UNIVERSITY OF GREATER MANCHESTER

GREATER MANCHESTER BUSINESS SCHOOL

MSC ACCOUNTANCY AND FINANCIAL MANAGEMENT

SEMESTER 2 EXAMINATIONS 2024/2025

STRATEGIC BUSINESS REPORTING

MODULE NO: ACC7520

Date: Tuesday 13th May 2025 **Time: 10.00am – 1.00pm**

INSTRUCTIONS TO CANDIDATES:

There are THREE questions in this examination; please answer ALL THREE questions:

This is a closed book examination.

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

University of Greater Manchester
Greater Manchester Business School
MSc Accounting and Financial Management
Semester 2 Examinations 2024/2025
Strategic Business Reporting
Module No. ACC7520

QUESTION 1

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

	Crocus	**Azalea**	**Fuchsia**
	£m	£m	Dinars m
Assets			
Non-current assets			
Property, plant and equipment	856	411	705
Investments in			
Azalea	325		
Fuchsia	112		
	1293	**411**	**705**
Current assets	553	130	398
Total assets	**1846**	**541**	**1103**
Equity and liabilities			
Share capital	800	195	458
Retained earnings	365	46	315
Other components of equity	35	8	
Total equity	**1200**	**249**	**773**
Non-current liabilities	425	210	228
Current liabilities	221	82	102
Total liabilities	**646**	**292**	**330**
Total equity and liabilities	**1846**	**541**	**1103**

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

On 1 May 20X0, Crocus acquired 70% of ordinary shares of Azalea limited company for $305 million cash. The fair value of the identifiable net assets recognised by Azalea was $250 million. The retained earnings of Azalea were $25 million and other components of equity were $4 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

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Question 1 continued

Crocus wishes to use the 'full goodwill' method. The fair value of the non-controlling interest in Azalea was $55 million on 1 May 20X0. There have been no issues of ordinary shares since acquisition and goodwill on acquisition is not impaired.

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

Crocus acquired 65% of the ordinary shares of Fuchsia on 1 May 20X0 when Fuchsia's retained earnings were 200 million dinars. The fair value of the identifiable net assets of Fuchsia on 1 May 20X0 was 705 million dinars. The excess of the fair value over the net assets of Fuchsia is due to an increase in the value of land. Crocus wishes to use the 'full goodwill' method. The fair value of the non-controlling interest in Fuchsia at 1 May 20X0 was 175 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	5
30 April 20X1	4
Average for year to 30 April 20X1	4.5

Required:

a) Determine the group structure among Crocus, Azalea and Fuchsia

(1.5 marks)

b) Calculate net assets of Azalea and Fuchsia on acquisition date and reporting date

(3.5 marks)

c) Compute foreign exchange gain/loss on net assets and profit of Fuchsia

(3 marks)

d) Show the value of goodwill arising from Crocus's purchase of shares of Azalea and Fuchsia

(5 marks)

e) Compute foreign exchange gain/loss on Fuchsia's goodwill

(3 marks)

Question 1 continues over the page

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Question 1 continued

f) Analyse the impact of the further purchase of ordinary share of Azalea 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 Crocus 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 Crocus Group for the year ended 30 April 20X1

(6.5 marks)

j) Analyse the liquidity and solvency in Crocus 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

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QUESTION 2

Aster plc is a publicly listed accounting firm with 500 employees, specializing in audit, tax advisory, and financial consulting services. On 1 May 20X4, a share-based payment scheme was introduced for Aster's ten directors. The directors are entitled to 200,000 share options each if they remain employed by the company until 30 April 20X8. The fair value of each share option was $6 at 1 May 20X4.

As of 30 April 20X5, none of the ten directors had left Aster Ltd. However, based on internal assessments, management estimated that one director would leave before the end of the vesting period on 30 April 20X8. By 30 April 20X6, one director had indeed left the company. Following this departure, Aster's management conducted a further review and determined that no additional directors were expected to leave before the vesting date.

The finance director has told the accountant that no entries or disclosures are required for this scheme in the current year's financial statements because it has not yet vested. The finance director's remuneration includes a component tied to meeting target profits.

Required:

a) Explain how the above transactions should be dealt with in Bravo limited financial statements for the year ended 30 April 20X5 and 30 April 20X6.
(10 marks)

b) Discuss the ethical issues that may arise from current accounting treatments of Aster plc.
(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
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QUESTION 3

(a) Meriwether Ltd. has a year-end of 31 December. On 1 January 20X1, the company purchased an office building for $30 million and estimated a useful economic life of 40 years. The building was classified as Property, Plant, and Equipment (PPE) and accounted for using the revaluation model. At the end of 20X2, the fair value of the building had increased to $33 million, and the company adjusted its books to reflect this upward revaluation, with the useful economic life remaining the same.

However, by 31 December 20X3, a downturn in the commercial property market caused a significant decrease in property values, leading Meriwether to reassess the fair value of the building, which was now deemed to be $26 million

Required:

Discuss how the above PPE should be recognised in the financial statements on 31 December 20X2 and 31 December 20X3

(10 marks)

(b) On 1 June 20X1, Jason entered into a lease agreement to use an item of equipment for four years. The contract includes an option to extend the lease for another one years. Jason believes it is highly probable that he will exercise this option. The equipment has a useful life of six years. The annual lease payments of $3 million are due in arrears. Jason incurs initial direct costs of $0.2 million to secure the lease. Jason's rate of borrowing is 8%.

Required:

Discuss how the lease should be recognised in the financial statements on 1 June 20X1 and 30 June 20X1.

(10 marks)

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

(5 marks)

(Total 25 marks)

END OF QUESTIONS

END OF EXAM