You are allowed ten minutes before the start of the examination to acquaint yourself with the instructions below and to read the question paper.

Do not write anything until the invigilator informs you that you may start the examination. You will be given five minutes at the end of the examination to complete the front of any answer books used.

May/June 2007 **MM205A 2006/7 A001**

THE UNIVERSITY OF READING

CORPORATE FINANCIAL REPORTING 1

(MM205A)

THREE hours

Answer **THREE** questions
ONE compulsory question in Section A (total of 50 marks), and **TWO** questions from Section B (each question totalling 25 marks).

Only non-programmable calculators allowed

SECTION A

1. The following trial balance has been extracted from the books of Raven plc. as at 31 March 2007:

	Dr.	**Cr.**
	£000	*£000*
Freehold land and buildings; at cost	365	
Accumulated depreciation		115
Office equipment: at cost	110	
Accumulated depreciation		37
Vehicles: at cost	80	
Accumulated depreciation		40
Inventory (at 1.4.06)	184	
Trade Receivables/Payables	350	119
Bank	161	
Purchases/Sales	1,640	2,500
Distribution expenses	45	
Administrative expenses	512	
Debentures (12%)		100
Ordinary share capital		200
Share premium		50
Preference shares		50
Preference share dividend	4	
Ordinary share dividend	30	
Profit and loss account (at 1.4.06)		182
Provision for doubtful debts		8
Sale of fixed asset		80
	£3,481	£3,481

In preparing the company's income statement and balance sheet as at 31 March 2007, the following further information is relevant:

1. Inventory at 31 March 2007, valued at cost, amounted to £155,000.

2. The freehold land and buildings were revalued on 1 April 2006 at £800,000 (of which £300,000 relates to buildings), and the value had not changed in the year. The directors have now decided to bring these amounts into the financial statements.

3. Depreciation is to be provided on buildings at a rate of 10% on valuation and on vehicles and machinery at a rate of 20% on cost. The historical cost depreciation for buildings would have been £20,000. Depreciation is to be charged 50% to cost of goods sold, 20% to administrative expenses and 20% to distribution expenses.

4. Included in freehold land and buildings is land which had cost £40,000, had been revalued at £60,000 and was sold in March 2007 for £80,000. No depreciation is provided for on this land. The only entries made relating to the sale transaction have been to debit cash and credit the Sale of Fixed Asset account with £80,000.

5. Provision is to be made for an audit fee of £15,000 and for Directors' remuneration of £65,000.

6. Administration expenses paid in advance at 31 March 2006 amounted to £6,000.

7. The provision for bad and doubtful debts is to be made equal to 5% of outstanding trade debtors as at 31 March 2007.

8. Corporation tax based on the profits for the year of £70,000 is to be provided.

9. The directors are to recommend a payment of a dividend of 10p per share.

10. The company has an authorized share capital of 600,000 ordinary shares of £0.50 each and 50,000 8% cumulative preference shares of £1 each. During the year the company issued 100,000 ordinary shares at an issue price of £1.00 per share. These, and last year's dividend of 10 pence per ordinary share, were all fully received or paid for during the year and have been accounted for in the above trial balance.

11. The Directors have decided to make the necessary transfers to ensure that the profit and loss reserve discloses all available distributable profits.

Required:

Insofar as the information permits, prepare the following for Raven plc:

(i) Income statement for the year to 31 March 2007

(ii) Balance sheet as at 31 March 2007

(iii) Statement of changes in equity

These statements should be prepared in accordance with International Financial Reporting Standards. Where there are no specific presentational requirements given in IASs/IFRSs for any line item, adopt the requirements of the UK Companies Act 1985.

Where adopting the UK Companies Act:

- Adopt Formats 1 of the Companies Act Formats for both the income statement and the balance sheet.
- For the income statement, disclose on the face of the statement all material items designated by an Arabic numeral. For the balance sheet, disclose on the face of the statement the minimum required by the Companies Act.
- Formal notes to the accounts are not required. However, submit all workings.

(50 marks)

SECTION B

2. The draft financial statements of Ejoy Ltd for the year ended 31 December 2006 are as follows:

Balance sheets as at 31 December

	2006	**2005**
Non-current assets		
Property, plant and equipment (at cost)	3,280	2,610
Accumulated depreciation	1,000	660
Net book value	2,280	1,950
Investments	2,000	2,000
	4,280	3,950
Current assets		
Inventory	1,500	1,350
Trade and other receivables	1,600	1,060
Cash in hand	710	300
	3,810	2,710
Current liabilities		
Trade and other payables	550	1,090
Interest payable	380	300
Taxation	250	1,800
	1,180	3,190
Net current assets	2,630	(480)
Total assets less current liabilities	6,910	3,470
Non-current liabilities		
Long term debt (including finance leases)	2,000	840
	4,910	2,630
Capital and reserves		
Share capital (£1 ordinary shares)	1,220	1,150
Share premium	680	380
Profit and loss account	3,010	1,100
	4,910	2,630

Income statement for the year ended 31 December 2006

	£	£
Sales revenue		44,870
Cost of sales		31,000
Gross profit		13,870
Administration & selling expenses	2,490	
Interest expenses	350	
Investment income	800	2,040
Profit before tax		11,830
Income tax expense		350
Profit for the year		11,480

The following additional information is also provided:

(i) Interest expense was £350 of which £140 was paid during the period. £130 relating to interest expense of the prior period was also paid during the period.

(ii) £250 of interest was received during the period. Accounts receivables as at the end of 2006 include £250 of interest receivable.

(iii) £300 of dividend was received and included in the investment income.

(iv) Plant with an original cost of £800 and accumulated depreciation of £600 was sold for £200.

(v) Depreciation charged during the year was included in administration & selling expenses

Required:

(a) Prepare a cash flow statement for the year ended 31 December 2006 using the indirect method illustrated in IAS 7.

(20 marks)

(b) Define and give examples of cash and cash equivalents.

(5 marks)

(Total: 25 marks)

3. (a) Explain the role of financial reporting in the UK system of corporate governance.

   (b) To what extent do you think that financial reporting needs to be regulated?

4. Is ‘fair presentation’ the same as ‘giving a true and fair view’?

5. Discuss the extent to which the IASB’s conceptual framework may be considered a suitable framework for the development of financial reporting.

6. ‘Arthur Andersen, the accounting firm which has seen its reputation savaged by the Enron scandal, came out fighting yesterday, pinning the blame for the company’s collapse squarely on management of the energy group.

   Andersen’s chief executive, Joseph Berardino, said he was not aware of any illegal behaviour behind the spectacular implosion of Enron last month. The failure of the company, he added, was simply a matter of economics and had nothing to do with the rigour of Andersen’s accounting. “This is a company whose business model failed,” he said’

   Source: The Guardian, Monday January 21, 2002

   Required:

   Discuss the above extract from the Guardian using your knowledge of the Enron case and appropriate theoretical concepts.

[End of Question Paper]