



Department of Accounting and Finance

AG218: Intermediate Financial Reporting

4th August 2020

09:30-13:00 (3.5 hours)

**Answer both questions from
Section A and two questions from Section B**

ONLINE EXAM INSTRUCTIONS

This is an open book exam

- You are allowed to use notes, lecture materials and books to help you answer the exam questions
- *You will be required to confirm that by submitting this form and examination answers, 'I confirm that I'm uploading my own work for this examination'*
- The only acceptable format for your answer file is Word or pdf file. Answers submitted in any other file type will be ignored for marking purposes. If you are using a Mac then it is solely your responsibility to ensure you can create and save your answer as a Word file or a pdf file. Any case of file corruption associated with saving Mac-generated files in Word format or pdf format will be ignored for marking purposes and treated as an unauthorised absence.
- Word/pdf answer files must comply with the following style guidelines:

Font: Calibri

Minimum font size: 12 point

Line spacing: 1.5 lines

- You need to complete the Online Exam Submission Cover Sheet for each examination you are undertaking, you should have already downloaded this. Complete this by creating a separate answer file in Word for each exam. You must apply the following file naming convention:

<Modulenum>_<lastname>_<firstname>_<registrationnumber>_<course>.docx

For example, AG111_Smith_Steven_201912345_Acc.docx the corresponding pdf file can then also be uploaded, for example AG111_Smith_Steven_201912345.Acc.pdf

SECTION A
ANSWER BOTH QUESTIONS

Question 1

Your client, Mandrid Limited ('Mandrid'), has prepared the following trial balance for the year ended 31 December 2019.

Mandrid Limited

Trial Balance as at 31 December 2019

	£'000	£'000
Sales		7,456
Machinery – cost	550	
Machinery - accumulated depreciation		110
Computer equipment – cost	180	
Computer equipment - accumulated depreciation		45
Land and buildings – cost	600	
Land and buildings - accumulated depreciation		30
Vehicles – cost	220	
Vehicles accumulated depreciation		55
Inventory at 1 January 2019	412	
Purchase of materials	5,112	
Repairs to vehicles	48	
Property repairs	76	
Manufacturing wages	1,133	
Delivery salaries	643	
Admin salaries	317	
Heat and light	75	
General expenses	444	
Road tax and vehicle insurance	57	
Interest expense	204	
Debtors	312	
Tax expense	50	
Bank	1,034	
Creditors		628
Ordinary £1 shares		640
Retained earnings		1,433
Corporation tax payable		50
Long term bank loan		1,020
	<u>11,467</u>	<u>11,467</u>

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The directors were unsure of how to deal with certain matters and therefore the following are outstanding.

1. A stock count at the year-end found closing inventory with a value of £475,000 to be held.
2. A dividend of £75,000 was paid just before the year end. The chief accountant was on holiday and her assistant was unsure how to deal with it and recorded it under general expenses.
3. In 2017 a derelict building was purchased with the intention of it being refurbished, this no longer appears possible and the company decided to sell it at the year-end for £35,000. The building had originally cost £50,000. Due to the chief accountant being on holiday no recording of this has taken place. Gains and losses on sale are recorded as part of admin expenses.
4. The net wages for December have been correctly paid through the bank and recorded, however the accountant forgot to record the amounts due to HMRC and the defined contribution pension scheme in relation to manufacturing wages. For December's pay Employer's NI was £21,000, Employee's NI was £24,000 and PAYE was £28,000. Employee pension contributions were £19,000 and employer contributions £8,000.
5. 100,000 £1 shares were issued during the year at £1.50 each. The chief accountant was unsure how to deal with this and recorded the proceeds under sales.
6. During the year the company a delivery truck was incorrectly loaded and spilled chemicals causing damage to the local area. The legal case is still ongoing but the company's lawyers' estimate that Mandrid will be liable for clean-up costs of £200,000.
7. The total tax charge at the year-end date is estimated at £170,000.
8. The depreciation charge for the year has not yet been calculated and should be calculated as following:

Machinery – 10% straight line
Computer – 25% straight line
Land and buildings – 2% straight line
Vehicles – 25% reducing balance

A full year's depreciation is charged in the year of purchase with none in the year of sale.

Land and buildings includes land with a cost of £100,000.

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Depreciation should be allocated as following:

Vehicles depreciation should be included in distribution costs. Depreciation on machinery, land and buildings, and computers should be included within administration expenses.

9. Repairs to vehicles, delivery salaries, and road tax and vehicle insurance should be included within distribution costs in the P&L. Manufacturing wages are included under cost of sales.

Required

Prepare journals and supporting workings to account for the above, then prepare the statement of profit and loss and statement of financial position for Mandrid in line with IAS 1.

(35 marks)

Question 2

Below are extracts from the financial statements of Bryson Limited for the year ended 31 December 2019.

Bryson Ltd.

Statement of profit and loss (extract) for the year ended 31 December 2019

	£
Revenue	52,000
Cost of sales	<u>(35,400)</u>
Gross profit	16,600
Distribution costs	(3,100)
Administrative expenses	<u>(7,450)</u>
Operating profit	6,050
Finance costs	<u>(975)</u>
Net profit	5,075

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Statement of financial position (extract)

	2019	2018
	£	£
Inventories	960	1,180
Trade receivables	510	480
Trade payables	295	184

Notes to the accounts (extract)

Included in admin expenses is:

- Depreciation of £2,000 (2018: £2,050)
- Wages and salaries of £4,380 (2018: £3,390)
- Amortisation of intangible assets £600 (2018: £nil)

A vehicle with a value of £720 was sold during the year for £700, the loss is included within distribution costs.

Finance costs of £75 (2018: £nil) were outstanding at the year end.

Required

Using the extracts from the statement of profit and loss, statement of financial position and associated notes prepare the operating activities section from the statement of cashflows using both the direct and indirect methods. You should ignore tax.

(25 marks)

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SECTION B
ANSWER TWO QUESTIONS

Question 3

- (a) Describe the physical and financial models of capital maintenance, giving the advantages and disadvantages of both.

(10 marks)

- (b) Explain what is meant by “control” with regards to group accounting and why group financial statements are necessary.

(10 marks)

(Total 20 marks) – Word count limit 850 words (sum of part a and b)

Question 4

It has been argued that allowing intangible assets to be capitalised is essential to financial statements giving a true and fair view. Explain what is meant by a ‘true and fair’ view and how the capitalisation of intangible assets can assist with this.

(20 marks) Word count limit 850 words

Question 5

Related party disclosures are of little value as they are “too complex to apply in practice”. (EFRAG, 2010)

Outline why related party disclosures are required and critically discuss whether they are too complex to be applied well.

(20 marks) Word count limit 850 words

END OF PAPER

(Examiner – Matt Gorrie)