Course work :1 of 7

Exercise 3: SBS Plc

Part (a)

SBS Plc is an air craft component manufacturer and sells exclusively to major companies. The company has just completed its first year of operations, and shown below are two draft Statements of Financial Position.

Both Draft A and Draft B have been prepared (i) from the same trial balance; and (ii) following generally accepted accounting principles - i.e. the basic concepts of the accrual basis and the on-going concern basis. Neither draft contains any arithmetic errors.

Statements of Financial Position for SBS plc at 30 September 2009

	Draft A		**Draft B**		
	£million	*£million*	*£million*	*£million*	
Non-current Assets					
Tangible					
Land		100		70	
Buildings		40		45	
Machinery		40		30	
Intangible- Patent		45		*nil*	
			-----		-----
			225		145
Current Assets					
Inventories (note a)	45		50		
Trade receivables	35		40		
Bank and cash	20	100	20	110	
		----	-----	---	-----
Total Assets		325		255	

			===		===
Equity					
Share Capital:					
Ordinary shares @£1 each		210		210	
Reserves		80		30	
			-----		-----
			290		240
Current Liabilities					
Trade payables	15		15		
Provision for future loss (note b)	20	35	*nil*	15	
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Total Equity and Liabilities		325		255	
			===		===

Notes:

(a) **The company's inventories include raw materials, work-in-progress, and finished goods.**

(b) **The provision for future loss in Draft A is the possible amount the company might lose in a law suit being brought against it.**

Required:

For each of the assets and liabilities, explain why the differences in Draft A and Draft B may have arisen.

Note:

Where relevant, you should refer to the definitions of assets and liabilities given in the IASB's *Framework for the Preparation and Presentation of Financial Statements*.

You are not, however, expected to have knowledge of any individual accounting standards or to refer to any regulations in them.

(14 marks)

Part (b)

Travel Inn is in the Hotel industry and during the year ended 31 March 2009, experienced the following transactions or events:

(i) The company's income statement prepared using historical costs showed a loss from operating Hotels, but the company is aware that the increase in the value of its properties during the period far outweighed the operating loss.

(ii) A decision was made by the Board to change the company's accounting policy from treating certain expense as finance costs to capitalising such costs.

Required:

Explain how you would treat the items (i) and (ii) above in Travel Inn's financial statements and indicate on which of the Framework's **qualitative characteristics** your treatment is based.

(6 marks)

Question continues on next page

Part (b)

You are a Trainee for a financial consultancy firm in Sheffield. On 20 December 2008 one of your clients paid £20,000 for an advertising campaign. The advertisements will be heard on local radio stations between 1 January and 31 January 2009. Your client believes that, as a result, sales will increase by 60% in 2009(over 2008 levels) and by 40% in 2010(over 2008 levels). There will be no further benefits.

Required

Write a note to your client explaining your views on how this item should be treated in the accounts for the three years 2008 to 2010.Your answer should include explicit reference to at least three relevant traditional accounting conventions **and to the requirements of** two classes of user **of published financial statements**

(10 marks)

Total 30 marks

Presentation

- **Reference needs to be clearly shown**
- **Word process using standard margins and size 12 font Maximum length: 1000 words (approximately 3 typed pages).**

- **Attach a cover page with your name and student number; name of assignment; your seminar day & time; and your seminar tutor.**
- **Loose pages will NOT be accepted. Staple or put in a folder.**