UNIVERSITY OF BOLTON

INSTITUTE OF MANAGEMENT

MSc ACCOUNTANCY AND FINANCIAL MANAGEMENT

SEMESTER 2 EXAMINATION 2021/2022

STRATEGIC BUSINESS REPORTING

MODULE NO: ACC7520

PAST EXAMINATION PAPER

Date: Friday 20 May 2022 **Time: 10.00 – 1.00**

INSTRUCTIONS TO CANDIDATES:

There are 3 questions in this examination; please answer all 3 questions:

This is a closed book examination.

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

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QUESTION 1

The draft statements of financial position as at 30 April 20X1 of Rocky limited company and its subsidiaries are as follows:

	Rocky	Polly	Sally
	$m	$m	Dinars m
Assets			
Non-current assets			
Property, plant and equipment	385	117	430
Investments in subsidiaries			
Polly	113		
Sally	46		
	544	***117***	***430***
Current assets	***118***	***100***	***330***
Total assets	**662**	**217**	**760**
Equity and liabilities			
Share capital	158	38	200
Retained earnings	256	56	300
Other components of equity	7	4	–
Total equity	***421***	***98***	***500***
Non-current liabilities	56	42	160
Current liabilities	185	77	100
Total liabilities	***241***	***119***	***260***
Total equity and liabilities	**662**	**217**	**760**

The following information is relevant to the preparation of the group financial statements:

On 1 May 20X0, Rocky acquired 70% of ordinary shares of Polly limited company for $94 million cash. The fair value of the identifiable net assets recognised by Polly was $120 million excluding the patent which had a fair value of $4 million at 1 May 20X0. This patent had not been recognised in the financial statements of Polly. The patent had a remaining term of four years to run at that date and is not renewable. The retained earnings of Polly were $49 million and other components of equity were $3 million at the date of acquisition. The remaining excess of the fair value of the net assets is due to an increase in the value of land.

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Question 1 continued

Rocky wishes to use the ‘full goodwill’ method. The fair value of the non-controlling interest in Polly was $46 million on 1 May 20X0. There have been no issues of ordinary shares since acquisition and goodwill on acquisition is not impaired.

Rocky acquired a further 10% interest from the non-controlling interest in Polly on 30 April 20X1 for a cash consideration of $19 million.

Rocky acquired 52% of the ordinary shares of Sally on 1 May 20X0 when Sally’s retained earnings were 220 million dinars. The fair value of the identifiable net assets of Sally on 1 May 20X0 was 495 million dinars. The excess of the fair value over the net assets of Sally is due to an increase in the value of land. Rocky wishes to use the ‘full goodwill’ method. The fair value of the non-controlling interest in Sally at 1 May 20X0 was 250 million dinars. There have been no issues of ordinary shares and no impairment of goodwill since acquisition.

The following exchange rates are relevant to the preparation of the group financial statements:

	Dinars to $
1 May 20X0	6
30 April 20X1	5
Average for year to 30 April 20X1	5.8

Required:

a) Determine the group structure among Rocky, Polly and Sally

(3 marks)

b) Calculate net assets of Polly and Sally on acquisition date and reporting date

(6 marks)

c) Compute foreign exchange gain/loss on net assets and profit of Sally

(4 marks)

d) Show the value of goodwill arising from Rocky’s purchase of shares of Polly and Sally

(8 marks)

e) Compute foreign exchange gain/loss on Sally’s goodwill

(3 marks)

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Question 1 continued

f) Analyse the impact of the purchase of further 10% of ordinary share of Polly on 30 April 20X1 in group equity

(2 marks)

g) Determine the value of non-controlling interest at the year end

(6 marks)

h) Calculate the group reserves at the year-end of Rocky Group which clearly show the value of retained earnings and other components of equity, and translation reserve.

(5 marks)

i) Prepare a consolidated statement of financial position for the Rocky Group for the year ended 30 April 20X1

(10 marks)

Professional marks will be awarded in this question for the quality of the explanations

(3 marks)

Total: 50 marks

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QUESTION 2

Background
Tinkle limited company prepares its financial statements in accordance with International Financial Reporting Standards. Due to the significant decline in the business performance of the company in the past two years, shareholders expect the directors to improve the current situation by the end of 20X5.

Deferred tax asset
Tinkle incurred substantial losses in the financial years 30 April 20X3 to 30 April 20X4. In the financial year to 30 April 20X5, it made a small profit before tax due to non-operating gains. In the financial statements for the year ended 30 April 20X5 Tinkle has recognised a material deferred tax asset in respect of its unused trading losses. This was based on the budgets for the years 20X6 – 20X9. The finance director instructed the financial controller to include high growth rates in these budgets due to positive indications from customers about future orders, as well as Tinkle' plans to expand into new markets and to sell new products currently under development. The tax losses expire in 20X9.

Share-based payment
On 1 May 20X4, a share-based payment scheme was introduced for Tinkle's six directors. The directors are entitled to 600,000 share options each if they remain employed by the company until 30 April 20X7. The fair value of each share option was $4 at 1 May 20X4 and $5 at 30 April 20X5. At 1 May 20X5 it was estimated that none of the directors would leave before the end of three years but, as at 30 April 20X5, the estimated number of leavers was revised to one. The finance director has told the accountant that no entries or disclosures are required for this scheme in the current year's financial statements because it has not yet vested.

Revaluation of property, plant and equipment
Tinkle purchased an item of property, plant and equipment for $10 million on 1 May 20X4. The useful economic life was estimated to be five years. At 30 April 20X4, the asset was revalued to $12 million. At 30 April 20X5, the asset's value had fallen to $4 million. The downwards revaluation was recorded in other comprehensive income.

Required:

a) Explain how the above transactions should be dealt with in the financial statements for the year ended 30 April 20X5.

(15 marks)

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Question 2 continues over the page – Please turn the page

Question 2 continued

b) Discuss the ethical issues that may arise from current accounting treatments of Tinkle.

(8 marks)

Professional marks will be awarded in this question for the application of ethical principles.

(2 marks)

Total: 25 marks

End of question 2

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QUESTION 3

Marble, a public limited company, has entered into several transactions in related to financial instruments during the year ended 31 May 20X7 and wishes to obtain advice on how to account for them.

(i) Marble issued one million convertible bonds on 1 June 20X6. The bonds had a term of three years and were issued for their fair value of $100 million, which is also the par value. Interest is paid annually in arrears at a rate of 6% per annum. Bonds without the conversion option attracted an interest rate of 9% per annum on 1 June 20X6. The company incurred issue costs of $1 million. The impact of the issue costs is to increase the effective interest rate to 9.38%. At 31 May 20X9 the bondholders can opt to be repaid the par value in cash, or they can opt to receive a fixed number of ordinary shares in Marble.

(15 marks)

(ii) Marble held 3% holding of the shares in Sany, a public limited company. The investment was designated upon recognition as fair value through other comprehensive income and as at 31 May 20X7 was fair valued at $5 million. The cumulative gain recognised in equity relating to this investment was $400,000. On the same day, the whole of the share capital of Sany was acquired by Gole, a public limited company, and as a result, Marble received shares in Gole with a fair value of $5.5 million in exchange for its holding in Sany. The company wishes to know how the exchange of shares in Sany for the shares in Gole should be accounted for in its financial records.

(10 marks)

Required

Advise Marble on how to deal with the above transactions in the financial statements for the year ended 31 May 20X7.
Note: The mark allocation is shown against each of the issues.

(25 Marks)

End of question 3

End of questions

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