UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA (HONS) ACCOUNTANCY

SEMESTER 2 RESIT EXAMINATIONS 2022/2023

FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC5001

Date: Thursday 20 July 2023 **Time: 2pm – 5pm**

INSTRUCTIONS TO CANDIDATES:

There are 5 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.

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Greater Manchester Business School
Semester 2 Resit Examination 2022/2023
BA (Hons) Accountancy
Financial Accounting & Reporting
Module No. ACC5001

SECTION A: Answer ALL three questions.

Question 1

You are the financial accountant for Square Limited , a company that makes and sells children's toys. The financial year ended 31st December 2022 has just passed and the finance director has provided you with the companies draft financial statements and has asked you to complete the statement of cashflow.

Income Statement for the Year Ended 31 December 2022

	£m
Revenue	3,665
Cost of Sales	(2,827)
Gross Profit	**838**
Other operating income- government grants	50
	888
Distribution Costs	(75)
Administration expenses	(56)
Environmental provision	(67)
Preference dividend	(35)
Profit before tax	**655**
Tax expense	(177)
Profit for the year	**478**

Question 1 continues over the page
Please turn the page

Question 1 continued…

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Statements of financial position as at 31 December 2022

	2022	2021
	£m	£m
Non-Current assets		
Intangible assets	450	410
Property, plant & equipment	2,480	1,830
Current assets		
Inventory	920	763
Trade receivables	642	472
Cash and cash equivalents	0	34
Total Assets	**4,492**	**3,509**
Equity and liabilities		
Equity		
Ordinary share capital £1 each	500	400
Retained earnings	2,075	1,732
Share premium	90	70
Revaluation surplus	170	0
Non-current liabilities		
10% redeemable preference shares	350	350
Government grants	210	160
Deferred tax	52	30
Environmental provision	76	24
Current liabilities		
Trade payables	680	518
Tax liability	176	185
Bank Overdraft	63	
Government grants	50	40
Total Equity and liabilities	**4,492**	**3,509**

The following information is also relevant for the year ended 31 December 2022 financial statements:

Cost of sales includes:

Depreciation	£366
Impairment of intangibles	£36
Other costs	£2,425
	£2,827

Question 1 continued over…
Please turn the page

Question 1 continued…

The following information is also relevant for the year ended 31 December 2022 financial statements:

Cost of sales includes:

Depreciation	£366
Impairment of intangibles	£36
Other costs	£2,425
	£2,827

- Tangible non-current assets include land which was revalued giving a surplus of £170 million during the period.
- The company's motor vehicle haulage fleet was replaced during the year.
- The fleet originally cost £42 million and had been written down to £11 million at the time of its replacement. The gross cost of the fleet replacement was £180 million and a trade in of £14 million was given for the old vehicles.
- The company acquired some new plant on 1 July 2021 at a cost of £120 million.

Environmental provision
The provision represents an estimate of the cost of environmental restoration relating to the company's factory expansion.

Ordinary Share issue
During the year there was a bonus issue from the share premium account of one new share for every ten shares held. A further share issue was made for cash. A dividend of £220 million was paid during the year.

Preference dividend
The full preference dividend was paid during the year.

Required:
In accordance with IAS7, prepare the statement of cashflows for Jack in a Box Limited for the year ended 31 December 2022. Please keep all workings on a separate page to the statement of cash flows.

(Total 25 marks)

End of question 1
Please turn the page,

Question 2

One of your customers, Bounce Limited, is a producer and distributor of trampolines to the general public. The following details and the company trial balance for the year ended 31 December 2022, have been provided to you:

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The following trial balance has been extracted from the books of Boumce Limited as at 31 December 2022.

	£ 000	£ 000
Administration expenses	125	
Distribution costs	148	
Share Capital £1		135
Share premium		40
Revaluation surplus		10
Dividend paid	14	
Cash at bank and in hand	2	
Receivables	117	
Interest paid	13	
Dividends received		8
Interest received		1
Land and buildings at cost (land 190, buildings 50)	240	
Land and buildings: accumulated depreciation		15
Plant and machinery at cost	200	
Plant and machinery: accumulated depreciation		85
Retained earnings		118
Purchases	630	
Sales		1,083
Inventory at 1 January 2022	70	
Trade payables		14
Bank Loan		50
	1,559	1,559

Additional Information:

1) Inventory at 31 December 2022 was valued at a cost of £47,500. Included in this balance were goods that had cost £7,500. These goods had become damaged during the year, and it is considered that the goods could be sold for £2,750, less commission of £250.

Question 2 continued over…
Please turn the page

Question 2 continued…

2) Depreciation for the year to 31 December 2022 is to be charged against cost of sales as follows:

   Buildings 5% on cost (straight line)

Plant and Machinery 30% on carrying amount (reducing balance)

3) Land is to be revalued upwards by £50,000.

4) Tax of £82,000 is to be provided for the year to 31 December 2022

5) The bank loan is repayable in five years' time.

Required:

Prepare for Bounce Limited:

(a) A statement of comprehensive income for the year ended 31 December 2022

(10 marks)

(b) A statement of financial position as at 31 December 2022.

(20 marks)

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

(Total 30 Marks)

Question 3

Desk Co is a company that manufactures and retails office products. Their summarised financial statements for the years ended 30 June 2021 and 2022 are given below:

Question three continued over…
Please turn the page

Question 3 continued…

Statements of profit or loss for the year ended 30 June

	2022	2021

	£000	£000
Revenue	1,391,820	1,159,850
Cost of sales	(1,050,825)	(753,450)
Gross Profit	**340,995**	**406,400**
Operating expenses	(161,450)	(170,650)
Profit from operations	**179,545**	**235,450**
Finance costs	(10,000)	(14,000)
Profit before tax	**169,545**	**221,450**
Tax	(50,800)	(66,300)
Profit for the year	118,745	155,150

Question 3 continued over…
Please turn the page

Question 3 continued…

Statements of financial position as at June

	2022	2021

	£000	£000
Non-current assets	509,590	341,400
Current assets		
Inventory	109,400	88,760
Receivables	419,455	206,550
Bank		95,400
	1,038,445	732,110
Share capital	100,000	100,000
Share premium	20,000	20,000
Revaluation surplus	50,000	
Retained earnings	376,165	287,420
	546,165	407,420
Non-current liabilities	61,600	83,100
Current liabilities		
Payables	295,480	179,590
Overdraft	80,200	
Tax	55,000	62,000
	1,038,445	732,110

The directors concluded that their revenue for the year ended 30 June 2021 fell below budget and introduced measures in the year end 30 June 2022 to improve the situation. These included:

- Cutting prices
- Extending credit facilities to customers
- Purchasing additional machinery in order to be able to manufacture more products.

The directors are now reviewing the results for the year ended 30 June 2022 and have asked for your advice, as an external business consultant, as to whether or not the above strategies have been successful.

Question 3 continued over…
Please turn the page.

Question 3 continued…

Required:
Prepare a report to the directors of Desk Co assessing the performance and position of the company in the year ended 30 June 2022 compared to the

previous year and advise them on whether or not you believe that their strategies have been successful you can use any the following ratio in your assessment:

- **Operating profit**
- **Return on capital employed**
- **Asset turnover**
- **Inventory days**
- **Receivable days**
- **Payable days**
- **Current ratio**
- **Gearing**

(25 Marks)

End of question 3
Please turn the page

SECTION B: Answer ONE question only from this section

Question 4

During the year to 30 September 2022 Hudson built a new mining facility to take advantage of new laws regarding on-shore gas extraction. The construction of the facility cost £5 million, and to fund this Hudson took out a £5 million 3% loan on 1 October 2021, which will not be repaid until 2026. The 3% interest was paid on 30 September 2023.

Construction work began on 1 October 2022, and the work was completed on 31 August 2023. As not all the funds were required immediately, Hudson invested £1.5 million of the loan in 2% bonds from 1 October 2022 until 31 January 2023. Mining commenced on 1 September 2023 and is expected to continue for 10 years.

As a condition of being allowed to construct the facility, Hudson is required by law to dismantle it on 1 October 2033. Hudson estimated that this would cost a further £1.5 million. As the equipment is extremely specialised, Hudson invested significant resources in recruiting and training employees. Hudson spent £300,000 on this process in the year to 30 September 2023, believing it to be worthwhile as it anticipates that most employees will remain on the project for the entire 10 year duration.

Hudson has a cost of capital of 3%.

Required:

Show, using extracts, the correct financial reporting treatment for the above items in the financial statements for Hudson for the year ended 30 September 2023.

(Total 20 marks)

End of question 4
Please turn the page

Question 5

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)

END OF QUESTIONS
END OF EXAM PAPER