UNIVERSITY OF BOLTON

OFF CAMPUS DIVISION

WESTERN INTERNATIONAL COLLEGE

BA (HONS) ACCOUNTANCY

SEMESTER ONE EXAMINATIONS 2023/2024

ADVANCED FINANCIAL ACCOUNTING AND REPORTING

MODULE NO: ACC6001

Date: Monday 8th January 2024 **Time: 1.00pm – 4.00pm**

INSTRUCTIONS TO CANDIDATES:

There are FOUR questions in this examination; Answer ALL four questions.

This is a closed book examination.

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

University of Bolton
Off Campus Division
Western International College
BA (Hons) Accountancy
Semester One Examination 2023/2024
Advanced Financial Accounting & Reporting
Module No. ACC6001

Question 1

Given below are the statements of profit or loss for Pakistan, Spain and Algeria for the year ended 31 December 2023 were as follows:

	Pakistan	Spain	Algeria
	£	£	£
Sales	935,000	876,000	112,000
Cost of sales	(459,000)	(428,000)	(35,000)
Gross Profit	**476,000**	**448,000**	**77,000**
Administration costs	(50,670)	(26,350)	(18,000)
Distribution costs	(42,960)	(28,280)	(12,500)
Dividend received from Spain	5,350		
Profit before tax	**387,720**	**393,370**	**46,500**
Taxation	(70,000)	(30,000)	(25,500)
Profit for the period	**317,720**	**363,370**	**21,000**

i. Pakistan plc acquired 80% of Spain Ltd for £200,000 on 1 January 2016 when Spain Ltd's share capital was £80,000 and reserves were £75,000.

ii. Pakistan plc acquired 30% of Algeria Ltd for £50,000 on 1 January 2017 when Algeria Ltd's share capital was £24,000 and reserves were £42,000.

iii. Goodwill of Spain Ltd suffered impairment charges of £3,500 in the current year.

iv. Goodwill of Algeria Ltd suffered impairment charges of £4,500 in the current year.

v. During the year Spain Ltd sold goods to Pakistan plc for £20,000. These goods had cost Spain Ltd £8,000. 35% of these goods were still in Pakistan's inventory at the year-end.

Question 1 continues over the page

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Question 1 continued

vi. During the year Algeria Ltd sold goods to Pakistan plc for £17,500. These goods had cost Algeria Ltd £14,500. 40% of these goods were still in Pakistan's inventory at the year-end.

vii. Additional fair value depreciation for Spain for the current year amounted to £10,000. All depreciation should be charged to cost of sales.

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

Required:
Prepare Pakistan's consolidated statement of comprehensive income for the year ended 31 December 2023.

Total 25 marks

End of Question 1

Questions continue over the page
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Question 2

Statements of financial position as at 31 December 2023 of Paul Plc., Saul Ltd., and Aaron Ltd. are as follows:

	Paul	Saul	Aaron
Assets	£	£	£
Non current Assets			
PPE at Cost	850,000	230,000	176,000
Investment in Saul	195,000		
Investment in Aaron	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 continues over the page
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Question 2 continued

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

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

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

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

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

Required:

Prepare Paul plc's consolidated statement of financial position as at 31 December 2023

Total 25 marks

End of Question 2

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Question 3

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

a) Delta 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 20X1, is for 30 years.

   Delta Co. would receive 40% of the asset's value upfront from the lessee. At the end of each of the 30 years, Delta Co will receive 6% of the asset's fair value as at 1 January 20X1.

   Legal title at the end of the lease remains with Delta 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 Delta 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) Delta 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 20X3 with a rental of £4,000 per annum payable on 31 December each year.
   - The present value of the lease payments is £11,420
   - 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 20X3? Show workings for liability over full lease term period using amortised cost method.

   (10 marks)

Total 25 marks

End of Question 3

Questions continue over the page
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Question 4

Rose Co is the manufacturer of storage cartons. A change in the market has occurred, resulting in the inventory produced by machines that makes small storage boxes is being sold below its cost. Due to this impairment circumstance an impairment test needs to be carried out.

Relevant information:
The carrying value of the productive machinery at depreciated historical cost is £580,000 and its net selling price is estimated at £240,000. The anticipated net cash inflows are from the machines are now £200,000 per annum for the next 3 years. A market discount rate is 10% per annum.

Discount rate values for 10% for 3 years are as below:

Year 1	0.909
Year 2	0.826
Year 3	0.751

Required:

a) **Carry an impairment test, clearly showing your workings under IAS36 for the recoverable amount.**

(10 marks)

Question 4 continues over the page
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Question 4 continued

Tars Co runs a unit that suffers a decline in income due to obsolete technology on 1 January 20X3. Following are the amounts recorded in the books of Tars Co prior to the impairment:

	£m
Goodwill	40
Technology	10
Brands	20
Land	100
Buildings	60
Other net assets	80

The recoverable value of the unit is estimated at £170 million. The technology is worthless, due to its obsolescence.

The other net assets include inventory and receivables, these carrying amounts are at a reasonable representation of their net realisable value.

Required:

b) Show the impact of the impairment on 1 January 20X3 (show all workings).

(10 marks)

The board of Magic Carpets Plc, approved a plan to sell its head office site, both land and building. A new head office has been acquired and staff have relocated. The old site is being offered for sale by a local real estate dealer.

Required:

c) Discuss the criteria to be met under IFRS5 – Non-current assets held for sale and discontinued operations, for the sale of the head office site.

(5 marks)
Total 25 marks

END OF QUESTIONS

END OF EXAM PAPER