INTERIM ASSESSMENT SCRIPT SUBMISSION FORM

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ACCA – Paper P2
Corporate Reporting
September 2015 to June 2016
Interim Assessment

Instructions

- Please complete your personal details above.
- All scripts should ideally be submitted to your Kaplan centre for marking via email to help speed up the marking process.
  Please scan this form and your answer script in a single PDF and email it to your Kaplan centre.
- Alternatively you may post your script to us. If so, please use the correct Royal Mail tariff (large letter).
- Classroom students may submit scripts to their local centre in person.
  You will be provided with the dated receipt below which you should retain as proof of submission.

  Note: If you are a sponsored student, your result will form part of the report to your employer.

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Marking Report

Notice to Markers

1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

2 For each question, please provide suitable constructive comments

Question Number	**General Comments**	**Exam Technique Comments**

ACCA INTERIM ASSESSMENT

Corporate Reporting

September 2015 to June 2016

Paper P2 (INT & UK)

Time allowed

Reading time: **15 minutes**

Writing time: **3 hours**

This paper is divided into two sections

Section A This question is compulsory and MUST be answered

Section B Answer BOTH questions

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

Kaplan Publishing/Kaplan Financial

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SECTION A

This question is compulsory and MUST be answered

1 Watch is a company that produces its financial statements in accordance with International Financial Reporting Standards. Buildings are held at fair value whenever permitted by relevant accounting standards. A draft statement of financial position as at 31 December 20X5 is presented below:

	$m
Non-current assets	
Property, plant and equipment	76
Investment properties	5
Financial assets	15
	96
Current assets	
Inventories	14
Trade and other receivables	17
Cash and cash equivalents	3
Total assets	130
Equity and liabilities	
Share capital	10
Share premium	15
Retained earnings	50
Other components of equity	5
Non-current liabilities	
Loans	19
Current liabilities	
Trade and other payables	31
Total equity and liabilities	130

A number of accounting issues have yet to be resolved. The following information is relevant to the completion of the financial statements for the year ended 31 December 20X5:

1 On 1 January 20X1, Watch purchased a building for use in the business. The building cost $10 million was attributed a useful economic life of 50 years. At 31 December 20X5, the building is deemed to have a fair value of $13 million. This revaluation has not yet been accounted for.

2 The investment properties of Watch relate to a building that has historically been held to earn rental income. This building was worth $5 million on 1 January 20X5. On 31 December 20X5, Watch re-occupied the building and started to use it as a head-office. Its fair value on 31 December 20X5 was $5.5 million.

3 The financial assets balance relates to $15 million that was loaned to a key supplier on 1 January 20X5. The loan, which is interest-free, is due to be repaid on 31 December 20X6. The supplier can usually borrow at a rate of 15%. Any loss allowance is deemed to be immaterial.

4 On 1 October 20X5, Watch entered into a futures contract to sell 10,000 units of its inventory for $5 million. No consideration was paid for the futures contract at inception. This was designated as a fair value hedge, with inventory as the hedged item and the futures contract as the hedging instrument. By the reporting date, the fair value of the futures contract had risen to $1.1 million and the fair value of the inventory had fallen by $0.9 million. All hedge effectiveness criteria have been met.

5 By 31 December 20X5, $1.5 million has been received in deposits from customers awaiting the release of Watch's latest product. The cash received has been recorded as revenue. The goods were not despatched to the customers until 15 January 20X6.

6 Watch operates a defined contribution pension scheme and is obliged to contribute 5% of gross salaries into the scheme. For the year ended 31 December 20X5 employee salaries were $8 million and Watch's contributions to the scheme amounted to $300,000.

7 On 30 June 20X5, Watch introduced a share-based payment scheme for 1,000 of its employees. Each one of these employees was granted 1,000 share options that will vest if they remain with the company for a further 3 years.

At 31 December 20X5, 970 of the employees still worked for the company. It is estimated that the employees who were granted share options will leave the company at a rate of five per month. The fair value of each share option was $4.20 on 30 June 20X5 and $4.60 on 31 December 20X5. No accounting entries have been posted for this share scheme.

8 Included in the loans balance of Watch is a loan denominated in the Mark (MK). This loan was for MK13 million and was received on 1 March 20X5. The accountant of Watch correctly recorded this using the spot rate on 1 March 20X5 but no other entries have been posted. Relevant exchange rates are as follows:

Date	MK:$
1 March 20X5	3.2
31 December 20X5	3.6

9 On 31 December 20X5, Watch issued 1 million $10 5% convertible loan notes. Interest is payable annually in arrears. The holders of these loan notes can redeem them on 31 December 20X8 in the form of cash or equity shares. Similar debt without a conversion option has an interest rate of 8%. The proceeds from this bond issue have been recorded within loans.

Requirement:

(a) Using the information above, prepare the statement of financial position for Watch as at 31 December 20X5 in accordance with International Financial Reporting Standards. Ignore deferred tax issues. (35 marks)

Although Watch holds buildings at fair value, the Finance Director is unsure of the specific requirements of IFRS 13 *Fair Value Measurement*.

Requirement:

(b) According to IFRS 13, what is meant by the term 'fair value' and how should it be determined? (9 marks)

(c) Discuss the ethical responsibilities of an accountant when accounting for buildings at fair value. (6 marks)

(Total: 50 marks)

SECTION B

Answer BOTH questions

2 Shine is a company that prepares its financial statements under International Financial Reporting Standards. There are some outstanding accounting issues that relate to the year ended 31 December 20X1.

(a) During the year, Shine sold goods to Star for $500,000 at a mark up of 30%. Shine normally makes a mark up of 70% on its sales. By the year-end, this sales invoice remained outstanding. Mrs Jones owns 100% of the equity shares in Shine, and is a director of Star. **(5 marks)**

(b) During the year ended 31 December 20X1, Shine spent $3.0 million on research and development activities. A breakdown of this is provided below:

	$m
Research activities (1 Jan 20X1 – 30 April 20X1)	1.2
Development activities (1 May 20X1 – 31 December 20X1)	1.8
	3.0

On 1 May 20X1, prudent forecasts indicated that this project would be extremely profitable, but it was not until 30 June 20X1 that the company had adequate funds to complete the project. At 31 December 20X1, development was still ongoing. Under local law, research and development expenditure is deductible for tax purposes on a cash paid basis. Shine pays tax at a rate of 25%. **(6 marks)**

(c) On 30 June 20X1, Shine sold its freehold office premises for $10 million and leased it back on a 5 year lease term. At this date, the office had a carrying value of $3.2 million, a fair value of $7 million, and a remaining useful life of 30 years. Shine will pay annual rentals of $800,000 in arrears. **(6 marks)**

(d) On 1 January 20X1, Shine purchased a new item of machinery for $2 million. This item of machinery contains hazardous chemicals whose use and disposal is strictly controlled by legislation. The plant will be used for 10 years, at which point Shine is legally obliged to dismantle the asset and have it safely disposed of. These dismantling costs are estimated to be $500,000. A discount rate of 10% should be used. **(6 marks)**

Required:

Discuss how the above transactions should be accounted for in the financial statements of Shine for the year ended 31 December 20X1.

Note: the mark allocation is shown against each of the four events above.

Professional marks will be awarded in question 2 for the clarity and quality of presentation and discussion. (2 marks)

(Total: 25 marks)

3 Album, a publishing company, prepares its financial statements under International Financial Reporting Standards. Its functional currency is the dollar ($). The directors require advice about a number of issues of relevance to the financial statements for the year ended 31 December 20X1.

(a) Album is targeting international customers and therefore has a factory and warehouse located overseas. On 1 December 20X1, the January 20X2 edition of a magazine entitled 'Runner's Universe' was printed at a production cost of CU200,000. On 31 December 20X1, these magazines were held in inventory and had an estimated net sales price of CU250,000. This valuation was confirmed after the reporting period.

There have been significant fluctuations in the currency markets. The following exchange rates are relevant:

Date	CU:$1
1 December 20X1	2.1:1
31 December 20X1	3.0:1

The directors of Album are unsure as to the accounting treatment of this inventory.

(5 marks)

(b) Album has started to publish textbooks and produce online resources for students studying for a range of examinations. The textbooks sell for $70 and 12 months' access to the online resources sells for $30. During November 20X1, Album launched a special offer which enabled customers to purchase a textbook and access the online resources for a reduced price of $80. A total of 1,200 customers took advantage of this special offer and paid in full. The customers received the textbooks and were granted access to the online resources on 1 December 20X1.

The directors of Album require advice as to how this special offer should be accounted for in the financial statements for the year ended 31 December 20X1.

(7 marks)

(c) Despite initiatives to increase sales, the directors of Album made the decision to close one of the company's warehouses during the year ended 31 December 20X1. The sale was completed before the year end, with Album recording a material loss on disposal. The directors wish to highlight to the shareholders that the ongoing business will now be more profitable. As such, they have presented the costs of the closure within 'profits from discontinued operations'.

The members of staff employed at this warehouse were initially relocated to other areas of the business. However, on 15 December 20X1, the directors decided that redundancies would need to be made and that the value of these is material. This was announced to the affected employees on 10 January 20X2. **(7 marks)**

(d) Album purchased a bond on 31 December 20X1, also incurring transaction costs. The bond pays a market rate of interest and will be redeemed in cash in five years. Album holds some investments until maturity, but sells others if investments with higher returns become available. The directors are unsure how to account for this bond.

(4 marks)

Required:

Discuss how the above issues should be treated in the financial statements of Album for the year ended 31 December 20X1.

Note: the mark allocation is shown against each of the four events above.

Professional marks will be awarded in question 3 for the clarity and quality of presentation and discussion. (2 marks)

(Total: 25 marks)