



PENINSULA
COLLEGE
GEORGETOWN DK266-03(P)



UNIVERSITY OF
PLYMOUTH

FINAL EXAMINATION

Semester	:	JANUARY 2025 SEMESTER
Programme Name	:	BA (HONOURS) ACCOUNTING & FINANCE 3+0 IN COLLABORATION WITH UNIVERSITY OF PLYMOUTH
Course Code & Name	:	MAL2034 FINANCIAL ACCOUNTING AND REPORTING
Duration	:	3 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Please read the instructions given in the question paper **CAREFULLY**.
2. The question paper consists of **FIVE (5)** questions.
3. Answer **ALL** questions in the question paper.
4. Answers to the questions are to be written into the examination booklet.
5. Electronic dictionaries, lecture notes, files or any unauthorised materials except writing equipment are strictly prohibited.

This question paper must be submitted along with all used and/or unused rough papers and/ or graph papers (if any). Candidates are **NOT ALLOWED** to take any examination paper(s) used or unused out of the examination hall.

WARNING:

The Examination Board of Peninsula College Georgetown regards cheating as a very serious offence and will not hesitate to mete out the appropriate punitive actions according to the severity of the offence committed, and in accordance with the clauses stipulated in the Students' Handbook, up to and including expulsion from Peninsula College Georgetown.

(This booklet contains 8 printed pages including this page)

DO NOT OPEN THIS BOOKLET UNTIL YOU ARE ALLOWED TO DO SO

Answer **ALL** questions on the separate sheet provided.

[100 marks]

- Orbital Limited (Orbital) acquired 3.6 million equity shares in Sigma Limited (Sigma) on 1st January 2024. Sigma was acquired on the basis that shareholders would receive two shares in Orbital for every three shares acquired in Sigma. The market price of Orbital's shares at the date of acquisition was \$7.20 per share. Orbital also agreed to pay the shareholders of Sigma \$1,200,000 two years after the date of the acquisition. In preparing its accounts, Orbital has not yet recorded the investment in Sigma. The relevant discount rate is 4%.

Several years ago, Orbital acquired 1,440,000 of the equity shares of Delta Limited (Delta) at a cost of \$9.00 per share in cash when reserves stood at \$12,600,000.

The summarised draft financial statements of the three companies:

Statements of Profit or Loss for the Year Ended 31 March 2024

	Orbital	Sigma	Delta
	\$'000	\$'000	\$'000
Sales revenue	193,824	87,432	54,000
Cost of Sales	<u>(178,932)</u>	<u>(82,152)</u>	<u>(43,716)</u>
Gross profit	14,892	5,280	10,284
Operating expenses	<u>(492)</u>	<u>(1,032)</u>	<u>(1,200)</u>
Profit before interest and taxation	14,400	4,248	9,084
Finance Costs	<u>(420)</u>	<u>(96)</u>	<u>(84)</u>
Profit before taxation	13,980	4,152	9,000
Taxation	<u>(3,900)</u>	<u>(1,272)</u>	<u>(3,000)</u>
Profit after taxation	<u>10,080</u>	<u>2,880</u>	<u>6,000</u>

Statements of Financial Position as at 31 March 2024

	Orbital	Sigma	Delta
	\$'000	\$'000	\$'000
Non-Current Assets			
Property, plant and equipment	22,080	12,480	21,000
Investments	<u>22,200</u>	<u>1,440</u>	<u>600</u>
	44,280	13,920	21,600
Current Assets			
Inventories	8,280	6,000	4,320
Trade receivables	<u>3,840</u>	<u>1,800</u>	<u>2,880</u>
	12,120	7,800	7,200

Total Assets	56,400	21,720	28,800
Equity and Liabilities			
Equity shares of \$1 each	12,000	4,800	4,800
Retained earnings	28,800	10,680	19,200
	40,800	15,480	24,000
Non-Current liabilities			
7% Loan notes	6,000	1,200	1,200
Current Liabilities			
	9,600	5,040	3,600
Total equity and liabilities	56,400	21,720	28,800

The following information is relevant to the question:

- a. At the date of acquisition, a fair value review of Sigma revealed the following:
 - i. Sigma's property had a fair value of \$2,400,000 below its carrying value. Sigma depreciates property on a straight-line basis and the assets remaining useful life was estimated at 10 years. Depreciation is time apportioned where appropriate and charged to cost of sales.
 - ii. An intangible asset not currently recognised in the financial statements of Sigma. The directors of Orbital estimate that the fair value of this asset is \$1,800,000, has an indefinite life and has not suffered any impairment in value to date.
 - iii. No adjustments have yet been made in the books of Sigma following the fair value review.
- b. Goodwill arising on consolidation is to be capitalised and reviewed annually for impairment. An impairment test conducted at the year-end revealed that the value of goodwill was impaired by 10%. Impairment is to be charged to operating expenses.
- c. Orbital's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, Sigma's share price of \$3.60 at that date can be deemed to be representative of the fair value of the shares held by the non-controlling interest.
- d. Post acquisition, Sigma sold goods to Orbital for \$1,200,000 at a mark-up of 25%. At the year-end, 20% of these goods remain unsold.
- e. There have been no changes in the share capital of Sigma since the date of acquisition.

Requirement:

Prepare a consolidated profit or loss and statement of financial position for the Orbital group for the year ending 31st March 2024 in accordance with relevant accounting standards. Your answer should include (as a minimum) workings for goodwill, non-controlling interest, interest in associate and group reserves.

(50 marks)

2. Elite Air is an international airline which flies to destinations all over the world. The company experienced strong initial growth but in recent periods the company has been criticised for under investing in its non-current assets. Extracts from the financial statements at 31 March are provided below.

Extract from profit or loss statement for the years ended 31 March

	2024	2023
	\$000	\$000
Revenue	92,400	95,400
Profit from operations	7,380	11,160
Finance costs	(5,520)	(6,120)

Extract from the cash flow statements for the years ended 31 March

	2024	2023
	\$000	\$000
Cash generated from operations	11,088	14,586

Statement of financial position as at 31 March

	2024	2023
	\$000	\$000
<i>Non-current assets</i>		
Property, plant and equipment	190,200	104,400
Intangible (note ii)	12,000	9,600
	<u>202,200</u>	<u>114,000</u>
<i>Current assets</i>		
Inventories	348	1,200
Trade and other receivables	3,660	36,000
Cash and cash equivalents	5,580	3,120
<i>Total current assets</i>	<u>9,588</u>	<u>40,320</u>
Total assets	<u><u>211,788</u></u>	<u><u>154,320</u></u>
<i>Equity and liabilities</i>		
<i>Equity</i>		
Equity shares	1,800	1,800
Retained earnings	26,460	25,080
Revaluation reserve	87,000	0
Total equity	<u>115,260</u>	<u>26,880</u>
<i>Liabilities</i>		
<i>Non-current liabilities</i>		
6% loan notes	78,576	90,240
<i>Current liabilities</i>		
Trade and other payables	6,288	2,550
6% loan notes	11,664	11,664
Total current liabilities	<u>17,952</u>	<u>14,214</u>
Total equity and liabilities	<u><u>211,788</u></u>	<u><u>131,334</u></u>

The following information is also relevant:

- i. The company has had the same flight schedule for both years, with both the number of destinations and flights remaining the same.
- ii. In April 2024 the company had to renegotiate its licences with five major airports, which lead to an increase in the associated costs for the company to continue operating. The company is currently in discussions with ten more airports where the licenses are due for renewal over the next six months.

Required:

- a) Calculate the below ratios for both years for Elite Air. Ensure that you note your workings.
 - i) Operating profit margin
 - ii) Return of capital employed
 - iii) Net asset turnover
 - iv) Current ratio
 - v) Interest cover ratio
 - vi) Debt to equity ratio

(6 marks)

- b) Comment on the performance and position of Elite Air for the year ended 31 March 2024. Your answer should also consider any information that users of the financial statements should be aware of regarding future financial conditions and prospects.

(14 marks)

Total: [20 marks]

3. Everbloom Limited is preparing its statement of cash flows for the year ended 31 May 2024. Below are extracts from the financial statements.

	2024	2023
	\$000	\$000
<i>Non-current assets</i>		
Cost	65,251	53,525
Accumulated depreciation	(14,798)	(12,509)
	50,453	41,016
<i>Current assets</i>		
Inventory	16,503	14,563
Trade receivables	6,214	8,664
Bank	595	536
<i>Total current assets</i>	23,312	23,763
Total assets	73,765	64,779
 Capital and reserves		
\$1 Ordinary share	21,000	17,000
Share premium	7,892	6,425
Revaluation reserve	7,454	4,092

Retained earnings	19,979	18,190
	<u>56,325</u>	<u>45,707</u>
Non-current liabilities		
9% loan notes	6,734	8,825
Current liabilities		
Trade payables	9,505	8,951
Taxation	1,201	1,296
	<u>10,706</u>	<u>10,247</u>
Total equity and liabilities	<u>73,765</u>	<u>64,779</u>

Everbloom profit or loss for the year ended 31 May 2024

	\$'000
Sales revenue	28,775
Cost of sales	(14,821)
Gross profit	<u>13,954</u>
Distribution costs	(4,908)
Administration costs	(3,410)
Profit from operations	<u>5,636</u>
Interest received	57
Finance cost	(794)
Profit before tax	<u>4,899</u>
Taxation	(1,570)
Profit for the year	<u>3,329</u>

Additional information:

- i) During the year, the company sold equipment for \$766,000 realising a profit of \$66,000.
- ii) The only revaluation of non-current assets was of a piece of freehold land. No transfer is made for the additional depreciation.
- iii) Total depreciation for the year was \$1,487,000.
- iv) There were no amounts outstanding in respect of interest payable or receivable as at either year end.
- v) Dividends paid during the year were \$1,540,000.

Required:

Prepare a statement of cash flows for Everbloom Limited for the year ended 31 May 2024 in accordance with IAS 7 Statement of cash flows.

Show all workings, but specifically workings for taxation, interest paid and non-current assets.

Total: [15 marks]

4. Lumeon Limited are a manufacturing company based in the Singapore. During the year ended 30 April 2024, the company purchased plant and machinery from a company based in France. The purchase was made on the 5th March 2024 when the exchange rate was \$0.87 = €1. The total cost of the plant was €700,000 and the purchase was made on credit terms.

The invoice was settled as follows:

5 April 2024	30% of the invoice price – the exchange rate was now \$0.84 = €1
25 April 2024	50% of the invoice price – the exchange rate was now \$0.83 = €1
8 May 2024	The remaining balance was settled in full – the exchange rate was now \$0.90 = €1

The exchange rate at the 30 April 2024 was €1 = \$0.89

The presentational currency of Leaf Limited is \$'s.

For the two months of ownership, the policy of Leaf Limited is to depreciate the plant and machinery at a rate of 10% per annum.

Required:

- a) Calculate the total exchange gain or loss recognised in the years ended 30 April 2024 and 30 April 2025 relating to the inventory purchase. (4 marks)
- b) Calculate the value to be included in trade payables at 30 April 2024. (4 marks)
- c) Calculate the carrying value of the plant and machinery at the 30 April 2024. (2 marks)
- Total: [10 marks]
5. a) Yummy acquired 10% of the equity voting shares and 80% of the non-voting preferred shares of Good. The directors of Yummy are also the directors of Good, there is a common head office with shared administration departments and the functions of Good are mainly the provision of transport facilities for Yummy. Another company, Bestie, holds 90% of the remaining equity voting shares of Good but has never used its voting power to interfere with the decisions of the directors. (2 marks)
- b) Mask acquired 25% of the shares of Hope several years ago with the intention of acquiring influence over the operating and financial policies of that company. Hope sells 90% of its output to Mask. While Mask has a veto over the operating and financial decisions of Hope's board of directors, it has only used this veto on one occasion in the past to prevent that company from supplying to two of Mask's competitors. (2 marks)

Required:

Consider the above two cases and give your opinion on whether or not there is a parent/subsidiary relationship. You should clearly explain your reasoning with reference to IFRS 3 Business Combination.

- c. Pearl holds 30% of the voting shares of Clear. Poly, Image and Rain each hold 20% of the voting rights of Clear. The remaining voting rights are held by five other investors, each holding 2%. There are no other arrangements that affect decision-making.

Required:

Explain whether Pearl should consolidate Clear in accordance with IFRS 10 Consolidated Financial Statements. (1 marks)

Total: [5 marks]

- END OF QUESTIONS -