ACCA REVISION MOCK B

Financial Reporting

December 2017

Please note that this exam is suitable for anyone sitting either the paper-based or the computer-based examination (CBE), although Section A and B questions in the real CBE will contain question types other than Multiple Choice Questions.

Time allowed: 3 hours 15 minutes

This question paper is divided into three sections:

Section A - All 15 questions are compulsory and MUST be attempted

Section B - All 15 questions are compulsory and MUST be attempted

Section C - BOTH questions are compulsory and MUST be attempted

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

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Paper F7

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SECTION A

ALL 15 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

1 Maud's net profit for the year ended 31 December 20X2 is $565,000.

At the start of the year Maud had 6,000,000 shares in issue. On 1 September 20X2, Maud made a bonus issue of 1 share for every 8 held. There were no other share issues during the period. Maud reported a basic earnings per share figure for the year ended 31 December 20X1 of 11.0 cents.

What is Maud's basic earnings per share for the year ended 31 December 20X2, and the restated comparative for 31 December 20X1?

	20X2 figure	20X1 Comparative
A	8.4 c	9.8 c
B	8.4 c	12.4 c
C	9.0 c	9.8 c
D	9.0 c	12.4 c

2 On 1 October 20X8 Paula acquired 80% of the one million equity shares in Stella, by way of a share exchange of 2 new shares in Paula for every 5 acquired in Stella. On this date the fair value of Stella's net assets was $2,000,000, Paula's share price was $5.40, and the fair value of the non-controlling interest in Stella was $850,000. In the year ended 31 March 20X9 goodwill had been impaired by $200,000. Paula measures goodwill using the fair value method.

What is the value of goodwill arising on the acquisition of Stella at 1 October 20X8?

A $128,000

B $578,000

C $272,000

D $378,000

3 On 1 April 20X7 Priya acquired 100% of Skyla for $6 million cash.

At the date of acquisition a fair value exercise was performed and the fair values of Skyla's net assets at that date were:

	$000
Property	3,500
Plant	2,200
Intangible: brand	700
Other net assets	900
	7,300

How should the purchase of Skyla be reflected in the consolidated statement of financial position?

A Record the net assets at their values shown above and credit consolidated goodwill with $1.3 million.

B Record the net assets at their values shown above and credit profit or loss with $1.3 million.

C Ignoring the brand ($700,000), record the remaining assets at their values shown above and credit profit or loss with $600,000.

D Ignoring the brand ($700,000), record the remaining assets at their values shown above and credit consolidated goodwill with $600,000.

4 **Which of the following should be accounted for using equity accounting in the consolidated financial statements of Prima plc?**

A An investment of 40% of the ordinary shares in Artim. The remaining 60% of Artim's shares are owned by Rhoswen plc, who treats Artim as a subsidiary.

B An investment of 30% of the ordinary shares in Akasma. Prima has one representative on Akasma's board of directors.

C An investment of 18% of the ordinary shares of Adora.

D An investment in 35% of the non-voting irredeemable preference shares of Ajax.

5 On 1 July 20X8 Tamsin received a government grant of $500,000 towards the cost of an item of plant that was purchased on that date. Extracts from the statement of financial position at 31 March 20X9 are shown below:

	20X9	*20X8*
	$000	$000
Non-current liabilities		
Government grants	1,250	1,100
Current liabilities		
Government grants	850	650

How would government grants be treated in the statement of cash flows for the year ended 31 March 20X9 in both the operating activities (to arrive at cash generated from operations) and investing activities sections?

	Operating activities	*Investing activities*
A	$500,000 added back	$150,000 inflow
B	$150,000 added back	$500,000 inflow
C	$500,000 deducted	$150,000 inflow
D	$150,000 deducted	$500,000 inflow

6 In the year ended 31 March 20X6 Connect revalued its properties at the year-end for the first time.

Which of the following ratios would be distorted when comparing the year-on-year performance and position of Connect?

(i) Current ratio

(ii) Asset turnover

(iii) Gearing

(iv) Return on capital employed

A All of the above

B (i), (ii) and (iii)

C (ii) and (iv)

D (ii), (iii) and (iv)

7 Comparability is identified in the IASB's *Conceptual Framework* as an enhancing qualitative characteristic.

Which of the following WILL improve comparability?

A Recording a transaction according to its substance rather than its legal form

B Restating the prior year earnings per share figure following a rights issue of shares during the current year

C Including assets held for sale within property, plant and equipment on the statement of financial position until sold

D Recording a change in an accounting estimate in the current year’s financial statements

8 **Which of the following accounting treatments provides an example of relevance in accordance with the IASB's *Conceptual Framework*?**

A Restating the financial statements of the previous year when a prior year error has been discovered

B Treating redeemable preference shares as a liability within the financial statements

C Valuing inventory within the financial statements using FIFO rather than average cost

D Separately disclosing discontinued operations within the financial statements

9 On 31 March 20X8 Jing's closing inventory was valued at its cost of $5 million, including some damaged goods. The damaged items cost $390,000 and are no longer expected to achieve their normal selling price, which is calculated to achieve a mark-up of 20%. These goods will have to be sold at a discount of 30% on normal selling price.

What value should be included for total inventory in Jing's statement of financial position as at 31 March 20X8?

A $4,937,600

B $4,883,000

C $4,610,000

D $4,951,250

10 On 1 April 20X8 Danielle acquired a machine via a lease agreement, and paid $45,000 immediately, being the first of five equal annual rentals in advance. The present value of the **remaining** lease payments at 1 April 20X8 was $155,000. The lease has an implicit interest rate of 10%, and the machine has a useful life of five years.

What amount in total is charged to Danielle's statement of profit or loss for the year ended 31 March 20X9 in respect of the above lease?

A $40,000

B $46,500

C $55,500

D $60,000

11 At 1 April 20X8 Swizzle had a property in its financial statements that had originally cost $27.5 million (land $2.5 million, buildings $25 million), and now had accumulated buildings depreciation of $10 million. On 1 April 20X8, the directors decided to revalue the land and buildings for the first time, and accepted the report of an independent surveyor who valued the land at $4 million and the buildings at $19.5 million on that date. The remaining life of the buildings at 1 April 20X8 was 15 years.

What will be the amount of depreciation charged to profit or loss for the year ended 31 March 20X9?

A $1,300,000

B $1,666,667

C $1,833,333

D $1,566,667

12 IAS 36 *Impairment* outlines indicators of when an entity's assets may have become impaired.

Which of the following are NOT internal indicators of impairment?

(i) The asset's market value has declined more than would be expected from the passage of time

(ii) Damage to, or obsolescence of, the asset

(iii) Changes in the economic environment of the business in which the asset is employed

(iv) Changes in the way the asset is used by the entity

A (iii) and (iv) only

B (i) and (ii) only

C (i) and (iii) only

D (ii) and (iv) only

13 **Which of the following is NOT true concerning the treatment of borrowing costs under IAS 23 *Borrowing costs*?**

A Only borrowing costs on a qualifying asset can be capitalised

B Capitalisation of borrowing costs should be suspended if construction is suspended for an extended period

C Borrowing costs can continue to be capitalised once activities to prepare the asset for use are complete, if the asset is not yet in use

D Borrowing costs capitalised are net of any temporary investment income from the funds borrowed

14 The balance on Olaf's development expenditure as at 31 March 20X8 was $16 million (original cost $20 million, accumulated amortisation $4 million).

The development costs relate to a product called the Stone, which was being amortised over five years.

A review of the sales of the Stone in late March 20X9 showed them to be below forecast. An impairment test concluded that the fair value of the development expenditure at 31 March 20X9 was only $9 million, and the Stone was only expected to sell for a further two years.

What amount will be charged to profit or loss in respect of the impairment of the development expenditure for the year ended 31 March 20X9?

A $4 million

B $3 million

C $7 million

D $1 million

15 Jim is an entity that is preparing its financial statements for the year ended 31 March 20X9. On 24 April 20X9, prior to the authorisation of the financial statements, the internal audit department discovered a fraud by an employee, who had been making payments to a fictitious supplier during the year to 31 March 20X9. Investigation showed that the total amount of the fraud amounted to $790,000, which is considered to be material.

How should the fraud be treated in the financial statements for the year ended 31 March 20X9 in accordance with IAS *10 Events After the Reporting Date*?

A Disclosed as a non-adjusting event

B Identified as a non-adjusting event, but resulting in adjustment because the going concern status of Jim is affected

C Ignored as the discovery was after the reporting date

D Treated as an adjusting event in the financial statements

(30 marks)

SECTION B

ALL 15 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

Each question is worth 2 marks.

The following scenario relates to questions 16 – 20.

On 1 April 20X6 Payne acquired 75% of Scannell's equity shares, when Scannell's retained earnings were $48 million.

Payne paid $70 million cash, with a further $8.47 million payable on 31 March 20X8. Payne has a cost of capital of 10%.

Payne measures the non-controlling interest at fair value, and at the date of acquisition the non-controlling interest in Scannell had a fair value of $24 million.

The fair values of the net assets of Scannell were equal to their carrying amounts, with the exception of a building, which had a carrying amount of $8 million but a fair value of $12 million. At the date of acquisition, the building was deemed to have a remaining useful life of 20 years.

On 1 January 20X7, Payne also acquired 30% of the 50 million equity shares of Aaron paying $3 in cash per acquired share. Aaron made a profit of $24 million for the year ended 31 March 20X7, and had retained earnings of $40 million as at 31 March 20X7.

Extracts from the statements of financial position for Payne and Scannell at 31 March 20X7 are shown below:

	Payne	Scannell
Non-current assets	$000	$000
Property, plant and equipment	180,000	60,000
Equity		
Equity shares of $1 each	150,000	20,000
Retained earnings	243,500	84,000

16 What is the value of goodwill on the acquisition of Scannell?

A $29 million

B $33 million

C $30.47 million

D $49 million

17 When a gain on bargain purchase (negative goodwill) arises, IFRS3 Business Combinations requires an entity to review the measurement of all elements of the goodwill calculation.

Once confirmed, what is the correct accounting treatment of the negative goodwill?

A It is credited to profit or loss

B It is credited to other comprehensive income

C It is deducted from positive goodwill

D It is credited directly to retained earnings

18 What is the carrying amount of the investment in Aaron on Payne's consolidated statement of financial position at 31 March 20X7?

A $45m

B $46.8m

C $51m

D $52.2m

19 What is the carrying amount of Payne's consolidated property, plant and equipment at 31 March 20X7?

A $225m

B $240m

C $243.8m

D $247.6m

20 What is the correct treatment of any professional fees incurred on the acquisition of a subsidiary?

A Capitalise as an intangible asset

B Write off as an expense in the statement of profit or loss

C Deduct from the cost of investment in the calculation of goodwill

D Add to the cost of investment in the calculation of goodwill

The following scenario relates to questions 21 – 25.

Tariq has a year end of 30 November and owns an item of plant which it uses to manufacture steel girders. The plant cost $150,000 on 1 December 20X5 and at that date had an estimated useful life of five years.

A review of the plant on 1 June 20X8 concluded that its fair value was $105,000 and that it would last for a further three and a half years.

Tariq uses the revaluation model for its plant, but does not make an annual transfer from the revaluation surplus to retained earnings in respect of the additional depreciation charged.

On 30 November 20X8, Tariq was informed by a major customer that it would no longer be placing orders with Tariq. As a result Tariq reviewed its forecasts and estimated that net cash inflows earned from the plant for the next three years would be:

		$
Year ended 30 November	20X9	44,000
	20Y0	36,000
	20Y1	40,000

Tariq's cost of capital is 8% which results in the following discount factors:

Value of $1 at 30 November
20X9 0.93
20Y0 0.86
20Y1 0.79

Tariq also owns Rasa, a 100% subsidiary, which is treated as a cash generating unit. On 30 November 20X8, an impairment review of Rasa revealed impairment to Rasa's assets of $350,000. The carrying amounts of the assets of Rasa immediately before the impairment were:

	$
Goodwill	200,000
Factory building	400,000
Plant	350,000
Receivables and cash	250,000
	1,200,000

Note: receivables and cash are stated at their recoverable amounts.

21 Prior to considering any impairment, what is the carrying amount of Tariq's plant and the balance on the revaluation surplus at 30 November 20X8?

	Plant carrying amount	Revaluation surplus
	$000	$000
A	90	Nil
B	60	30
C	90	30
D	60	Nil

22 What is the value in use of Tariq's plant as at 30 November 20X8?

A $103,480

B $90,000

C $111,880

D $120,000

23 What is the carrying amount of Rasa's plant at 30 November 20X8 after the impairment loss has been correctly apportioned between its assets?

A $247,917

B $280,000

C $221,053

D $350,000

24 Which of the following are TRUE in accordance with IAS 36 Impairment of Assets?

(1) A cash generating unit is the smallest identifiable group of assets for which individual cash flows can be identified and measured.

(2) When considering the impairment of a cash generating unit, the calculation of the carrying amount and the recoverable amount does not need to be based on exactly the same group of assets.

(3) When it is not possible to calculate the recoverable amount of a single asset, then that of its cash generating unit should be measured instead.

A (1) and (2)

B (2) and (3)

C All of them

D (1) and (3)

25 In accordance with IAS 36 Impairment of Assets, which of the following explains the impairment of an asset and how to calculate its recoverable amount?

An asset is impaired when

A its recoverable amount exceeds its carrying amount and the recoverable amount is the higher of its fair value less costs of disposal and its value in use

B its carrying amount exceeds its recoverable amount and the recoverable amount is the higher of its fair value less costs of disposal and its value in use

C its carrying amount exceeds its recoverable amount and the recoverable amount is the lower of its fair value less costs of disposal and its value in use

D its recoverable amount exceeds its carrying amount and the recoverable amount is the lower of its fair value less costs of disposal and its value in use

The following scenario relates to questions 26 – 30.

Stankovic is preparing its financial statements for the year ended 31 December 20X5. The following issues are relevant:

1 Financial asset

Stankovic acquired a short-term speculative investment in 10,000 of the equity shares of another entity on 1 January 20X5 at a cost of $3.50 each. Transaction costs of 1% of the purchase price were incurred.

On 31 December 20X5 the fair value of these shares was $4.50 each.

Where possible, Stankovic makes an irrevocable election for the fair value movements on financial assets to be reported in other comprehensive income.

2 Financial liability

Stankovic issued a $40 million 5% loan note on 1 July 20X5. Interest is payable annually on 30 June. The loan note is redeemable on 30 June 20X9 at a substantial premium, the impact of which is to increase the effective rate of interest on the loan note to 7%.

3 Revenue

On 1 January 20X5, Stankovic sold a machine for $20 million. The sales price included maintenance of the machine until 31 December 20X7 (i.e. three years after the sale date). The list price of the machine (without maintenance) is $20.5 million, and Stankovic normally charges $1.5 million per annum for maintenance.

26 Which of the following meet the definition of a financial asset in accordance with IFRS 9 Financial Instruments?

(1) An equity instrument of another entity.

(2) A contract to exchange financial instruments with another entity under conditions which are potentially favourable.

(3) A contract to exchange financial instruments with another entity under conditions which are potentially unfavourable.

(4) Cash.

A (1) and (2) only

B (1), (2) and (4)

C (1), (3) and (4)

D (4) only

27 In respect of the financial asset of Stankovic, what is the net impact in the statement of profit or loss for the year ended 31 December 20X5?

A $9,650 gain

B $10,350 gain

C $10,000 gain

D $nil gain

28 In respect of the financial liability of Stankovic, what is the finance cost to be recognised in the statement of profit or loss for the year ended 31 December 20X5?

A $2.8 million

B $2 million

C $1.4 million

D $1 million

29 What is the amount of revenue which Stankovic should recognise in its statement of profit or loss for the year ended 31 December 20X5 relating to the contract for the supply and maintenance of its product?

A $20 million

B $17.6 million

C $16.4 million

D $3.6 million

30 Which of the following is not one of the five steps for revenue recognition within IFRS15 Revenue From Contracts With Customers?

A Identify the performance obligations

B Identify the contract

C Allocate the performance obligations

D Determine the transaction price

(30 marks)

SECTION C

BOTH questions are compulsory and MUST be attempted

31 Heywood

Below are the summarised financial statements for the years to 31 December 20X6 and 20X7 of Heywood, a company which manufactures bottles for many different drinks companies.

Note: The statements for the year to 31 December 20X7 have not been audited.

Heywood Statement of profit or loss for the year ended 31 December

	20X7	20X6
	$m	$m
Revenue	300	120
Cost of sales	(270)	(90)
Gross profit	30	30
Operating expenses	(28)	(10)
Finance costs	(10)	(2)
(Loss)/profit before tax	(8)	18
Income tax	2	(6)
Profit for the year	(6)	12

Statement of financial position for Heywood as at 31 December 20X7

	20X7		20X6	
	$m	$m	$m	$m
Non-current assets				
Land and buildings		5		5
Plant and equipment		58		38
		63		43
Current assets				
Inventories	18		12	
Trade and other receivables	94		25	
Deferred expenditure	6		–	
Bank	Nil		8	
		118		45
		181		**88**

Equity & liabilities				
Equity				
Share capital		25		25
Capital reserves		10		11
Retained earnings		(12)		8
		23		44
Non-current liabilities				
Lease		32		19
Current liabilities				
Trade payables	80		15	
Lease	12		10	
Bank overdraft	34		–	
		126		25
		181		**88**

The following ratios have been calculated for Heywood for the year ended 31 December 20X6:

Return on capital employed (equity plus debt)	27.4%
Gross profit margin	25%
Operating profit margin	16.7%
Asset turnover	1.6 times
Current ratio	1.8 : 1
Gearing (debt to debt plus equity)	39.7%

Note that debt includes all lease liabilities.

Further information:

(i) Plant and equipment is made up as follows:

	20X7	20X6
	$m	$m
Owned plant	18	10
Right-of-use assets	40	28

(ii) The directors were disappointed in the profit for the year to 31 December 20X6 and held a board meeting in January 20X7 to discuss future strategy. The Managing Director was insistent that the way to improve the company's results was to increase sales and market share. As a result the following actions were implemented:

– An aggressive marketing campaign through trade journals costing $12 million was undertaken. Owing to expected long-term benefits $6 million of this has been included within current assets in the statement of financial position at 31 December 20X7, deferring half of the marketing costs to a later period.

– A 'price promise' to undercut any other supplier's price was announced in the advertising campaign.

– Following a competitive tendering process, a major contract with Koola Drinks was agreed, accounting for a substantial proportion of the company's output.

– The credit period for receivables was extended from two to three months.

(iii) A preliminary review by the Board of the accounts on 31 December 20X7 concluded that the company's performance had deteriorated rather than improved. There was particular concern over the prospects of renewing the bank overdraft facility because the maximum agreed level of $30 million had been exceeded.

Required:

(a) Calculate ratios for the year ended 31 December 20X7 equivalent to those provided above. (6 marks)

(b) Prepare a report for Heywood's board, analysing the company's performance and position, focusing on the effects of the implementation of the actions referred to in points (i) to (iii) above. (14 marks)

(20 marks)

32 Chestnut

The following trial balance relates to Chestnut as at 31 March 20X5.

	$000	$000
Share capital of $1 shares		50,000
Property - at valuation 1 April 20X4	60,000	
Plant and equipment - cost	60,000	
Plant and equipment - accumulated depreciation 1 April 20X4		22,000
Equity dividend paid	12,500	
6% preference shares of $1 each (note (ii))		52,000
Convertible loan note (note (iii))		10,000
Convertible loan note interest paid (note (iii))	400	
Inventory at 31 March 20X5	35,250	
Trade receivables	41,375	
Bank	34,350	
Trade payables		42,000
Revenue		387,500
Cost of sales	293,130	
Preference dividend paid (note (ii))	3,000	
Administrative expenses	34,370	
Distribution costs	24,375	
Investment income		4,500
Retained earnings - 1 April 20X4		12,125
Revaluation surplus - 1 April 20X4		9,000
Income tax (note (iv))	875	
Deferred tax (note (iv))		10,500
	599,625	599,625

The following notes are relevant:

(i) Non-current assets

The property had a remaining life of 20 years as at 1 April 20X4. The company's policy is to revalue its property at each year-end, and at 31 March 20X5 it was professionally valued at $62 million. Ignore deferred tax on the revaluation.

All plant is to be depreciated at 25% per annum using the reducing balance method.

At 31 March 20X5, Chestnut decided to replace all its plant and equipment and put all of it up for sale. Due to the market for such machinery at this date, the sale was considered highly probable. In May 20X5 the plant was sold for $32 million.

All depreciation is to be charged to cost of sales.

(ii) The 6% preference shares were issued at par on 1 April 20X3 for $50 million. They are redeemable at a large premium which gives them an effective finance cost of 10% per annum.

(iii) On 1 April 20X4 Chestnut issued a $10 million 4% convertible loan note, repayable or covertible to ordinary shares on 31 March 20X8. Interest is payable annually in arrears. Chestnut chose to issue the convertible loan note as it meant that there would be a lower interest payment than the 8% interest rate charged on similar loan notes with no conversion option. The present value of $1 payable at the end of each year, based on discount rates of 4% and 8% are:

		4%	8%
Year	1	0.96	0.93
	2	0.92	0.86
	3	0.89	0.79
	4	0.85	0.74

(iv) The directors have estimated the provision for income tax for the year to 31 March 20X5 at $5.7 million. The required deferred tax provision at 31 March 20X5 is $7 million, and all adjustments to deferred tax should be taken to the statement of profit or loss. The balance of current tax in the trial balance represents the under/over provision of the income tax liability for the year ended 31 March 20X4.

Required:

(a) Prepare the statement of profit or loss and other comprehensive income for Chestnut for the year ended 31 March 20X5. (8 marks)

(b) Prepare the statement of financial position for Chestnut as at 31 March 20X5. (12 marks)

Notes to the financial statements are not required. Please work to the nearest $000.

(20 marks)