

UNIVERSITY OF BOLTON

GREATER MANCHESTER BUSINESS SCHOOL

**MSC ACCOUNTANCY AND FINANCIAL
MANAGEMENT**

SEMESTER TWO EXAMINATIONS 2023/2024

STRATEGIC BUSINESS REPORTING

MODULE NO: ACC7520

Date: Friday 17 May 2024

Time: 10.00 – 1.00

INSTRUCTIONS TO CANDIDATES:

There are 3 questions in this examination; please answer all 3 questions:

This is a closed book examination.

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

PAST EXAMINATION

University of Bolton
 Greater Manchester Business School
 MSc Accountancy and Financial Management
 Semester 2 Examination 2023/2024
 Strategic Business Reporting
 Module No. ACC7520

QUESTION 1

The draft statements of financial position as at 30 April 20X1 of Brass PLC and its subsidiaries are as follows:

	Brass \$m	Nickel \$m	Zinc Dinars m
Assets			
Non-current assets			
Property, plant and equipment	810	307	685
Investments in			
Nickel	250		
Zinc	98		
	1158	307	685
Current assets	415	123	358
Total assets	1573	430	1043
Equity and liabilities			
Share capital	700	195	421
Retained earnings	250	35	235
Other components of equity	25	5	
Total equity	975	235	656
Non-current liabilities	339	142	293
Current liabilities	259	53	94
Total liabilities	598	195	387
Total equity and liabilities	1573	430	1043

The following information is relevant to the preparation of the group financial statements:

On 1 May 20X0, Brass acquired 75% of ordinary shares of Nickel limited company for \$240 million cash. The fair value of the identifiable net assets recognised by Nickel was \$230 million. The retained earnings of Nickel were \$20 million and other components of equity were \$3 million at the date of acquisition. The remaining excess of the fair value of the net assets is due to an increase in the value of land.

Question 1 continues over the page – Please turn the page

University of Bolton
 Greater Manchester Business School
 MSc Accountancy and Financial Management
 Semester 2 Examination 2023/2024
 Strategic Business Reporting
 Module No. ACC7520

Question 1 continued

Brass wishes to use the 'full goodwill' method. The fair value of the non-controlling interest in Nickel was \$48 million on 1 May 20X0. There have been no issues of ordinary shares since acquisition and goodwill on acquisition is not impaired.

Brass acquired a further 5% interest from the non-controlling interest in Nickel on 30 April 20X1 for a cash consideration of \$10 million.

Brass acquired 60% of the ordinary shares of Zinc on 1 May 20X0 when Zinc's retained earnings were 215 million dinars. The fair value of the identifiable net assets of Zinc on 1 May 20X0 was 650 million dinars. The excess of the fair value over the net assets of Zinc is due to an increase in the value of land. Brass wishes to use the 'full goodwill' method. The fair value of the non-controlling interest in Zinc at 1 May 20X0 was 158 million dinars. There have been no issues of ordinary shares and no impairment of goodwill since acquisition.

The following exchange rates are relevant to the preparation of the group financial statements:

	Dinars to \$
1 May 20X0	6
30 April 20X1	5
Average for year to 30 April 20X1	5.5

Required:

- Determine the group structure among Brass, Nickel and Zinc
(1.5 marks)
- Calculate net assets of Nickel and Zinc on acquisition date and reporting date
(3.5 marks)
- Compute foreign exchange gain/loss on net assets and profit of Zinc
(3 marks)
- Show the value of goodwill arising from Brass's purchase of shares of Nickel and Zinc
(5 marks)
- Compute foreign exchange gain/loss on Zinc's goodwill
(3 marks)

Question 1 continues over the page – Please turn the page

University of Bolton
Greater Manchester Business School
MSc Accountancy and Financial Management
Semester 2 Examination 2023/2024
Strategic Business Reporting
Module No. ACC7520

Question 1 continued

- f) Analyse the impact of the further purchase of ordinary share of Nickel on 30 April 20X1 in group equity (3 marks)
- g) Determine the value of non-controlling interest at the year end (6 marks)
- h) Calculate the group reserves at the year-end of Brass Group which clearly show the value of retained earnings and other components of equity, and translation reserve. (5.5 marks)
- i) Prepare a consolidated statement of financial position for the Brass Group for the year ended 30 April 20X1 (6.5 marks)
- j) Analyse the liquidity and solvency in Brass and Group (3 marks)
- Professional marks will be awarded in this question for the quality of the explanations (10 marks)

Total: 50 marks

**End of question 1
Questions continue over the page
Please turn the page**

University of Bolton
Greater Manchester Business School
MSc Accountancy and Financial Management
Semester 2 Examination 2023/2024
Strategic Business Reporting
Module No. ACC7520

QUESTION 2

Bravo limited company has a financial year end of 31 December. It purchased a building for \$180 million on 1 January 20X1 and attributed it a useful economic life of 60 years. Bravo classified the building as PPE and accounted for it using the revaluation model. On 31 December 20X4, the fair value of the building was deemed to be \$224 million. The total useful economic life of the building remained unchanged.

By 31 December 20X5, there was a collapse in property prices. The fair value of the building was deemed to be \$170 million.

Bravo recorded the entire revaluation loss arising on 31 December 20X5 in the profit and loss account.

Required:

a) Explain how the above transactions should be dealt with in Bravo limited financial statements for the year ended 31 December 20X5.

(10 marks)

b) Discuss the ethical issues that may arise from current accounting treatments of Bravo limited.

(10 marks)

Professional marks will be awarded in this question for the quality of the explanations

(5 marks)

(Total 25 Marks)

End of question 2
Questions continue over the page
Please turn the page

University of Bolton
 Greater Manchester Business School
 MSc Accountancy and Financial Management
 Semester 2 Examination 2023/2024
 Strategic Business Reporting
 Module No. ACC7520

QUESTION 3

- (a) On 1 May 20X1, Gretel signed a lease to use an item of machinery for three years. The contract contains an option to extend the lease term for two more years. Gretel believes that it is reasonably certain to exercise this option. The machine has a useful life of five years. Lease payments of \$4 million are due annually in arrears. To obtain the lease, Gretel incurs initial direct costs of \$0.3 million. Gretel's rate of borrowing is 10%.

Required:

Discuss how the above lease should be recognised in the financial statements on 1 May 20X1 and 31 May 20X1

(10 marks)

- (b) The following information is provided in relation to a defined benefit plan operated by Tylor in 20X4

	\$m
Interest rate at start of the year on 1 January 20X4	5%
Present value of the obligation at 31 December 20X4	120
Present value of the obligation at 1 January 20X4	100
Fair value of plan assets at 31 December 20X4	85
Fair value of plan assets at 1 January 20X4	80
Current service cost	10
Contributions into the defined benefit plan	20
Pension benefits paid during the year	5

Required:

Determine the net plan obligation or asset at 31 December 20X4 and the amounts to be taken to profit or loss and other comprehensive income for both financial years.

(10 marks)

Professional marks will be awarded in this question for the quality of the explanations

(5 marks)

(Total 25 marks)

**End of question 3
 End of exam paper**