UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

BA (HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATIONS 2023/2024

FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC5001

Date: Monday 8th January 2024 **Time: 2.00pm – 5.00pm**

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.

University of Bolton
Greater Manchester Business School
Semester 1 Examination 2023/2024
BA (Hons) Accountancy
Financial Accounting & Reporting
Module No. ACC5001

SECTION A: Answer ALL three questions

Question 1

Bill and Ben Limited, is a producer and distributor of flower pots for retail and the public. The following details and the company trial balance for the year ended 31 December 2023, have been provided to you:

The following trial balance has been extracted from the books of Bill and Ben Limited as at 31 December 2023.

	£ 000	£ 000
Administration expenses	170	
Interest paid	5	
Called up share capital (Ordinary shares of £1 each)		
Share premium		50
Dividend	6	
Cash at bank and in hand	9	
Tax	10	
Warranty provision		90
Distribution costs	240	
Land and Buildings cost (Land £110,000, Buildings £100,000)	210	
Land and buildings accumulated depreciation		48
Plant and machinery cost	125	
Plant and machinery accumulated depreciation		75
Retained earnings (at 1 January 2023)		270
10% Loan note (issued in 2021)		80
Purchases	470	
Sales		1,300
Inventory (at 1 January 2023)	150	
Trade payables		60
Trade receivables	728	
	2,123	2,123

Question 1 continues over the page
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Question 1 continued

Additional Information:

1) Inventory at 31 December 2023 was valued at a cost of £250,000.

2) Buildings and plant and machinery are depreciated on a straight-line basis (assuming no residual value) at the following rates:

On cost:	Buildings	5%
	Plant and machinery	20%

3) There were no purchases or sales of non-current assets during the year to 31 December 2023, however the directors of Bill and Ben Limited accepted the report of an independent surveyor who valued the land at £150,000, Bill and Ben Limited have not yet recorded the revaluation.

4) The depreciation charges for the year to 31 December 2023 are to be apportioned as follows.

Cost of sales	60%
Distribution costs	20%
Administrative expenses	20%

5) Taxes for the year to 31 December 2023 are estimated to be £135,000.

6) The 10% loan note was in 2021 and is repayable in five years from that date.

7) The year end provision for warranty claims has been estimated at £75,000. Warranty costs are charged to administrative expenses.

Required:

Prepare for Bill and Ben Limited:

(a) A statement of profit and loss and other comprehensive income for the year ended 31 December 2023

(10 marks)

(b) A statement of financial position as at 31 December 2023.

(20 marks)

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

(Total 30 Marks)

End of question 1

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Question 2
You are a trainee accountant for T Accountancy Limited, a chartered accountancy firm based in Lobton. T Accountancy Limited are the accountants for Odd Socks Limited, a company that makes and sells socks. The financial controller of Odd Socks Limited has provided you with the companies draft financial statements for the year ended 31 December 2023 and has asked T Accountancy Limited to complete the statement of cashflow.

Odd Socks Limited financial statements are as follows:

Income Statement for the Year Ended 31 December 2023

	£000
Revenue	2,900
Cost of Sales	(1,734)
Gross Profit	**1,166**
Distribution Costs	(520)
Administration expenses	(342)
Operating profit	**304**
Income from investments	5
Finance cost	(19)
Profit before tax	**290**
Tax	(104)
Profit for the year	**186**
Other Comprehensive Income	
Gain on property revaluation	50
Total comprehensive income for the year	**236**

Question 2 continues over the page
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Question 2 continued

Statements of financial position as at 31 December 2023

	2023	2022
	£000	£000
Non-Current assets		
Property, plant & equipment	634	510
Current assets		
Inventory	420	460
Trade receivables	390	320
Interest receivable	4	9
Investments	50	-
Cash at bank	75	-
Cash in hand	7	5
Total Assets	**1,580**	**1,304**
Equity and liabilities		
Equity		
Ordinary shares	363	300
Share premium	89	92
Revaluation surplus	50	-
Retained profits	63	(70)
Total equity	**565**	**322**
Non-current liabilities		
10% loan notes	-	40
5% loan notes	329	349
Total non-current liabilities	**329**	**389**
Current liabilities		
Bank overdraft	-	70
Trade payables	550	400
Tax	100	90
Accruals	36	33
Total current liabilities	**686**	**593**
Total Equity and liabilities	**1,580**	**1,304**

Question 2 continues over the page
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Question 2 continued

The following information is also relevant for the year ended 31 December 2023 financial statements:

1) On 1 October 2023, Odd Socks Limited issued 60,000 £1 ordinary shares. The proceeds were used to finance the purchase and cancellation of all its 10% loan notes and some of its 5% loan notes, both at par. A bonus issue of one for ten shares was made on 1 November 2023. All shares in issue qualified for the bonus.

2) The current asset investment was a 30-day government bond.

3) Property, plant and equipment include certain properties which were revalued in the year.

4) Property, plant and equipment disposed of in the year had a carrying amount of £75,000. Cash received on disposal was £98,000.

5) Depreciation charged for the year was £87,000.

6) The accruals balance includes interest payable of £33,000 at 30 September 2022 and £6,000 at 30 September 2023.

7) Interim dividends paid during the year were £53,000.

Required:
In accordance with IAS 7, prepare the statement of cashflows for Odd Socks Limited for the year ended 31 December 2023. Please keep all workings on a separate page to the statement of cash flows.

(Total 25 marks)

End of question 2

Questions continue over the page
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Question 3

Four Feet co is a company that manufactures and retails office furniture, their financial statements show a profit before tax of £1,000 in each of years 1, £2,000 in year 2 and £3,000 in year 3. The profit is stated after charging depreciation of £200 per annum, due to the purchase of an asset costing £600 in year 1 which is being depreciated over its 3-year useful life on a straight line basis.

The tax allowances granted for the asset are:

Year 1	£240
Year 2	£210
Year 3	£150

Income tax is calculated as 30% of taxable profits.

Apart from the above depreciation and tax allowances there are no other differences between the accounting and taxable profits.

Required:

a) **Ignoring deferred tax, prepare statement of profit and loss extracts for each of years 1, 2 and 3.**

(10 marks)

b) **Accounting for deferred tax, prepare statement of profit and loss and statement of financial position extracts for each of year 1, 2 and 3.**

(15 marks)

(Total 25 Marks)

End of question 3

Questions continue over the page
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SECTION B: Answer ONE question only from this section

Question 4

On 1 January 2023, Dynamo entered into a two-year lease for a lorry. The contact contains an option to extend the lease term for a further year. Dynamo believes that it is reasonably certain to exercise this option. Lorries have a useful life of 10 years.

Lease payments are £10,000 per year for the initial term and £15,000 per year for the option period. All payments are due at the end of the year. To obtain the lease, Dynamo incurs initial direct costs of £3,000. The interest rate within the lease is not readily determinable. Dynamo's incremental rate of borrowing is 5%.

Required:

a. **Calculate the initial carrying amount of the lease liability and the right-of-use asset and provide the double entries needed to record these in Dynamo's financial records.**

(10 marks)

b. **Prepare extracts from Dynamo's financial statements in respect of the lease agreement for the year ended 31 December 2023.**

(10 marks)

(Total 20 marks)

End of question 4

Questions continue over the page
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Question 5
During the year to 30 September 2022 Diamond built a new mining facility to take advantage of new laws regarding onshore gas extraction. The construction of the facility cost £10 million, and to fund this Diamond took out a £10 million 6% loan on 1 October 2021, which will not be repaid until 2026. The 6% 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, Diamond invested £3 million of the loan in 4% 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, Diamond is required by law to dismantle it on 1 October 2033. Diamond estimated that this would cost a further £3 million. As the equipment is extremely specialised, Diamond invested significant resources in recruiting and training employees. Diamond spent £600,000 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.

Diamond has a cost of capital of 6%.

Required:

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

(Total 20 marks)

END OF QUESTIONS

END OF EXAM PAPER