

Financial Reporting

05/2021

Workbook

Page 26, Chapter 1 Activity answers

The answer to Activity 5, Question 4 is \$84,240. The advertising costs are not relevant if the asset is being scrapped and therefore should not be deducted.

Page 50, Chapter 3 Activity 2

Note (a) should be extended to state that the machine was purchased on 1 October 20X4.

Page 57, Chapter 3 Activity 4

There is a date error in the question. The question should read:

The building had an original cost on 1 January 20X0 of \$250,000 and was being depreciated over 50 years. At 30 June 20X9, its fair value was judged to be \$350,000.

Page 67, Chapter 3 Activity 1 answers

The journal entry should read:

| | | |
|--------|---------------------|---------|
| DEBIT | Revaluation surplus | \$2,000 |
| CREDIT | Retained earnings | \$2,000 |

Page 95, Chapter 5 Activity 1

The requirement should read:

What is the cash generating unit for Magnus Co?

Page 126, Chapter 6 Activity 5

The opening sentence should be amended to read 'A company entered into a three-year contract to build a sports stadium, the customer takes control of the stadium as construction takes place.'

Page 140, Chapter 6 Activity 5 answer

In the solution to Part 1, the correct answer is 20X1:\$76m; 20X2:\$171m; 20X3:\$133m. This matches the extracts from the statements of profit of loss which show the correct calculations.

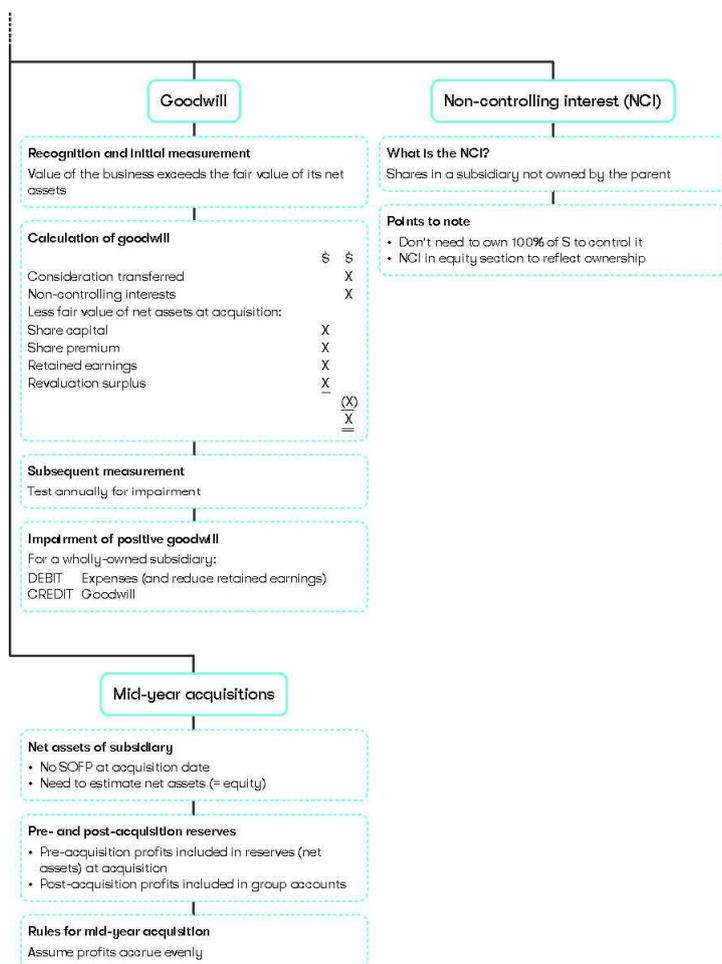
In the solution to Part 2, the correct answer should read:

Trade receivable \$30m; Contract asset \$180m

This is consistent with the working as included in the 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:



Page 224, Chapter 9 Disposal of a subsidiary

The exam focus point should be extended to read:

You will not be expected to prepare a consolidated statement of profit or loss containing the disposal of a subsidiary in Section C of the ACCA Financial Reporting exam. The calculation of the gain or loss on disposal of a subsidiary may however be required in Section C or as an objective test question in Section A or B.

This change is to make it clearer that whilst you will not need to prepare consolidated accounts after the effects of a subsidiary, you do still need to know how to calculate the gain or loss.

Page 232, Chapter 9 Activity 3: Disposal of a subsidiary

Activity 3 should be revised as follows:

Pelmer Co acquired 80% of Symta Co's 100,000 \$1 shares on 1 January 20X2 for \$600,000 when the net assets of Symta Co were \$510,000. In addition to its net assets, Symta Co's brand name was deemed to have a value \$50,000 at the date of acquisition. It is group policy to measure non-controlling interests at fair value at acquisition. The fair value of the non-controlling interests in Symta Co at acquisition was \$150,000. No impairment has been necessary.

On 1 June 20X6, Pelmer Co disposed of all of its shareholding in Symta Co for \$1,500,000. At that date, Symta Co's statement of financial position showed net assets with a carrying amount of \$650,000. The value of the brand name, which is not recognised in the separate financial statements of Symta Co, has not changed since acquisition.

Required

What is the group profit or loss on disposal of Symta Co to be shown in the consolidated accounts for the year ended 31 December 20X6?

- \$610,000
- \$800,000
- \$838,000
- \$858,000

Solution

The correct answer is \$838,000

The profit or loss on disposal is calculated as:

| | |
|--|--------------|
| | \$000 |
| Sales proceeds | 1,500 |
| Less: | |
| Carrying amount of goodwill (W1) | (190) |
| Net assets at disposal | (650) |
| NCI (W2) | <u>178</u> |
| Gain on disposal | 838 |
| | |
| Goodwill | \$000 |
| Consideration | 600 |
| NCI at fair value | 150 |
| Fair value of net assets (510 + 50) | <u>(560)</u> |
| Goodwill | 190 |
| | |
| Non-controlling interest | \$000 |
| At acquisition | 150 |
| Share of net assets post acquisition (20% × (650 + 50) - (510 + 50)) | <u>28</u> |
| | 178 |

Page 241, Chapter 9 Activity 3: Disposal of a subsidiary answer

The solution to the revised question is as follows:

Solution

The correct answer is \$808,000.

| | |
|-----------------------------------|------------------|
| | \$ |
| Consideration received | 1,500,000 |
| Less: | |
| Net assets at disposal (650 + 50) | 700,000 |
| Carrying amount of goodwill (W1) | 190,000 |
| Non-controlling interest (W2) | <u>(198,000)</u> |
| Group profit/(loss) on disposal | 808,000 |

W1

| | |
|---------------------------|----------------|
| | \$ |
| Consideration transferred | 600,000 |
| Non-controlling interest | <u>150,000</u> |
| | 750,000 |
| Net assets at acquisition | 410,000 |
| Fair value adjustment | <u>50,000</u> |
| Goodwill | 190,000 |

W2

| | |
|---|---------------|
| | \$ |
| Non-controlling interest at acquisition | 150,000 |
| NCI share of movement in net assets (650-410) × 20% | <u>48,000</u> |
| NCI at disposal | 198,000 |

Page 263, Chapter 10 Activity 4: Consolidated statement of financial position answer

The following workings have been omitted from the workbook:

5 Non-controlling interests (SOFP)

| | |
|---|-----------|
| | \$'000 |
| NCI at acquisition (W2) | 3,200 |
| NCI share of post-acquisition reserves (W4) | 206 |
| NCI share of impairment losses (W2) | <u>30</u> |
| | 3,376 |

6 Fair value adjustments

| | At acquisition date | Movement | At year end |
|--|------------------------|------------------------------|-----------------|
| | \$'000 | \$'000 | \$'000 |
| Inventories | 300 | (300) | - |
| Plant and equipment | <u>1,200</u> | <u>(90)*</u> | <u>1,110</u> |
| *Extra depreciation (1,200 × 10% × 9/12) | 1,500 | (390) | 1,110 |
| | <i>Goodwill</i> | Take to COS & reserves | Take to SOFP |

7 Intragroup trading

(1) *Cash in transit*

| | \$'000 | \$'000 |
|--------------------------|--------|--------|
| DEBIT Group cash | 70 | |
| CREDIT Trade receivables | | 70 |

(2) *Cancel intragroup trading and balances (only with subsidiary)*

| | \$'000 | \$'000 |
|--|--------|--------|
| DEBIT Group revenue | 200 | |
| CREDIT Group purchases (cost of sales) | | 200 |

| | \$'000 | \$'000 |
|--------------------------|--------|--------|
| DEBIT Group payables | 130 | |
| CREDIT Group receivables | | 130 |

(3) *Eliminate unrealised profit*

Sanus Co:

Profit element in inventories: $\$200,000 \times 40\% = \$80,000$

| | \$'000 | \$'000 |
|---|--------|--------|
| DEBIT Cost of sales (& reserves) (of Sanus Co the seller) | 80 | |
| CREDIT Group inventories | | 80 |

Allus Co:

Profit element in inventories: $\$400,000 \times \frac{25}{125} \times \frac{1}{4} = \$20,000$

Associate share: $\$20,000 \times 30\% = \$6,000$

| | \$'000 | \$'000 |
|--------|--------|--------|
| DEBIT | 6 | |
| CREDIT | | 6 |

Page 292, Chapter 11 summary diagram

The measurement of all other financial assets should read:

All other financial assets

- Initial: FV (TCs expenses in P/L)
- Subsequent: FV through P/L

Page 351, Chapter 13 Activity 1 answer

The increase in the provision is \$310,000 and not \$310,500 as stated (please note that the \$310,500 is not incorrect as it is arrived at by applying the 10% interest rate to the opening provision. Because the discount rate is rounded to 3 decimal places, the \$500 inconsistency is created)

Page 440, Chapter 17 Activity 3 answer

Please disregard the second set of numbers included in the statement of profit or loss and other comprehensive income

MILLIGAN CO STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X1

| | 20X1 \$'000 |
|--|----------------|
| Revenue (3,000 – 320)/ (2,200 – 400) | 2,680 |
| Cost of sales (1,000 – 150)/ (700 – 190) | (850) |
| Gross profit | 1,830 |
| Distribution costs (400 – 120)/ (300 – 130) | (280) |
| Administrative expenses (900 – 100)/ (800 – 90) | (800) |
| Profit before tax | 750 |
| Income tax expense (210 + 15)/ (120 + 3) | (225) |
| Profit for the year from continuing operations | 525 |
| Loss for the year from discontinued operations | (35) |
| PROFIT FOR THE YEAR | 490 |
| Other comprehensive income for the year, net of tax | 40 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | <u>530</u> |

Page 458, Chapter 18 Activity 1 Calculation of earnings

The wording in this question should be clarified as follows:

On 1 January 20X9, Apricot issued 500,000 \$1 6% non-cumulative irredeemable preference shares. A dividend of 6% was declared on these shares in the year to 31 December 20X9. Apricot also had in issue for the full year 900,000 \$1 5% redeemable preference shares. All preference dividends were paid in full on 31 December 20X9.

Page 481, Chapter 19 Sub-analysis of ROCE

The ROCE is incorrectly stated as:

$$\text{ROCE} = \frac{\text{Net profit margin}}{\text{Asset turnover}}$$

The correct formula is ROCE = Net profit margin × asset turnover

Page 482, Chapter 19 Activity 1

The equity section of the statement of financial position shows revaluation surplus as a debit balance (in brackets) which is incorrect. The equity section should be shown as:

| | |
|---------------|-------|
| Equity | \$000 |
| Share capital | 200 |
| Share premium | 40 |

| | |
|---------------------|-----|
| Retained earnings | 500 |
| Revaluation surplus | 60 |
| | 800 |

The return on capital employed calculation is therefore $(230 + 10) / 800 = 30\%$

Page 483, Chapter 19 Return on equity

The Return on equity formula is not clearly stated. Please use the following:



Formula to learn

$$\text{Return on equity} = \frac{\text{Profit after tax and preference dividends}}{\text{Ordinary share capital} + \text{reserves}}$$

Page 484, Chapter 19 Activity 2

The requirement should be changed to

Which **TWO** of the following statements give realistic conclusions that could be drawn from the above information?

The answer option 'Hutton has access to cheaper interest rates on its borrowings than Fulton' is not relevant as neither the gross profit margin nor the net profit margin include finance costs (remember that net profit margin is actually operating profit as it adds back finance costs).

Page 498, Chapter 19 Activity 7

The Heywood Bottles Co statement of financial position current shows two lines for 'other payables'. The \$34,000 in 20X6 should be labelled as 'overdraft'.

Current liabilities

| | | |
|------------------|-------------------|------------------|
| Trade payables | 80 | 15 |
| Other payables | 12 | 10 |
| Overdraft | 94 | = |
| | <u>126</u> | <u>25</u> |
| | 181 | 88 |
| | <u><u>181</u></u> | <u><u>88</u></u> |

Essential reading, Chapter 12 Solution to Activity

The solution to the activity has been omitted. Please refer to the following solution:

Activity 7: Sidcup Co

1 The correct answer is:

IFRS 16 requires that, at the start of the lease, Sidcup should measure the right-of-use asset arising from the leaseback of the building at the proportion of the previous carrying amount of the building that relates to the right of use retained. This is calculated as carrying amount \times discounted lease payments/fair value. The discounted lease payments were given in the question as \$2.1 million.

Sidcup only recognises the amount of gain that relates to the rights transferred.

Stage 1: Gain is $\$3,000,000 - \$2,600,000 = \$400,000$

Stage 2: Gain relating to rights retained $\$(400,000 \times 2,100,000/3,000,000) = \$280,000$

Stage 3: Gain relating to rights transferred $\$(400,000 - 280,000) = \$120,000$

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 x 40%) | 1.0 |
| Invoices issued | (0.3) |
| Contract asset | 0.7 |

Solution to Q20

The non-controlling interest calculation is incorrect as intragroup interest should not be adjusted. The interest adjustment affects finance income and finance costs equally and therefore does not impact on profit.

The corrected W1 Non-controlling interests is:

| | \$000 | \$000 |
|---|-------|-------|
| Profit/TCI for the year (610 x 6/12) / (790 x 6/12) | 305 | 395 |
| Add back intragroup interest (W3) | (10) | (10) |
| Additional depreciation on fair value adjustment (W4) | (5) | (5) |
| | 290 | 380 |
| NCI share (x 40%) | 116 | 152 |

This flows through to the statement of profit or loss and other comprehensive income
 Owners of the parent (5,030 – 152) 4,878

Which in turn flows through to the statement of changes in equity which already correctly states the total comprehensive income of 4,878.

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><u>2,000</u></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 Q166

The correct answer is:

Neither 1 nor 2

- (1) Events after the reporting period are deemed to be those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
- (2) The following is disclosed for each material category of non-adjusting event after the reporting period:
 - The nature of the event; and
 - An estimate of its financial effect, or statement that such an estimate cannot be made (*IAS 10: para. 21*).

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.

Mock exam 1 Question 3

The question should read as follows:

On 1 October 20X4, Flash Co acquired an item of plant under a five-year lease agreement. Under the terms of the agreement, an immediate deposit of \$2 million is payable on inception of the lease and the present value of future lease payments at that date have been calculated as \$22,745,000. Annual rentals of \$6 million are payable on 30 September each year for five years. The agreement had an implicit rate of interest of 10% per annum.

What is the current liability for the leased plant in Flash Co's statement of financial position as at 30 September 20X5?

Solution to Q323

The correct answer is:

\$4,098,050

| Year | Opening (\$) | Interest @ 10% (\$) | Payment (\$) | Closing (\$) |
|------------|--------------|---------------------|--------------|--------------|
| 30 Sept X5 | 22,745,000 | 2,274,500 | (6,000,000) | 19,019,500 |
| 30 Sept X6 | 19,019,500 | 1,901,950 | (6,000,000) | 14,921,450 |
| | | | Current | 4,098,050 |