PRIFYSGOL ABERYSTWYTH UNIVERSITY

ARHOLIADAU EXAMINATIONS

SEMESTER TWO 2026

ABERYSTWYTH BUSINESS SCHOOL

AB31120 – ADVANCED FINANCIAL ACCOUNTING

Time allowed: **THREE HOURS (3 Hours)**

Answer **ALL** questions

Any necessary assumptions introduced in answering a question are to be stated.

Workings should be submitted for all questions requiring calculations.

Total **100** marks available

This paper contributes **70%** of the overall module mark

CALCULATORS ARE PERMITTED (Casio FX83, FX99-1 or FX85 models only)

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STUDENTS MAY SUBMIT ANSWERS TO THIS PAPER IN EITHER WELSH OR ENGLISH

Once seated, students may complete the front cover of the answer book(s) and the attendance slip ONLY.

DO NOT TURN THE EXAMINATION QUESTION PAPER OVER UNTIL INSTRUCTED TO DO SO.

Answer ALL parts of Question 1 (40 marks)

Question 1

Below are consolidated balance sheets for Arthur plc, Ben Ltd and Chris Ltd as at 31 March 2026.

	Arthur plc	Ben Ltd	Chris Ltd
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	1,500	800	150
Investments			
150,000 £1 shares in Ben Ltd at cost	1,200		
20,000 £1 shares in Chris Ltd at cost	70		
Other investments	350	300	80
	3,120	1,100	230
Current assets			
Inventories	260	200	50
Trade receivables	805	90	60
Current account – Ben Ltd	110	-	
Cash	80	150	20
	1,255	440	130
Total assets	4,375	1,540	360
Equity and liabilities			
Capital and reserves			
Issued £1 share capital	1,800	200	100
Share premium	600	50	-
Retained earnings	1,515	800	200
	3,915	1,050	300
Current liabilities			
Trade and other payables	460	395	60
Current account – Arthur plc	-	95	-
	460	490	60
Total equity and liabilities	4,375	1,540	360
Other Information			
Retained earnings as at 31/03/2025	1,100	600	180
Dividends Paid	80	100	20

Arthur plc purchased the shares in Ben Ltd on 1 April 2025 and no new share capital has been issued since this date.

The holding in Chris Ltd was acquired over 30 years ago when the retained earnings of Chris Ltd were £150,000 and there has been no new share capital issued since then. Arthur plc considered that the net assets of both Ben Ltd and Chris Ltd were stated at fair value at the time it acquired shares in them. Arthur plc exercises significant influence over the activities of Chris Ltd.

Concerning the inter-company balances between Arthur plc and Ben Ltd, a BACS payment for £15,000 was sent by Ben Ltd plc to Arthur plc on 28 March 2026, but due to a error by their bank the payment failed to reach Arthur plc. The error was not noticed until 10 April 2026.

After the purchase of shares in Ben Ltd, both Arthur plc and Ben Ltd commenced trading with each other. Included within the stock of Ben Ltd at 31 March 2026 are goods purchased from Arthur plc for £150,000, which had been originally purchased by Arthur plc for £120,000. Ben Ltd had also sold stock to Arthur plc for £190,000 which had cost Ben Ltd £170,000 to produce. All of this stock was still in both Arthur plc's and Ben Ltd's inventory as at 31 March 2026.

REQUIRED:

a) Prepare the consolidated balance sheet using the full goodwill method for Arthur plc as at 31 March 2026. You may assume that income accrues evenly over a twelve-month period.

Previously Arthur plc's accounting policy had been to write goodwill off over 20 years on a straight line basis, however since 1 January 2005 Arthur has performed annual impairment tests.

Separate workings need to be shown for the calculation of consolidated retained earnings brought forward (at 31 March 2025) and carried forward (at 31 March 2026) and the retained earnings figure for the year ending 31 March 2026.

(30 marks)

Please Turn Over

b) Briefly outline the benefits of group accounting from the perspective of an investor. **(4 marks)**

c) IFRS 11 identifies two types of joint arrangements. Illustrating your answer with examples, identify these two types and explain clearly the differences in how each type is accounted for. **(6 marks)**

(Total 40 marks)

Answer ALL parts of Question 2 (30 marks)

Question 2

The following shows exchange rates between Pounds Sterling and Eva Dollars from 1 January 2025 to 31 March 2026:

1 January 2025	£1 = E$4.0	1 April 2025	£1 = E$4.0
31 May 2025	£1 = E$4.3	30 June 2025	£1 = E$4.5
30 September 2025	£1 = E$4.5	31 October 2025	£1 = E$4.5
30 November 2025	£1 = E$4.2	31 December 2025	£1 = E$4.5
1 January 2026	£1 = E$4.5	28 February 2026	£1 = E$4.7
31 March 2026	£1 = E$4.6	30 April 2026	£1 = E$4.7

During the financial year 2025/26, Mac Ltd entered into three transactions with Teddy Inc a company based in the country Evaland. Each transaction was denominated in Evaland Dollars (E$). Mac Ltd's financial year end is 31 March 2026.

i. 30 November 2025 Mac Ltd sold goods to Loki Inc to the value of E$6,000. Payment was received on 28 February 2026.

ii. 31 December 2025 Mac Ltd purchased fixed assets to the value of E$20,000 from Loki Inc. Payment was made on 30 April 2026.

Question 2 Continued

REQUIRED:

a) Show the relevant income statement and balance sheet entries necessary to reflect the two transactions in Mac Ltd's accounts as at 31 March 2026

(4 marks)

b) Clearly stating your assumptions and calculations, would your answer to *Part a) ii.* above change if the exchange rate on 31 March 2026 was £1=E$6.0?

(3 marks)

In 2025 Mac Ltd wished to have an overseas subsidiary based in Evaland. On 1 April 2025 Mac Ltd created an overseas subsidiary called Ben Inc with an investment (share capital) of E$100,000. Ben Inc has been 100% owned by Mac Ltd since that date and the share capital has remained unchanged.

All closing stock may be presumed to have been purchased 3 months prior to the year end, and any fixed assets were purchased at the beginning of each financial year.

The relevant exchange rates already stated earlier can be assumed.

The summarised financial statements for Ben Inc as at 31 March 2026 are shown below:

Ben Inc Summarised Income Statement for the year ended:

		31/03/2026 E$'000
Sales		700
Opening stock	0	
Purchases	500	
Closing stock	250	
Cost of sales		250
Gross profit		450
Depreciation		10
Dist. and admin. costs		60
Operating profit		380

Question 2 Continued

Ben Inc Summarised Balance Sheet as at:

		31/03/2026 E$'000
Fixed assets	100	
Depreciation	10	
		90
Closing stock		250
Monetary assets	180	
Monetary liabilities	40	140
		480
Share capital		100
Retained profit		380
		480

REQUIRED:

c) Using the CRNI method translate Ben Inc's financial statements for the year ending 31 March 2026. **(7 marks)**

d) Using the Temporal method translate Ben Inc's financial statements for the financial year ending 31 March 2026. **(8 marks)**

e) Clearly stating any assumptions, using the Mac Ltd / Ben Inc example above, illustrate the types of currencies that IAS 21 recognises. **(4 marks)**

f) In what circumstances would the temporal method be used to translate a set of financial statements? **(4 marks)**

(Total 30 marks)

Answer ALL parts of Question 3 (30 marks)

Question 3

InvestProp Ltd is a company which holds financial and other securities. As at 1 April 2025 it commenced business and holds the following assets:

- An irredeemable government bond paying 5% per annum on a nominal value of £200,000.
- £300,000 bank deposit - interest payable on this deposit is variable and moves in accordance with the overall risk free rate in the economy.
- A property portfolio which is expected to generate rental income of £30,000 per annum into the foreseeable future which cost £750,000 at the date of purchase.

InvestProp Ltd is financed by share capital of £1,000,000 and a £300,000 loan on which interest is payable at 7% per annum. This loan is repayable on 31 March 2029

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The risk free rate of return in the economy is 4.0% and it is expected to stay at this rate for the foreseeable future. You may assume that InvestProp Ltd is able to borrow and invest any remaining cash at the applicable risk free rate of return.

You may also assume that all cash flows occur on the last day of the year to which they relate and that there is no taxation in the economy.

REQUIRED:

a) Using the above information and in accordance with conventional accounting principles, construct a Balance Sheet for InvestProp Ltd as at the 1 April 2025. Clearly show your workings and state any assumptions made. **(6 marks)**

b) On the basis of the same information used in part a), calculate for InvestProp Ltd *ex ante* income for 2025. **(5 marks)**

Question 3 Continued

Unfortunately, there was a surplus of properties, so InvestProp Ltd was only able to achieve a rental income of £20,000 during the financial year 2025/2026. To improve the situation for the following years InvestProp Ltd spent an additional £80,000 to upgrade the properties, anticipating foreseeable future annual rental income to increase to £40,000.

On 31 March 2026 the risk free rate of return in the economy changed to 3.0% and is expected to stay at this figure for the foreseeable future.

c) On the basis of this further information calculate for InvestProp Ltd for the year ending 31 March 2026, measures of ex post economic income in line with those proposed by Sir John Hicks, the immediate distribution of which to shareholders would be:

i) The income for 2025/26 being equal to the ex ante income for 2026/27.
(4 marks)

ii) The net asset value of InvestProp Ltd reverting to the level at the start of the year. **(5 marks)**

iii) State the 2 versions of Hicks that you have calculated for parts *c i) and ii)* above.
(2 marks)

d) If ex post income is distributed under a Hicks 2a definition, calculate the opening present value of the net assets as at 1 April 2026, and the ex-ante income for 2026/27 **(4 marks)**

e) If ex post income was distributed under a Hicks 1a definition, calculate the ex-ante income for 2025/26. **(2 marks)**

f) Explain the main differences between the two versions of Hicksian income.
(2 marks)

(Total 30 marks)

END OF PAPER