

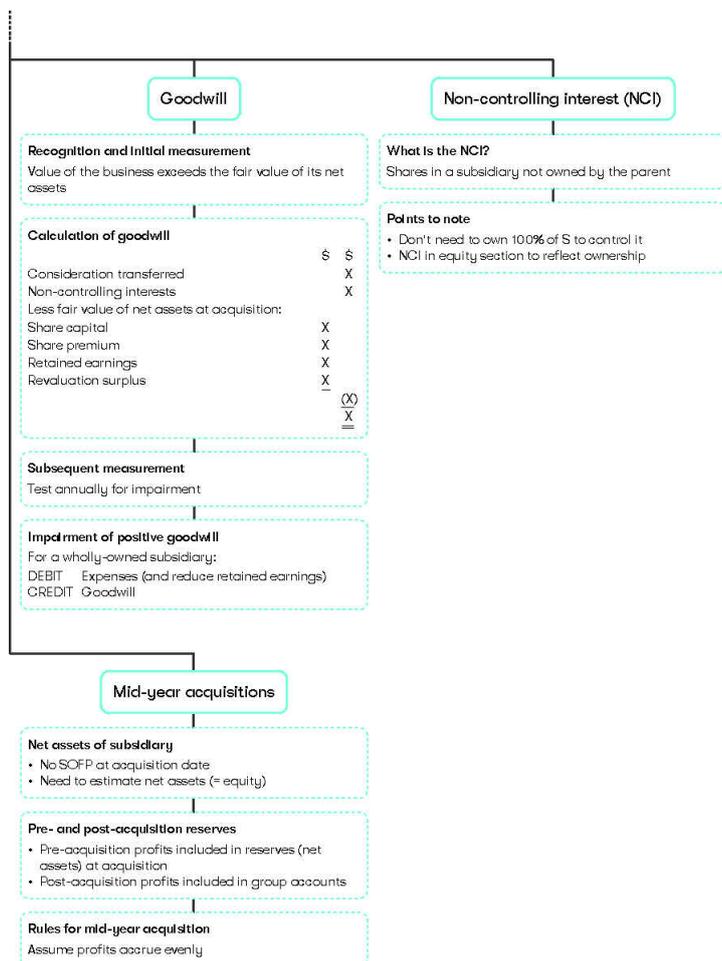
## Financial Reporting

11/2020

### Workbook

### Page 169, Chapter 7 summary diagram

The second part of the summary diagram relates to Chapter 6 rather than Chapter 7. It should be replaced with the following:



## Further question practice

### Solution to Q11

The ACCA examining team has advised that a simplified approach will be taken to accounting for trading between a group and its associate in the exam. Regardless of whether the associate or another group company is the seller, the adjustment required will always be assumed as  
Dr P/L Share of profit of associate; Cr SFP Investment in associate.

As such, the revised solution to Q11 in accordance with ACCA's simplified approach is as follows:  
The correct answer is \$889,000

	\$
Cost of investment	700,000
Share of post acquisition retained earnings	195,000
Unrealised profit ( $200,000 \times 25/125 \times 50\% \times 30\%$ )	(6,000)
Investment in associate	889,000

### Q12 and solution to Q12

None of the answer options presented are correct. The correct answers are (a), (b) and (d) in accordance with IAS 2, *Inventories*.

### Q13 and solution to Q13

None of the answer options available are correct. The correct approach to answering this question is:

	\$m
Revenue recognised ( $\$2.5m \times 40\%$ )	1.0
Invoices issued	(0.3)
Contract asset	0.7

### Solution to Q44(a)

The contract asset/(liability) under each contract is calculated as follows:

	Aspire \$'000	Bigga \$'000	Construct \$'000
Revenue recognised	600	500	350
Invoices issued	(540)	(475)	(400)
Contract asset/(liability)	60	25	(50)

**Solution to Q45**

The contract asset/(liability) under each contract is calculated as follows:

	Maryhill \$'000	Rottenrow \$'000
Revenue recognised	2,800	3,000
Invoices issued	(2,600)	(3,400)
Contract asset/(liability)	200	(400)

## Practice and revision kit

### Solution to Q68

Although the final answer is correct, the approach to arriving at the depreciation on the new plant is incorrect. The calculation should read:

		\$m
Existing plant	$150 \times 20\%$	30
New plant	$50 \times 20\% \times 6/12m$	<u>5</u>
		<u>35</u>

### Q79 and Solution to Q79

None of the answer options provided are correct.

The approach to calculating the profit recognised is incorrect as it includes costs to complete. The calculation should be:

	\$'000
Contract revenue recognised	22,000
Costs to date	(12,000)
Depreciation of specialist plant	<u>(8,000)</u>
Profit recognised at 31 March 20X3	<u>2,000</u>

### Q80 and Solution to Q80

None of the answer options are correct. The correct approach is as follows:

	\$
Revenue recognised ( $\$120,000 \times 45\%$ (W))	54,000
Amounts invoiced	<u>(50,400)</u>
Contract asset	3,600
Working	
Costs to date	48,000
Costs to complete	48,000
Percentage completion	50%

### Q111

The question incorrectly states that the initial measurement of the lease liability and right of use asset was \$340,000. The initial measurement of the lease liability is the present value of **future** lease payments and therefore should not include the payment in advance of \$90,000.

This does not affect the answer as the \$90,000 has been adjusted for in the liability calculation.

Note also that the rate of interest implicit in the lease is stated as 10%, which is also incorrect as it does not discount to nil, however students are advised not to try and justify rates when they are provided in the exam and therefore can apply the 10% rate given.

### Q112

The question incorrectly states that the initial measurement of the lease liability and right of use asset was \$360,200. The initial measurement of the lease liability is the present value of **future** lease payments and therefore should not include the payment in advance of \$120,000.

This does not affect the answer as the \$120,000 has been adjusted for in the liability calculation

### Solution to Q146

The approach to calculating the profit recognised is incorrect as it includes costs to complete. The calculation should be:

	\$'000
Revenue recognised (40% × 5,000,000)	2,000
Costs to date	<u>(2,300)</u>
Loss recognised at 31 December 20X8	<u>2,000*</u>

\* Note that as the contract is expected to be profitable overall, no additional loss needs to be recognised at 31 December 20X8

### Solution to Q148

The contract asset should be calculated as follows:

	\$
Revenue recognised (75% × 5,000,000)	3,750,000
Amounts invoiced to date	<u>(3,000,000)</u>
Contract asset	750,000

### Solution to Q230

The net profit margin in 20X7 is 9.6% (16,000 + 8,000) / 250,000 not 6.4% as stated.

Solution to Q233

W2 is incorrect as the calculation provided is for the goodwill rather than the NCI at acquisition. The calculation should be:

	\$
NCI at acquisition	4,900
NCI in S post acquisition (20% × (26,100 - 19,800))	<u>1,260</u>
NCI at disposal	6,160

### Solution to Q321

There is no contract asset or liability recognised as the amount invoiced is equal to the work certified to date. The calculation is as follows:

	\$
Revenue recognised (= work certified)	10,000,000
Amounts invoiced to date	<u>(10,000,000)</u>
Contract asset/(liability)	Nil

### Q323

Current liabilities in the trial balance should be \$1,940,000 not \$1,840,000 as currently stated. This allows the credit column of the trial balance to cast down correctly and is consistent with the amount shown for current liabilities in the solution.

### Solution to Q323

The approach to recognising profit and contract assets in Working 2 is incorrect. The correct working is:

*Contract with customer:*

Revenue recognised (14,000 × 40%)	5,600
Costs to date	<u>(1,900)</u>
Profit recognised to date	<u>3,700</u>
Statement of financial position	
	\$'000
Revenue recognised (\$14,000 × 40%)	5,600
Less: amounts invoiced	<u>(1,400)</u>

Contract asset	<u>4,200</u>
Amounts invoiced to date	1,400
Amounts received from customers	<u>(1,400)</u>
Adjustment to trade receivables	<u>Nil</u>

\$5.6m should be recorded in revenue, and \$1.9m in cost of sales, giving an overall increase to the draft profit of \$3.7m. \$4.2m should then be recorded in the statement of financial position as a current asset.