UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA(HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATIONS 2022/2023

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Monday 9 January 2023 **Time: 1:00 – 4:00**

INSTRUCTIONS TO CANDIDATES:

There are FIVE questions in this examination; Answer ALL THREE questions from section A and ONE 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 three questions

Question 1

Given below are the statements of profit or loss for Paris, Stockton and Amsterdam for the year ended 31 December 2022 were as follows:

	Paris	Stockton	Amsterdam
	£	£	£
Sales	335,000	276,000	112,000
Cost of sales	(159,000)	(128,000)	(35,000)
Gross Profit	**176,000**	**148,000**	**77,000**
Administration costs	(20,670)	(16,350)	(18,000)
Distribution costs	(22,960)	(18,280)	(12,500)
Dividend received from Stockton	4,350		
Profit before tax	**136,720**	**113,370**	**46,500**
Taxation	(60,000)	(20,000)	(15,500)
Profit for the period	**76,720**	**93,370**	**31,000**

i. Paris plc acquired 70% of Stockton Ltd for £200,000 on 1 January 2016 when Stockton Ltd's share capital was £70,000 and reserves were £35,000.

ii. Paris plc acquired 25% of Amsterdam Ltd for £25,000 on 1 January 2017 when Amsterdam Ltd's share capital was £14,000 and reserves were £22,000.

iii. Goodwill of Stockton Ltd suffered impairment charges of £2,500 in the current year.

iv. Goodwill of Amsterdam Ltd suffered impairment charges of £1,500 in the current year.

v. During the year Stockton Ltd sold goods to Paris plc for £10,000. These goods had cost Stockton Ltd £6,000. 40% of these goods were still in Paris's inventory at the year-end.

Question 1 continues over the page – Please turn the page

Question 1 continued

vi. During the year Amsterdam Ltd sold goods to Paris plc for £7,500. These goods had cost Amsterdam Ltd £4,500. 50% of these goods were still in Paris's inventory at the year-end.

vii. Additional fair value depreciation for the current year amounted to £8,000. All depreciation should be charged to cost of sales.

viii. Non-controlling interests are measured using fair value method.

Required:
Prepare Paris's consolidated statement of comprehensive income for the year ended 31 December 2022.

(Total 25 marks)

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Question 2

The following are the financial statements of the parent company Peach plc, a subsidiary company Strawberry and an associate company Apple.

Given below are the statements of financial position as at 31 December 2022

	Peach	Strawberry	Apple
Assets	£	£	£
Non current Assets			
PPE at Cost	750,000	425,000	296,000
Investment in Strawberry	290,450		
Investment in associate Apple	187,000		
	1,227,450	**425,000**	**296,000**
Current Assets			
Inventories	150,000	167,000	189,000
Receivables	185,000	187,000	179,000
Bank	40,000	112,000	118,000
Total Current Assets	**375,000**	**466,000**	**486,000**
Total Assets	**1,602,450**	**891,000**	**782,000**
Equity and Liabilities			
Share Capital (£1 Shares)	600,000	368,000	135,000
Retained Earnings	870,000	400,000	465,000
	1,470,000	**768,000**	**600,000**
Current Liabilities			
Payables	132,450	123,000	182,000
	132,450	**123,000**	**182,000**
Total Equity and liabilities	**1,602,450**	**891,000**	**782,000**

QUESTION 2 CONTINUES OVER THE PAGE – PLEASE TURN THE PAGE

Question 2 continued

i. On 1 January 2015 Peach plc acquired 80% of Strawberry plc for £290,450 when Strawberry plc's reserves were £266,000 and 40% of Apple Ltd for £187,000 when Apple Ltd's reserves were £258,500.

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

iii. Peach plc had inventory acquired from Strawberry plc and Apple Ltd and all these inventories are still in Peach warehouse. Strawberry plc had invoiced the inventory to Peach plc for £60,000 – the cost to Strawberry plc had been £40,000. Apple Ltd had invoiced Peach plc for £17,000 – the cost to Apple Ltd had been £11,000.

iv. Goodwill has been impaired by £29,650. The whole of the impairment relates to Strawberry .

v. Non-controlling interests are measured using fair value method. On acquisition date, NCI was measured at £397,000.

vi. Receivables in Peach co, there is a current account of £15,800 with Strawberry Co and a current account of £19,500 with Apple Co.

Required:

Prepare Peach plc's consolidated statement of financial position as at 31 December 2022.

(Total 25 marks)

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Question 3

The directors of Raymond Co. would like advice with regards to below issues:

a) Raymond Co. is a lessor and is drawing up a lease agreement for a building. The building has a remaining useful life of 50 years. The lease term, which would commence on 1 January 20X0, is for 30 years.

Raymond Co. would receive 40% of the asset's value upfront from the lessee. At the end of each of the 30 years, Raymond Co will receive 6% of the asset's fair value as at 1 January 20X0.

Legal title at the end of the lease remains with Raymond Co, but the lessee can continue to lease the asset indefinitely at a rental that is substantially below its market value. If the lessee cancels the lease, it must make a payment to Raymond Co. to recover its remaining investment.

Required:
Per IFRS 16 Leases, should the lease be classified as an operating lease or a finance lease?

(15 marks)

b) Raymond Co. enters into an agreement to lease an asset. The terms of the lease are as follows.

- Primary period is for four years from 1 January 20X2 with a rental of £2,000 per annum payable on 31 December each year.
- The present value of the lease payments is £5,710
- The interest rate implicit in the lease is 15%.

Required:
Calculate how above lease asset and liability will be will be shown in the financial statements for the year ended 31 December 20X2? Show workings for liability over full lease term period using amortised cost method.

(10 marks)
(25 marks)

END OF SECTION A

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SECTION B: Answer ONE question only from this section

Question 4

On 31 December 20X1, the issued share capital of Delta Co. consisted of 4,000,000 ordinary shares of £0.25 each. On 1 July 20X2 the entity made a rights issue in the proportion of 1 for 4 at £0.50 per share and the shares were quoted immediately before the issue at £1.

Its trading results for the last two years were as follows:

	Year ended 31 December	
	20X2	**20X1**
	£	£
Profit after tax	425,000	320,000

Required:

a) Show the calculation of basic EPS to be presented in the financial statements for the year ended 31 December 20X2 (including comparative).

(10 marks)

b) Discuss why it is useful to disclose the EPS calculated on a diluted basis in addition to the basic basis giving examples of convertible bonds and options.

(15 marks)

(25 marks)

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Question 5

Olympus issues 4% convertible bonds at their nominal value of £5 million. Interest is payable annually in arrears. Each £1,000 bond is convertible at any time up to maturity into 400 ordinary shares. Alternatively, the bonds will be redeemed at par after 3 years.

The market rate applicable to non-convertible bonds is 6%. The present value of £1 payable at the end of year, based on rates of 4% and 6% are as follows:

End of year	4%	6%
1	0.96	0.94
2	0.92	0.89
3	0.89	0.84

Required:

a) Calculate what amounts will be shown as a financial liability and as equity when the convertible bonds are issued? Also, calculate what amounts will be shown in the statement of profit or loss and statement of financial position for years 1–3?

(10 marks)

b) Discuss how IFRS 9 Financial Instruments specifies below three ways of classification and measurement of Financial Assets as an investment in debts:

I. Amortised cost
II. Fair value through other comprehensive income (FVOCI)
III. Fair value through profit or loss (FVPL)

(15 marks)

(25 marks)

END OF QUESTIONS
END OF PAPER