UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA(HONS) ACCOUNTANCY

SEMESTER 2 RESIT EXAMINATIONS 2022/23

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Wednesday 19 July 2023 **Time: 10am – 1pm**

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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SECTION A: Answer ALL three questions

Question 1

The statements of comprehensive income for Paris Plc, Salford Ltd and Armenia Ltd for the year ended 31 December 2021 were as follows:

	Paris	Salford	Armenia
	£	£	£
Sales	360,000	209,000	120,000
Cost of sales	(69,000)	(30,000)	(22,000)
Gross Profit	**291,000**	**179,000**	**98,000**
Administration costs	(20,000)	(15,000)	(17,000)
Distribution costs	(16,000)	(21,000)	(10,000)
Profit before tax	**255,000**	**143,000**	**71,000**
Taxation	(26,000)	(19,000)	(5,000)
Profit for the period	**229,000**	**124,000**	**66,000**

i. Paris plc acquired 70% of Salford Ltd 01.03.2017 and 35% of Armenia Ltd on 31.12.2016.
ii. Goodwill of Salford Ltd suffered impairment charges of £1,200 in the current year.
iii. During the year Salford Ltd sold goods to Paris plc for £12,000. These goods had cost Salford Ltd £8,000. 50% of these goods were still in Paris's inventory at the year-end.
iv. Non-controlling interests are measured using proportionate share of fair value of net asset.

Required:

Prepare Paris's consolidated statement of comprehensive income for the year ended 31 December **(Total 25 marks)**

End of question 1
Please turn the page

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Question 2

Statements of financial position of Portugal Plc., Senegal Ltd., and Argentina Ltd. are as follows:

	Portugal	Senegal	Argentina
Assets	£	£	£
Non current Assets			
PPE at Cost	850,000	230,000	176,000
Investment in Senegal	195,000		
Investment in Argentina	87,000		
	1,132,000	**230,000**	**176,000**
Current Assets			
Inventories	203,000	68,000	105,000
Receivables	153,000	109,000	68,000
Bank	48,000	25,000	20,100
Total Current Assets	**404,000**	**202,000**	**193,100**
Total Assets	**1,536,000**	**432,000**	**369,100**
Equity and Liabilities			
Share Capital (£1 Shares)	802,000	203,000	179,000
Retained Earnings	583,000	160,000	150,000
	1,385,000	**363,000**	**329,000**
Current Liabilities			
Payables	151,000	69,000	40,100
Total Equity and liabilities	**1,536,000**	**432,000**	**369,100**

Question 2 continued over…

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Question 2 continued…

i. On 1 January 2016 Portugal Plc acquired 60% of Senegal Ltd. for £195,000 when Senegal's reserves were £26,000, and 30% of Argentina Ltd for £87,000 when Argentina's reserves were £22,000.

ii. In the PPE of Senegal, the fair value of the land on the date of acquisition increased by £15,000 above its cost in Senegal.

iii. In December 2021, Portugal plc had inventory acquired from Senegal and Argentina and all these inventories are still in Portugal's warehouse. Senegal had invoiced the inventory to Portugal for £80,000 – the cost to Senegal plc had been £55,000. Argentina had invoiced Portugal for £35,000 – the cost to Argentina had been £24,500.

iv. Goodwill has been impaired by £9,000. The whole of the impairment relates to Senegal.

v. Non-controlling interests are measured using fair value method. On acquisition date, NCI was measured at £98,000.

Required:

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

(Total 25 marks)

End of question 2
Please turn the page

Question 3

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

Non-current assets	
Freehold property	135,000
Plant	286,000
	421,000
Investments	
Shares in associates	167,000
Bonds	89,000
	256,000
Total non-current assets	***677,000***
Current assets	
Inventory	189,000
Trade receivables	156,000
Total current assets	***345,000***
Total assets	**1,022,000**
Current liabilities	
Trade payables	198,000
Bank overdraft	58,000
Total current liabilities	***256,000***
Non-current liabilities	
Loan	307,000
Total Non-current liabilities	***307,000***
Capital and reserves	
160000 8% cumulative preference shares at £1 each	160,000
800,000 ordinary shares of £1 each 65p paid	520,000
Retained earnings	(221,000)
Total equity	***495,000***
Total equity and liabilities	**1,022,000**

Question 3 continued over…

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Question 3 continued…

The reconstruction schemes are as follows:

i. Unpaid capital on the holding of 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 10p shares are cancelled out of every 8 new shares split from 80p.
iii. the 8% cumulative preference shares are cancelled on the basis that the holder of every preference share will be issued with 15 fully paid ordinary shares of 10p each.
iv. Revaluation of the freeholder property has increased the by £70,000.
v. The adverse balance on retained earnings to be written off. £15,000 to be written off the shares in the associates 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 Olympus as it would appear immediately after completion of the scheme.

(25 Marks)

End of question 3
Please turn the page

SECTION B: Answer ONE question only from this section

Question 4

Frost 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 2022, is for 30 years. Frost would receive 40% of the asset's value upfront from the lessee. At the end of each of the 30 years, Frost will receive 6% of the asset's fair value as at 1 January 2022.

Legal title at the end of the lease remains with Frost, 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 Frost to recover its remaining investment.

Required:

a. **Per IFRS 16 Leases, should the lease be classified as an operating lease or a finance 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)

    - **Explain how Frost and the lessee should classify the lease of building.**

(10 marks)

b. **Discuss the accounting treatments in Frost regarding to the lease of building.**

(10 marks)
(Total 25 marks)

End of question 4
Please turn the page

Question 5

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

(i) Panan purchased a new financial asset on 1 December 2021. The asset is a bond that will mature in three years. Panan buys debt investments with the intention of holding them to maturity although has, on occasion, sold some investments if cash flow deteriorated beyond acceptable levels. The bond pays a market rate of interest. The Finance Director is unsure as to whether this financial asset can be measured at amortised cost.

Required:

Advise the Finance Director on how the bond will be measured

(13 marks)

(ii) Panan regularly invests in assets that are measured at fair value through profit or loss. These asset purchases are funded by issuing bonds. If the bonds were not remeasured to fair value, an accounting mismatch would arise. Therefore, Panan designates the bonds to be measured at fair value through profit or loss. The fair value of the bonds fell by $30m during the reporting period, of which $10m related to Panan's credit worthiness.

Required:

How should the bonds be accounted for?

(12 marks)

(Total 25 marks)

END OF QUESTIONS