12,350)	(15,000)
Distribution costs	(12,960)	(19,280)	(9,500)
Dividend received from Hunder	1,350		
Profit before tax	**148,720**	**116,370**	**47,500**
Taxation	(40,000)	(15,000)	(3,500)
Profit for the period	**108,720**	**101,370**	**44,000**

i. Chester plc acquired 70% of Hunder Ltd for £180,000 on 1.1.2016 when Hunder Ltd's share capital was £65,000 and reserves were £25,000.

ii. Chester plc acquired 25% of Mill Ltd for £30,000 on 1.1.2017 when Mill Ltd's share capital was £12,000 and reserves were £20,000.

iii. Goodwill of Hunder Ltd suffered impairment charges of £2,700 in the current year.

iv. Goodwill of Mill Ltd suffered impairment charges of £1,520 in the current year.

v. During the year Hunder Ltd sold goods to Chester plc for £5,000. These goods had cost Hunder Ltd £3,200. 35% of these goods were still in Chester's inventory at the year-end.

Section A Question 1 continues over the page…

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Section A Question 1 continued….

vi. During the year Mill Ltd sold goods to Chester plc for £2,500. These goods had cost Mill Ltd £1,500. 50% of these goods were still in Chester's inventory at the year-end.

vii. Chester's revenue included management fees of 6% of Hunder and Mill's turnover. Both of those companies have treated the charge as an administration cost.

viii. Non-controlling interests are measured using proportionate share of fair value of net asset.

Required:
Prepare Chester's consolidated statement of comprehensive income for the year ended 31 December 2021.

(Total 25 marks)

Section A continues over the page….

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Section A continued….

Question 2
The following are the financial statements of the parent company Lancash plc, a subsidiary company Betash and an associate company Gamash.
Statements of financial position as at 31 December 2021

	Lancash	Betash	Gamash
Assets			
Non current Assets	£	£	£
PPE at Cost	650,000	325,000	196,000
Investment in associate Betash	190,450		
Investment in associate Gamash	87,000		
	927,450	**325,000**	**196,000**
Current Assets			
Inventories	185,000	67,000	89,000
Receivables	154,000	87,000	79,000
Bank	35,000	12,000	18,000
Total Current Assets	**374,000**	**166,000**	**186,000**
Total Assets	**1,301,450**	**491,000**	**382,000**
Equity and Liabilities			
Share Capital (£1 Shares)	500,000	68,000	35,000
Retained Earnings	670,000	290,000	265,000
	1,170,000	**358,000**	**300,000**
Current Liabilities			
Payables	131,450	133,000	82,000
	131,450	**133,000**	**82,000**
Total Equity and liabilities	**1,301,450**	**491,000**	**382,000**

Section A Question 2 continues over the page…

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Section A Question 2 continued….

i. On 1 January 2015 Lancash plc acquired 60% of Betash plc for £190,450 when Betash plc's reserves were £56000 and 30% of Gamash Ltd for £87,000 when Gamash Ltd's reserves were £12,500.

ii. In the PPE in Betash, the fair value of the land on the date of acquisition increased by £12,500 above its cost in Betash plc.

iii. Near the end of 2021, Lancash plc had inventory acquired from Betash plc and Gamash Ltd and all these inventories are still in Lancash warehouse. Betash plc had invoiced the inventory to Lancash plc for £48,000 – the cost to Betash plc had been £35,500. Gamash Ltd had invoiced Lancash plc for £15,500 – the cost to Gamash Ltd had been £9,500.

iv. Goodwill has been impaired by £25,650. The whole of the impairment relates to Betash.

v. Non-controlling interests are measured using fair value method. On acquisition date, NCI was measured at £ 67,000.

vi. Of the receivables in Lancash co, there is a current account of £10,800 with Betash Co and a current account of £13,500 with Gamash Co.

Required:

Prepare Lancash plc's consolidated statement of financial position as at 31.12.2021.

(Total 25 marks)

Section A continues over the page….

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Question 3
The following is the statement of financial position of Delta Ltd as at 31 December 2021: (in £)

Non-current assets	
Freehold property	150,000
Plant	450,000
	600,000
Investments	
Shares in associates	190,000
Bonds	130,000
	320,000
Total non-current assets	***920,000***
Current assets	
Inventory	102,000
Trade receivables	124,000
Total current assets	***226,000***
Total assets	**1,146,000**
Current liabilities	
Trade payables	296,000
Bank overdraft	60,000
Total current liabilities	***356,000***
Non-current liabilities	
Loan	550,000
Total Non-current liabilities	***550,000***
Capital and reserves	
120000 7.5% cumulative preference shares at £1 each	120,000
400,000 ordinary shares of £1 each 80p paid	320,000
Retained earnings	(200,000)
Total equity	***240,000***
Total equity and liabilities	**1,146,000**

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Section A Question 3 continued….

The following information is relevant:

i. Unpaid capital on the holding of 800,000 ordinary shares has been called up and paid.
ii. The ordinary shares thereupon to be reduced to shares of 80p each fully paid up by cancelling 20p per share. Then each fully paid share of 80p to be subdivided into 8 shares of 10p each fully paid. Three 5p share is cancelled out of every 8 new shares split from 80p.
iii. the 8.5% cumulative preference shares are cancelled on the basis that the holder of every preference share will be issued with 10 fully paid ordinary shares of 10p each.
iv. Revaluation of the freeholder property has increased the by £120,000.
v. The adverse balance on retained earnings to be written off. £20,000 to be written off the shares in the subsidiary and the sums made available by the scheme to be used to write down the plant.

Required:

(a) Prepare a capital reduction and reorganisation account.

(b) Prepare the statement of financial position of the company as it would appear immediately after completion of the scheme.

(25 Marks)

END OF SECTION A

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SECTION B: Answer ONE question

Question 4

Gooma is considering leasing land to Lizza for a term of 30 years. The title will remain with Gooma at the end of the initial lease term. Lizza can lease the land indefinitely at a small immaterial rent at the end of the lease or may purchase the land at a 90% discount to the market value after the initial lease term. Lizza is to pay Gooma a premium of $3 million at the commencement of the lease, which equates to 70% of the value of the land. Additionally, Gooma will receive an annual rental payment of 4% of the market value of the land as at the commencement of the lease.

The directors of Gooma are unsure as to whether the lease should be classified as a finance lease or an operating lease.

Required:

a. Based on IFRS 16 Lease, list key factors that should be considered by a lessor when determining whether a lease is a finance lease or an operating lease.

(5 marks)

b. In accordance with IFRS 16 Lease, explain how Gooma should classify the lease of land.

(10 marks)

c. Discuss the accounting treatments in Gooma and Lizza regarding to the lease of land.

(10 marks)

(Total 25 marks)

Section B continues over the page….

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Section B continued….

Question 5

The directors of Aron would like advice with regards some financial instrument transactions that took place during the year ended 31 December 2021.

(i) On 1 January 2021, Aron purchased $10 million of bonds at par. These bonds had been issued by Winston, an entity operating in the video games industry. The bonds are due to be redeemed at a premium on 31 December 2024, with Aron also receiving 5% interest annually in arrears. The effective rate of interest on the bonds is 15%. Aron often holds bonds until the redemption date, but will sell prior to maturity if investments with higher returns become available. Winston's bonds were deemed to have a low credit risk at inception.

On 31 December 2021, Aron received the interest due on the bonds. However, there were wider concerns about the economic performance and financial stability of the video games industry. As a result, there has been a fall in the fair value of bonds issued by Winston and similar companies. The fair value of the Aron's investment at 31 December 2021 was $9 million.

Required:

Advise Aron on how to deal with the above transactions in the financial statements for the year ended 31 December 2021.

(15 marks)

(ii) Aron's share capital is comprised of 'A' class shares. These shares have been correctly classified as equity. Aron is considering issuing the following instruments:

• 'B' class shares that are not mandatorily redeemable but contain a call option allowing Aron to repurchase them. Dividends would be payable on the B shares if, and only if, dividends are paid on the A ordinary shares.

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Section B Question 5 continued….

- Share options which will give the counterparty rights to buy a fixed number of ordinary shares for a fixed amount of $10 million.

Required:

In accordance with IAS 32 Financial Instruments: Presentation, discuss whether the 'B' class shares and the share options should be classified as financial liabilities or equity.

(10 marks)

(Total 25 marks)

END OF SECTION B

END OF PAPER