ACCA Financial Reporting (FR)

Further Question Practice

Practice & Apply Questions & Answers

BPP
LEARNING MEDIA

1

Which of the following is NOT a duty of the International Financial Reporting Standard (IFRS) Interpretations Committee?

- ☐ To interpret the application of IFRS
- ☐ To work directly with national standard setters to bring about convergence with IFRS
- ☐ To provide guidance on financial reporting issues not specifically addressed in IFRSs
- ☐ To publish draft interpretations for public comment **(2 marks)**

1

To work directly with national standard setters to bring about convergence with IFRS

2

The process for developing an IFRS involves a number of stages. Following receipt and review of comments on a Discussion Paper, what will be the next step undertaken by the IASB?

A Publication of an Exposure Draft
B Establishment of an Advisory Committee
C Consultation with the Advisory Committee
D Issue of a final IFRS **(2 marks)**

2

A An Exposure Draft will be published following review of Discussion Paper comments.

3

Which one of the following would be recognised as an investment property under IAS 40 in the consolidated financial statements of Buildco?

A A property intended for sale in the ordinary course of business
B A property being constructed for a customer
C A property held by Buildco as a right-of-use asset and leased out under a six-month lease
D A property owned by Buildco and leased out to a subsidiary **(2 marks)**

3

C A and B would be classified as inventory and WIP. The property leased out to a subsidiary would be regarded as an investment property in the single entity financial statements of Buildco but is treated as owner-occupied in the **consolidated** financial statements.

4

On 1 October 20X1, Bash Co borrowed $6m for a term of one year, exclusively to finance the construction of a new piece of production equipment. The interest rate on the loan is 6% and is payable on maturity of the loan. The construction commenced on 1 November 20X1 but no construction took place between 1 December 20X1 to 31 January 20X2 due to employees taking industrial action. The asset was available for use on 30 September 20X2 having a construction cost of $6m.

What is the carrying amount of the production equipment in Bash Co's statement of financial position as at 30 September 20X2?

☐ $5,016,000

☐ $6,270,000

☐ $6,330,000

☐ $6,360,000

(2 marks)

4

$6,270,000

	$'000
Production cost of PPE	6,000
Capitalisation of borrowing costs:	
$\$6m \times 6\% \times 9/12 =$	270
Total cost capitalised (and carrying amount) at 30 September 20X2	6,270

Aphrodite 1

The following scenario relates to question 5.

Aphrodite Co has a year end of 31 December and operates a factory which makes computer chips for mobile phones. It purchased a machine on 1 July 20X3 for $80,000 which had a useful life of ten years and is depreciated on the straight-line basis, time apportioned in the years of acquisition and disposal. The machine was revalued to $81,000 on 1 July 20X4. There was no change to its useful life at that date.

A fire at the factory on 1 October 20X6 damaged the machine leaving it with a lower operating capacity. The accountant considers that Aphrodite Co will need to recognise an impairment loss in relation to this damage. The accountant has ascertained the following information at 1 October 20X6:

(1) The carrying amount of the machine is $60,750.

(2) An equivalent new machine would cost $90,000.

(3) The machine could be sold in its current condition for a gross amount of $45,000. Dismantling costs would amount to $2,000.

(4) In its current condition, the machine could operate for three more years which gives it a value in use figure of $38,685.

5

In accordance with IAS 16 *Property, Plant and Equipment*, what is the depreciation charged to Aphrodite Co's profit or loss in respect of the machine for the year ended 31 December 20X4?

- [ ] \$9,000
- [ ] \$8,000
- [ ] \$8,263
- [ ] \$8,500

(2 marks)

5

\$8,500

Depreciation 1 January to 30 June 20X4 (80,000/10 × 6/12) = 4,000

Depreciation 1 July to 31 December 20X4 (81,000/9 × 6/12) = 4,500

Total depreciation = 8,500

6

Geek is developing a new product and expects to be able to capitalise the costs. Which one of the following would preclude capitalisation of the costs?

A Development of the product is not yet complete.
B No patent has yet been registered in respect of the product.
C No sales contracts have yet been signed in relation to the product.
D It has not been possible to reliably allocate costs to development of the product. **(2 marks)**

6

D In order for capitalisation to be allowed it is not necessary for development to be completed, patents to be registered or sales contracts signed. However, an intangible asset can only be recognised if its cost can be reliably measured.

Plateau MCQ case 19 mins

The following information relates to questions 34–38.

On 1 October 20X6 Plateau acquired the following non-current investments:

(1) 3 million equity shares in Savannah by an exchange of one share in Plateau for every two shares in Savannah plus $1.25 per acquired Savannah share in cash. The market price of each Plateau share at the date of acquisition was $6 and the market price of each Savannah share at the date of acquisition was $3.25.

(2) 30% of the equity shares of Axle at a cost of $7.50 per share in cash.

Only the cash consideration of the above investments has been recorded by Plateau.

Extracts from the summarised draft statements of financial position of the three companies at 30 September 20X7 are:

	Plateau	*Savannah*	*Axle*
	$'000	$'000	$'000
Equity shares of $1 each	10,000	4,000	4,000
Retained earnings			
– at 30 September 20X6	16,000	6,000	11,000
– for year ended 30 September 20X7	9,250	2,900	5,000
	35,250	12,900	20,000

The following information is relevant:

(i) At the date of acquisition Savannah had five years remaining of an agreement to supply goods to one of its major customers. The agreement has been consistently renewed when it expires. The directors of Plateau estimate that the value of this customer based contract has a fair value of £1 million and an indefinite life and has not suffered any impairment.

(ii) During the year ended 30 September 20X7 Savannah sold goods to Plateau for $2.7 million. Savannah had marked up these goods by 50% on cost. Plateau had a third of the goods still in its inventory at 30 September 20X7. There were no intra-group payables/receivables at 30 September 20X7.

(iii) It is the group policy to value non-controlling interest at acquisition at full (or fair) value. For this purpose the share price of Savannah at the acquisition date should be used.

34

What is the total of the consideration paid by Plateau for Savannah?

A $3,750,000
B $9,750,000
C $12,750,000
D $21,750,000

34

C $12,750,000 ((3m/2 × $6) + (3m × $1.25))

35

How should the customer contract in note (i) be accounted for?

A Should not be recognised as item is internally-generated
B Group share of 75% should be recognised and not amortised
C Should be recognised at $1 million and not amortised
D Should be recognised at $1 million and amortised over five years

---

35

C The contract is estimated to have an indefinite life.

36

What amount will be shown as non-controlling interest in the consolidated statement of financial position at 30 September 20X7?

A $3,900,000
B $3,250,000
C $3,225,000
D $3,975,000

36

A

	$'000
NCI at acquisition (1m shares @ $3.25)	3,250
NCI share of post-acquisition retained earnings ((W) 2,600 × 25%)	650
	3,900

Working

	$'000
Retained earnings per draft	2,900
Less unrealised profit ($2.7m × 50/150 × 1/3)	(300)
	2,600

37

What amount will be shown in the consolidated statement of financial position at 30 September 20X7 in respect of the investment in Axle?

A $9,000,000
B $10,500,000
C $14,000,000
D $30,000,000

37

B $10,500,000

	$'000
Cost (4m × 30% × $7.50)	9,000
Share of post-acquisition retained earnings (5,000 × 30%)	1,500
	10,500

38

Plateau is negotiating a contract to supply goods to Axle in the coming year (ended 30 September 20X8) at 20% profit. How will the unrealised profit on the sale of these goods be adjusted in the consolidated financial statements for the year ended 30 September 20X8?

A	DR Share of profit of associates	CR Group inventory
B	DR Share of profit of associates	CR Investment in associate
C	DR Group inventory	CR Share of profit of associate
D	DR Investment in associate	CR Share of profit of associate

38

B Axle is not a member of the group, so group inventory is unaffected.

(Total marks = 10 marks)