

UNIVERSITY OF SUNDERLAND

SUNDERLAND BUSINESS SCHOOL

APC311 INTERNATIONAL FINANCIAL REPORTING

October 2013 TNE assessment

ASSIGNMENT Hand-In Date: 1st October 2013 by 04.00pm

Aims:

1. To allow students to explore in greater detail the major learning outcomes of the module and to demonstrate a detailed knowledge and understanding thereof.
2. To assess students' ability to
 - (i) appropriately summarise and structure information
 - (ii) evaluate relevant information from a given set of literature
 - (iii) understand and argue the chosen relevant information, and
 - (iv) present it in an appropriate written form

Assignment brief:

Answer the following questions. All sections are compulsory.

Section A (30%)

Bellever plc entered into a non-cancellable agreement on 1st January 2010 to lease new industrial equipment. The terms of the agreement, which may not be terminated by either party, were that Bellever will pay four annual rental payments of £30,000 in arrears with the first payment due on 31st December 2010. Bellever may retain the vehicle after the end of the primary lease term on payment of a nominal amount which is not material.

Bellever plc will bear the cost of any loss of or damage to the machine as well as all insurance and maintenance costs during the period of the lease. The equipment is new and is expected to have a useful life of 5 years after which time it is deemed to have a negligible residual value. The cash price of the equipment would have been £95,100.

Bellever plc considers this to be a finance lease. The company depreciates its property, plant and equipment using the straight line method charging a full year's depreciation in the year of purchase. Finance charges are allocated using the interest rate implicit in the lease which is 10%.

Required

- (a) Explain why Bellever believes this lease should be categorised as a finance lease. You should refer to relevant international accounting standards to justify your answer. (8 %)
- (b) Calculate the total finance charge, annual allocation of finance charge, annual obligation under finance lease (the annual finance lease liability) and net book value of the asset for each of the four years of the lease term. (10 %)
- (c) Show how the transaction would be reflected in the financial statements of Bellever plc for the year ended 31st December 2010. This should include both income statement and statement of financial position disclosures. (7 %)
- (d) The major issue surrounding the capitalisation of leases is one of 'substance over form'. Comment upon this assertion with reference to relevant international accounting standards'. (5 %)

Section B (30%)

Solvent Ltd is considering expanding its business and comparing between two potential opportunities for investment in either company X or company Y.

The president of Solvent has asked the controller to prepare a report that summarises the financial aspects of the two potential investees for the last year.

The controller has presented a number of financial ratios that can assist in the identification and interpretation of trends for each investee. The following ratios have been calculated for the year ended 31st December 2012 for each company:

| Ratio | Company X | Company Y |
|-------------------------------------------|-----------|-----------|
| Current ratio | 2 | 1.50 |
| Acid-test ratio | 1 | 0.80 |
| Accounts receivable days | 50 | 80 |
| Inventory turnover (times) | 8 | 5 |
| Accounts payable days | 90 | 60 |
| Percent of long-term debt to total assets | 30% | 40% |
| Gearing | 25% | 55% |
| Gross profit percentage | 40% | 30% |
| Operating profit percentage | 25% | 15% |
| Return on capital employed | 30% | 22% |
| Return on equity | 20% | 10% |
| Interest cover (times) | 10 | 6 |
| Earnings per share | 1 | 1.50 |
| Operating cash flow per share | 2.10 | 1.30 |

Required

- Write a report to the Board of Directors of Solvent Ltd to analyse the performance of companies X and Y and to give recommendation as which of those two investment opportunities is better. Your report should include comments on as much performance areas as data allow. (20%)
- Discuss and analyse the limitations of ratio analysis for both cross-sectional and time-series comparisons. (10%)

Section C (40%)

By using the regulatory discussions and relevant international accounting standards (IASs) which are taught in the module APC311, you are required to provide a ***critical*** evaluation of the following areas of financial reporting.

- i. Impairment of both tangible and intangible assets in accordance with IAS 36: *Impairment of Assets* (20%)
- ii. Ways in which creative accounting activities are exercised in financial reporting and the extent to which the responses of UK and US legislators and standard setters have succeeded in minimising the scope for such activities. (20%)

Total (100%)

End of assessment

Your assignment should aim to provide readers with comprehensive knowledge and critical reviews of these areas covering, for example:

- A knowledge of different accounting treatments in individual accounting standards
- A knowledge of implications of different accounting treatments on usefulness of financial statements
- Your own understandings of, comments on, arguments and contributions to the topic, such as key qualitative characteristics, true and fair view/fair presentation, creative accounting, etc..
- Any other important issues which you think should be addressed

Learning outcomes:

The assignment covers all module learning outcomes.

Further details:

This is an individual assignment of around 3,000 words (limited between -10% - +10%).

This assignment contributes **100%** to the final assessment mark for this course.

Please note that the University policy on cheating collusion and plagiarism will be applied to this piece of work.

Marking Guide:

Marks will be awarded with respect to the following assessment criteria.

ASSESSMENT CRITERIA

| Criteria | Fail (<34) | Fail (35-39) | 3 rd (40-49) | 2:2 (50-59) | 2:1 (60-69) | 1 st (70+) | |
|------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Module learning outcomes | Does not meet the majority of the MLO's | Meets some of the MLO's but not all of them | Meets all of the MLO's but at a very basic level | All the MLO's are met but there is some inconsistency in performance | Clearly meets all the MLO's and demonstrates a good level of consistency | Clearly meets all the MLO's and demonstrates an excellent level of consistency | |
| Knowledge of relevant concepts and issues | Does not identify the concepts relevant to the question or introduces topics that are not relevant. The ordering of the concepts indicates a lack of understanding of key concepts. | Identifies few of the concepts relevant to the question. Those concepts that are used are misapplied. The ordering of the concepts is inappropriate. | Identifies some of the key concepts, but not all of them, or displays an incorrect understanding of some of the concepts discussed. The ordering of the concepts may be ad hoc. | Identifies and utilises some of the key concepts relevant to the question. Uses some of the concepts, but not always in an appropriate context. The work is ordered appropriately | Identifies the majority of the key concepts relevant to the question and uses them in an appropriate context. Orders and structures them in a logical sequence | Identifies all of the key concepts relevant to the question and uses them in an appropriate context. The material is structured to show significant understanding of the key issues. | |
| Depth of understanding and extent of critical evaluation (including evidence of wider reading) | The student has not answered or addressed the question set or appears to have answered a different question to that set. There is no evidence of any reading. No key issues identified. | There is no evaluation of the validity of the sources used or the work is based on one key source. Inappropriate sources are used extensively. There is no evidence of appropriate wider reading. No reflection on key issues. | There is some evaluation of the materials used in the work. The work is based on a limited number of appropriate sources. Little reflection on key issues. | Good evaluation of materials used, with discernment obvious as to key sources. The work is based on a number of appropriate sources. Some reflection on key issues. | Good evaluation of all key/important sources materials used. The work is based on a wide range of appropriate sources. Good reflection on key issues. | The work is set in a context where wider reading and appreciation of the context is obvious. The material included is relevant to the topic and appropriate in addressing the key issues identified in the assignment | |
| Evidence of appropriate analysis | The student does not draw any relationships from the material used or the student is incorrect in the relationships that they draw. | The student draws one or two basic relationships from the material used, but then subsequently misapply these concepts. | The student draws one or two basic relationships from the material used, but fails to identify other important relationships. There may be some evidence they have not clearly understood all of the material they have presented | The student draws some limited relationships from the material used. There might be minor issues where the student is incorrect in the assertions that they make, but overall they demonstrate appropriate analysis. | The student starts to demonstrate they understand the key relationships from the material used. There are no substantive errors in their analysis. | All the key connections are drawn between materials from different sources. The student makes no substantive errors in their analysis and reflects upon the key issues identified in their analysis. | |
| Ability to synthesise relevant material from a range of sources | The student uses very few if any appropriate sources. There is extensive repetition of notes from the workbook. | The student uses just a few non-academic sources of information or the material used is inappropriate for UG level study. They quote verbatim extensively from one or two sources. They use quotations incorrectly to support an argument. | The student uses a few sources of information or the material used is inappropriate for UG level study. Extensive verbatim quotes are used as a replacement for the students own work. | The student may be limited in their use of academic sources such as journals and books, but there is evidence that they have attempted to access a range of sources including non-academic ones. | The student has accessed a range of academic sources such as journals and books, and also appropriate non-academic ones. Verbatim quotes are used to enhance the arguments being developed rather than as a replacement for the students own work. | The student has accessed a wide range of appropriate sources. They make reference to a wide range of material in their work. Verbatim quotes are used from a range of sources to illustrate and support the arguments being developed, but without becoming a substitute for the students own work. | |
| Structure and clarity of presentation. | The work has no coherent structure. The work is littered with spelling and typographical errors. Very poor use of English. Where appropriate tables/graphs are not used. Referencing is poor or non-existent. | The work is poorly organised, and structured. There are many spelling and typographical errors. Poor use of English. Where appropriate tables/graphs are not used. Referencing is patchy and incomplete. | The work is poorly structured. There are spelling and typographical errors. Poor use of English. Where appropriate tables/graphs are not used appropriately. Some of the referencing is incomplete | The work has a clear structure and generally a logical progression. Occasional typographical and spelling errors. Some use of tables/graphs is made where appropriate. | The work has overall a coherent structure and a clear and logical progression. Very few typographical and spelling errors. Good use of tables/graphs is made where appropriate. | The work is well structured with clearly defined objectives that are achieved. Typographical and spelling errors are rare. Excellent use of tables/graphs is made where appropriate. | |

Moderated internally by: **Robert Hall**

Moderated externally by: **Osita Chukwulobela**