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KAPLAN PUBLISHING

ACCA – Paper F7
Financial Reporting
September and December 2015
Final assessment

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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 FINAL ASSESSMENT

Financial Reporting

September and December 2015

Paper F7

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:
Section A – ALL TWENTY questions are compulsory and MUST be attempted.
Section B – ALL THREE questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

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

Kaplan Publishing/Kaplan Financial

SECTION A

ALL 20 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

1 Paige purchased 75% of Sienna a number of years ago. At the date of acquisition the fair value of Sienna's assets and liabilities were equal to their carrying amounts with the exception of an item of plant which had a fair value in excess of its carrying amount.

During the current year Sienna sold goods to Paige at a mark-up of 25%. At the year ended 31 March 20X9 Paige still had 40% of these goods left in inventory. Due to adverse publicity during the current year it is considered that goodwill is to be impaired by 25% of its original amount. Both Paige and Sienna recorded revaluation gains on their property during the year and this has been disclosed as other comprehensive income.

Paige's policy is to value the non-controlling interest using the proportion of net assets basis at the date of acquisition.

Which of the following adjustments will be taken into account when calculating the profit attributable to the non-controlling interests in the consolidated profit or loss for the year ended 31 March 20X9?

(i) Impairment of goodwill

(ii) Revaluation gains

(iii) Unrealised profit

(iv) Fair value depreciation

A (i), (ii), (iii) and (iv)

B (i), (ii) and (iv)

C (iii) and (iv)

D (i) and (iii)

2 **Which of the following conditions must be met in order to classify an asset as held for sale?**

(i) The asset is expected to be sold within 12 months

(ii) The asset will definitely be sold

(iii) The asset is available for immediate sale in its present condition

(iv) The asset is due to be marketed in the next month

A (i), (ii) and (iii)

B (i), (iii) and (iv)

C (i) and (iii)

D (ii) and (iv)

The following information is to be used for questions 3 and 4.

Krash Plc issued a three year 5% convertible bond on 1 July 20X5. The bond has a nominal value of $250,000.

The market rate of interest applicable to non-convertible bonds is 7%.

The present value of $1 payable at the end of the year, based on rates of 5% and 7% are as follows:

End of year	*5%*	*7%*
1	0.95	0.94
2	0.91	0.87
3	0.86	0.82

3 What is the initial value of the equity component of the convertible bond issued by Krash Plc as at 1 July 20X5?

A $nil

B $5,000

C $15,000

D $12,125

4 What is the value of the liability element of the convertible bond in the Statement of Financial Position of Krash Plc as at 30 June 20X6?

A $237,269

B $237,026

C $242,026

D $233,724

5 Which of the following requires restatement and retrospective application in the Financial Statements?

(i) The discovery of a material error

(ii) A change in accounting policy

(iii) A change in accounting estimate

A All of them

B (i), and (ii)

C (i), (ii) and (iii)

D (i) and (iii)

6 Castle Ltd purchased an investment property many years ago, and values this property using the fair value model.

The property is currently valued at $3,500,000, which is the value brought forward. At the start of the year, the property had a remaining life of 10 years. The valuation at year end has just been received and estimates the value of the property at $3,250,000.

Which of the following summarises the correct accounting entries for the year?

A Depreciation of $350,000 in the statement of profit or loss, gain of $100,000 shown in the statement of profit or loss.

B Depreciation of $350,000 in the statement of profit or loss, gain of $100,000 shown in the statement of changes in equity.

C Loss of $250,000 shown in the statement of profit or loss.

D Loss of $250,000 taken to the statement of changes in equity.

7 Duck Ltd have purchased an asset for $250,000 on 1 July 20X2.

They have received a government grant towards the cost of this asset of $30,000.

Duck Ltd wish to treat the government grant income as a deferred credit.

The useful life of the asset is 12 years.

What is the deferred income balance relating to this grant income as at 30 June 20X4?

A $25,000

B $27,500

C $30,000

D $nil

8 Wallace Plc had $2,000,000 50c shares in issue on 1st January 20X4.

On 1st May 20X4, Wallace issued 500,000 shares at their market value of $1.20 each

On 1st August 20X4, Wallace made a bonus issue of 1 share for every 5 in issue

What is the weighted average number of shares to use in Wallace's Basic Earnings Per Share calculation for the year ended 31 December 20X4?

A 2,800,000

B 4,150,000

C 5,000,000

D 5,200,000

9 Rain bought 75% of Sun on 1 July 20X4, at a cost of $2 million. The non-controlling interest was recorded at its initial fair value of $500,000. The fair value of Suns net assets as at acquisition was $1,750,000. During the year ended 30 June 20X5, and impairment of 20% was recognised in relation to the goodwill for Sun.

From the remaining goodwill at 1 July 20X5, a 10% impairment has been recorded for the current year.

What is the impairment charge to be included in the consolidated statement of profit or loss for the year ended 30 June 20X6?

A $60,000

B $75,000

C $210,000

D $225,000

10 HB sold goods to S2, a subsidiary, on 1 November 20X8. The goods were sold to S2 for $33,000. HB made a profit of 25% on the original cost of the goods.

At the year-end, 31 March 20X9, 50% of the goods had been sold by S2. The remaining goods were included in inventory.

Which of the following statements explain the correct treatment for the adjustment required to inventory in the consolidated statement of financial position at 31 March 20X9?

A	Reduce inventory by $3,300	Reduce retained earnings by $6,600
B	Reduce inventory by $3,300	Reduce retained earnings by $3,300
C	Reduce inventory by $6,600	Reduce retained earnings by $6,600
D	Reduce inventory by $4,125	Reduce retained earnings by $4,125

11 AB acquired an 80% investment in XY on 1 January 20X1. The consideration consisted of the following:

- The transfer of 500,000 shares in AB with a nominal value of $1.00 each and a market value on the date of acquisition of $3.50 each;
- $408,000 of cash paid on 1 January 20X1; and
- $1,000,000 of cash, payable on 1 January 20X3 (a discount rate of 9% has been used to value the liability in the financial statements of AB).

AB also paid legal and professional fees in respect of the acquisition of $150,000.

The best estimate of the fair value of the consideration to be included (to the nearest thousand) in the calculation of goodwill arising on the acquisition of XY is:

A $1,750,000

B $3,000,000

C $3,150,000

D $3,158,000

12 The Return on Capital Employed (ROCE) for DF has increased from 12.3% to 17.8% in the year to 31 March 20X5.

Which one of the following independent options would be a valid reason for this increase?

A Significant investment in property, plant and equipment shortly before the year end.

B Revaluation of land and buildings following a change of policy from cost model to revaluation model.

C Property, plant and equipment acquired in the previous period now operating at full capacity.

D An issue of equity shares with the proceeds being used to repay long-term borrowings.

13 The following is an extract from the statement of cash flows for QW for the year ended 31 December 20X1:

	$m
Cash flows from operating activities	950
Cash flows from investing activities	(1,130)
Cash flows from financing activities	120
	———
Net cash flow for the year	(60)
Cash and cash equivalents at start of year	650
	———
Cash and cash equivalents at end of year	590
	———

Based on the information provided, which one of the following independent statements would be a reasonable conclusion about the financial adaptability of QW for the year to 31 December 20X1?

A QW is in decline as there is a significant cash outflow in investing activities.

B QW has financed a high proportion of its investing activities by utilising its operating cash.

C QW must have made a profit in the year, as it has a net cash inflow from operating activities.

D QW must be facing serious liquidity problems as its cash and cash equivalents have fallen by $60 million throughout the year.

14 KL operates in the fashion wholesale business and its management team has become increasingly concerned about the liquidity of the entity. It has asked you for your opinion and you have calculated the following ratios to help you with your assessment:

	30 June 20X3	**30 June 20X2**
Inventory holding period	128 days	77 days
Receivables collection period	88 days	87 days
Payables payment period	170 days	118 days
Current ratio	1.3:1	2.1:1
Quick ratio	0.7:1	1.4:1

Which one of the following is NOT a valid statement about the ratios shown above?

A The increase in inventory holding period is a significant concern as there is a high risk of obsolescence in the industry.

B The deterioration in the ratios shown at the 30 June 20X3 year end could simply be a result of a significant purchase of goods being made on credit terms close to the year end.

C KL are attempting to finance their increased inventory holding period by delaying payments to suppliers.

D The significant increase in payables payment period will have caused the cash position to worsen dramatically.

15 **Which ONE of the following definitions is not included within the definition of control per IFRS 10?**

A Having power over the investee

B Having exposure, or rights, to variable returns from its investment with the investee

C Having the majority of shares in the investee

D Having the ability to use its power over the investee to affect the amount of the investor's returns

16 The IASB's The Conceptual Framework for Financial Reporting lists two fundamental qualitative characteristics of financial statements, one of which is faithful representation.

Which of the following is NOT a characteristic of faithful representation?

A Completeness

B Neutrality

C Free from error

D Prudence

17 Which of the following are advantages of applying a principles-based framework of accounting rather than a rules-based framework?

(i) It avoids 'fire-fighting', where standards are developed in responses to specific problems as they arise

(ii) It allows preparers and auditors to deal with complex transactions which may not be specifically covered by an accounting standard

(iii) Principles-based standards are thought to be harder to circumvent

(iv) A set of rules is given which attempts to cover every eventuality

(v) Accounting standards can be developed in relation to agreed principles

A All of the above

B (i), (iii) and (v) only

C (i), (ii) and (v) only

D (i), (ii), (iii) and (v) only

18 The IASB's The Conceptual Framework for Financial Reporting lists two fundamental qualitative characteristics of financial statements.

Which ONE of the following is one of these fundamental qualitative characteristics?

A Relevance

B Reliability

C Comparability

D Understandability

19 Which ONE of the following statements about using historical cost accounts in times of rising prices is false?

A Profits will be understated and assets will be overstated

B The asset values will be understated

C Profits will be overstated as they will not reflect the replacement cost of goods.

D Depreciation will be understated

20 Sakho owned a 1 year old heard of cattle on 1 January. At this date, the fair value less costs to sell were $70,000. At 31 December, the fair value of a 1 year old herd of cattle is $75,000, and the fair value of a 2 year old herd of cattle is $80,000. If Sakho sold the cattle, commission of 5% would be payable.

What is the correct accounting treatment for the cattle at 31 December according to IAS 41 *Agriculture*?

A Revalue to $71,250 taking gain of $1,250 to the revaluation surplus

B Revalue to $76,000, taking gain of $6,000 to the statement of profit or loss

C Revalue to $76,000, taking gain of $6,000 to the revaluation surplus

D Revalue to $71,250, taking gain of $1,250 to the statement of profit or loss

SECTION B

ALL 3 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

1 The following draft financial statements relate to Bartlett, a private limited company:

Extracts from the Statement of profit or loss for Bartlett for the year ended 30 September:

	20X5	20X4
	$000	$000
Revenue	10,200	12,800
Cost of sales	(7,340)	(8,930)
Gross profit	2,860	3,870
Distribution costs	(1,020)	(700)
Administrative expenses	(1,750)	(1,340)
Profit from operations	90	1,830

Extracts from the Statement of financial position for Bartlett as at 30 September

	20X5	*20X4*
	$000	$000
Current assets		
Inventory	1,100	800
Trade receivables	1,560	1,240
Bank	20	150
Non-current liabilities		
Loan	1300	1100
Current liabilities		
Trade payables	900	750

The following information has been obtained in relation to the operations of Bartlett for the year:

(i) Bartlett has been a major ice cream producer for many years, traditionally making the bulk of its sales to wholesalers and retailers during the months of May to August.

(ii) In October 20X4, a newspaper article highlighted that a number of Bartlett's largest selling ice creams contained extremely high levels of additives, leading to boycotts from parents.

(iii) Following the boycott, Bartlett changed the ingredients and outsourced the ice cream production to a specialist factory rather than producing the items themselves.

(iv) Bartlett launched a new brand of healthy frozen yoghurt under the name 'CoolYo!', which was taken up by major supermarkets in April 20X5 after lengthy negotiations.

(v) Bartlett started selling products online to the public for the first time.

Required:

Analyse the performance and position of Bartlett for the year ended 30 September 2014.

(Total: 15 marks)

Note: 5 marks will be available for the calculation of applicable ratios.

2 The draft summarised financial statements of Hamann for the year to 31 March 20X5 are below:

Statement of financial position as at 31 March 20X5

		$000	$000
Property, plant and equipment (note (iii))			6,270
Investments (note (iv))			1,200
			7,470
Current assets			4,550
Total assets			12,020
Equity and liabilities:			
Share capital			2,600
Retained earnings	– 1 April 20X4	2,490	
	– Year to 31 March 20X5	2,020	4,510
			7,110
Non-current liabilities			
10% loan note (issued 20X2)		500	
Deferred tax at 1 April 20X4 (note (vi))		280	780
Current liabilities			4,130
			12,020

The following matters are relevant:

(i) The depreciation on all assets has been calculated, except for the two items below:

On 30 September 20X4 the company completed the construction of a new warehouse. The construction was achieved using the company's own resources as follows:

	$000
Purchased materials	150
Direct labour	800
Supervision	65
Design and planning costs	20

Included in the above figures are $10,000 for materials and $25,000 for labour costs that were effectively lost due to the foundations being too close to a neighbouring property. All the above costs are included in cost of sales. The building was brought into immediate use on completion and has an estimated life of 20 years (straight-line depreciation).

Included in revenue is $300,000 being the sale proceeds of an item of plant that was sold on 1 October 20X4. The plant had originally cost $900,000 and had been depreciated by $620,000 at the start of the year. Other than recording the proceeds in sales and cash, no other accounting entries for the disposal of the plant have been made. All plant is depreciated at 25% per annum on the reducing balance basis.

(ii) The investments are in quoted companies that are carried at their stock market values and are classified as at fair value through profit or loss. The value shown in the statement of financial position is that at 31 March 20X4 and during the year to 31 March 20X5 the investments have risen in value by an average of 10%. Hamann has not reflected this increase in its financial statements.

(iii) Income tax on the profits for the year to 31 March 20X5 is estimated at $260,000. The carrying value of Hamann's net assets is $1.4 million more than their tax base at 31 March 20X5. The income tax rate is 25%. No tax has currently been accounted for.

Required:

(a) Prepare a restated schedule of retained earnings for the year to 31 March 20X5 reflecting the information in notes (i) to (iii) above. (6 marks)

(b) Prepare a restated statement of financial position at 31 March 20X5 reflecting the information in notes (i) to (iii) above. (9 marks)

(Total: 15 marks)

3 On 1 May 2014, Packer bought 90% of Scott's shares. The consideration consisted of two elements: a share exchange of two shares in Packer for every three acquired shares in Scott and the issue of a $100 loan note for every 400 shares acquired in Scott. Only the loan note consideration has been recorded by Packer. At the date of acquisition shares in Packer had a market value of $4.90 and the shares in Scott had a value of $2.80. Below are the summarised draft financial statements of both companies.

Statements of profit or loss for the year ended 30 September 2014

	Packer	*Scott*
	$000	$000
Revenue	385,200	234,900
Cost of sales	(212,000)	(76,560)
Gross profit	173,200	158,340
Distribution costs	(76,300)	(42,000)
Administrative expenses	(104,500)	(67,800)
Profit from operations	(7,600)	48,540
Investment income	1,200	0
Finance costs	(4,320)	(420)
Profit before tax	(10,720)	48,120
Taxation	1,450	(13,980)
Profit/loss for the year	(9,270)	34,140

Statements of financial position as at 30 September 2014

	Packer	*Scott*
	$000	$000
Property, plant and equipment	543,000	312,000
Investments	142,000	0
	685,000	312,000
Current assets	213,000	132,000
Total assets	**898,000**	**444,000**
Equity		
Equity shares of $1 each	480,000	200,000
Retained earnings	158,800	216,000
Total equity	638,800	416,000
Non-current liabilities		
Loan notes	160,000	5,000
Current liabilities	99,200	23,000
Total equity and liabilities	**898,000**	**444,000**

The following information is relevant:

(i) At the date of acquisition, the fair values of Scott's assets were equal to their carrying amounts with the exception of Scott's head office, which had a fair value of $60 million in excess of its carrying amount. It had a remaining life of forty years at that date.

(ii) Over the entire year, including the pre-acquisition period, Scott sold goods to Packer for $48 million at a margin of 20%. At the year end, Packer still held $6 million of these goods in inventory. At the year end, Packer had paid for all of the goods except for the final $6 million.

(iii) At the start of the year, Packer purchased a small number of shares in an unrelated company for $97 million. These are included in Packer's investments at cost. At 30 September, the value of these shares had risen to $99 million.

(iv) Packer has a policy of accounting for any non-controlling interest at fair value. For this purpose Scott's share price at acquisition can be deemed to be representative of their fair value.

(v) Consolidated goodwill is considered to have impaired by $1 million at 30 September 2014.

(vi) Other than where indicated, items from the statement of profit or loss are deemed to accrue evenly on a time basis.

Required:

(a) **Prepare the consolidated statement of profit or loss for Packer for the year ended 30 September 2014.** **(9 marks)**

(b) **Prepare the consolidated statement of financial position for Packer as at 30 September 2014.** **(16 marks)**

(c) Packer uses the fair value method for accounting for the non-controlling interest, but an alternative method exists.

Required:

Explain the alternative method for calculating non-controlling interest. Explain how the difference between the two methods could impact the consolidated financial statements, including where consolidated goodwill may be impaired. **(5 marks)**

(Total: 30 marks)