



Date: 30-10-2023

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

**Section - A**

**Answer All the questions**

**(15\*2=30)**

1. Identify whether each of the following statements regarding financial information is true or false.
  - A. Faithful representation means that the legal form of a transaction must be reflected in financial statements, regardless of the economic substance.
  - B. Only items that can be depicted by a monetary amount can be recognized in the statement of financial position or statement of financial performance.
  - C. It may sometimes be necessary to exclude information that is relevant and reliable from financial statements because it is too difficult for some users to understand.
  - D. Information is material if it exceeds a quantitative threshold; any transaction that does not exceed that threshold does not need to be disclosed.
2. Which THREE of the following are functions of the International Accounting Standards Board?
  - A. Responsibility for all technical matters on International Financial Reporting Standards (IFRS)
  - B. To ensure compliance with all IFRS Accounting Standards
  - C. Assume responsibility for appropriate financing arrangements
  - D. Publication of IFRS Accounting Standards
  - E. Overall supervisory body of the IFRS organizations
  - F. Final approval of interpretations by the IFRS Interpretations Committee
3. During the year ending on March 31, 20X7, CloudCo sold a property for \$1,550,000. The property was purchased for \$100,000 and had been revalued to \$1.9 million on March 31, 20X4; at this date, the property had a remaining life of 10 years. CloudCo depreciates properties on a straight-line basis over the asset's useful life, with a full year's depreciation in the year of acquisition and none in the year of disposal. CloudCo revalued another property to \$2 million on March 31, 20X7. Its historical cost was \$1 million, and accumulated depreciation on the property was \$350,000. What are the amounts to be recognized in profit or loss and other comprehensive income for these transactions at March 31, 20X7? Profit or Loss:----- \$? Other comprehensive income----- \$?
4. Which of the following could be classified as deferred development expenditure in Company X's statement of financial position as of March 31, 20X1 according to IAS 38 Intangible Assets?

A. \$120,000 spent on developing a prototype and testing a new type of propulsion system for trains. The project needs further work as the propulsion system is currently not viable.

B. A payment of \$50,000 to a local university's engineering faculty to research new environmentally friendly building techniques.

C. \$35,000 spent on consumer testing a new type of electric bicycle. The project is near completion, and the product will probably be launched in the next 12 months. Company X is not yet certain that there is going to be a viable market for the finished product.

D. \$65,000 spent on developing a special type of new packaging for a new energy-efficient light bulb. The packaging is expected to be used by Company X for many years and is expected to reduce distribution costs by \$35,000 a year.

5. The draft financial statements of Firm Alpha are under consideration. The accounting treatment of the following material events after the reporting period needs to be determined:

1. The bankruptcy of a major customer, with a substantial debt outstanding at the end of the reporting period.
2. A fire destroying some of the company's inventory (the company's going concern status is not affected).
3. An issue of shares to finance expansion.
4. Sale for less than cost of some inventory held at the end of the reporting period.

According to IAS 10 Events after the Reporting Period, which of the above events require an adjustment to the figures in the draft financial statements? A. 1 and 4 only B. 1, 2, and 3 only C. 2 and 3 only D. 2 and 4 only

6. At 1 January 20X0, Company P had property, plant, and equipment with a carrying amount of \$180,000. In the year ended 31 December 20X0, Company P disposed of assets with a carrying amount of \$60,000 for \$50,000. Company P revalued a building from \$75,000 to \$100,000 and charged depreciation for the year of \$20,000. At the end of the year, the carrying amount of property, plant, and equipment was \$250,000. How much will be reported in the statement of cash flows for the year ended 31 December 20X0 under the heading 'cash flows from investing activities'?

A. \$75,000 outflow B. \$125,000 outflow C. \$135,000 outflow D. \$50,000 inflow

7. The following extracts from the financial statements of Company Q have been obtained for 20X5:

- Inventories: \$130,000
- Receivables: \$80,000
- Cash: \$10,000
- Loan repayable 20X8: \$90,000
- Deferred tax: \$14,000
- Payables: \$70,000
- Overdraft: \$34,000

What is the quick ratio of Company Q? \_\_\_\_\_:1

8. Company W has a 75% subsidiary, Company Y, and is preparing its consolidated statement of financial position as of 31 December 20X6. The carrying amount of property, plant, and equipment in the two companies at that date is as follows: Company W \$300,000, Company Y \$60,000. On 1 January 20X6, Company Y had transferred some property to Company W for \$40,000. At the date of transfer, the property, which had cost \$42,000, had a carrying amount of \$30,000 and a remaining useful life of five years. What is the carrying amount of property, plant, and equipment in the consolidated statement of financial position of Company W as of 31 December 20X6? \$ \_\_\_\_\_,000
9. Sarah acquires 80% of the share capital of John on 1 August 20X6 and is preparing its group financial statements for the year ended 31 December 20X6. How will John's results be included in the group statement of profit or loss?
- A. 80% of John's revenue and expenses for the year ended 31 December 20X6
- B. 100% of John's revenue and expenses for the year ended 31 December 20X6
- C. 80% of John's revenue and expenses for the period 1 August 20X6 to 31 December 20X6
- D. 100% of John's revenue and expenses for the period ended 1 August 20X6 to 31 December 20X6
10. Which of the following would be a change in accounting policy in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors?
- A Adjusting the financial statements of a subsidiary prior to consolidation as its accounting policies differ from those of its parent.
- B A change to reporting depreciation charges as cost of sales rather than as administrative expenses.
- C Depreciation method changed to reducing balance method rather than straight line.
- D Reducing the value of inventory from cost to net realisable value due to a valid adjusting event after the reporting period.
11. The following extracts of Jim's financial statements are available:
- |                                     |       |
|-------------------------------------|-------|
|                                     | \$000 |
| Redeemable preference share capital | 50    |
| Ordinary share capital              | 900   |
| Share premium                       | 400   |
| Retained earnings                   | 400   |
| 10% loan notes                      | 150   |
- The gearing (debt to debt plus equity) ratio of Jim will be:  
A 8.3% B 10.5% C 15.8% D 22.2%
12. Which of the following facts about disposals of a subsidiary is true?
- A The profit or loss on disposal of a subsidiary should be recorded in other comprehensive income
- B The disposal of a subsidiary has no impact on the parent's individual financial statements
- C The non-controlling interest at the date of disposal must be removed from the statement of financial position
- D Only the parent's share of the subsidiary's net assets must be removed from the statement of financial position
13. Papa acquired 100% of Son's 1 million \$1 share capital on 1 January 20X1, and sold it on 1 January 20X6 for \$8 million. All of the goodwill in relation to Son has been impaired prior to the disposal. When Papa acquired Son, Son's retained earnings were \$2 million, and the retained earnings at disposal were \$3 million. The fair value of Son's net assets were equal to their carrying amount with the exception of Son's property, which had a fair value of \$2 million above its carrying amount. The property had a remaining life of 20 years at the date of acquisition. What is the profit on disposal to be recorded in Papa's consolidated financial statements? \$ \_\_\_\_\_
14. Price acquired 80% of Spoon's share capital on 1 January 20X1 for \$15 million when Spoon's

net assets were \$10 million. Price sold all of its shares in Spoon on 1 January 20X7 for \$16 million when Spoon's net assets were \$12 million. Spoon uses the proportion of net assets method for valuing the non-controlling interest, and there has been no impairment of goodwill since acquisition. What is the profit or loss on disposal of Spoon to be recorded in Price's consolidated financial statements?

A \$600,000 loss      B \$3,000,000 loss      C \$600,000 gain      D \$3,000,000 gain

15. Which of the following are likely to be accounted for as an associate in the consolidated financial statements of TN? (i) A 25% shareholding in ZT. TN can appoint a director to the board. There are 4 directors on the board in total, and none have control. (ii) A 25% shareholding in ZU. ZU is 70% owned by a company called TU. (iii) A 25% shareholding in ZV. TN have also got an arrangement with other shareholders allowing them access to 55% of the voting rights in TN. A (i) only    B (i) and (ii)    C (ii) and (iii)    D All three

## SECTION B

Answer ALL the questions

3\*10 = 30

16. The fundamental principle of IFRS 15 Revenue from Contracts with Customers is that an organization records revenue to portray the conveyance of guaranteed products or services to customers in a manner that reflects the anticipated compensation in exchange for those products or services. An entity applies this core principle by following a five-step approach.

16.(1) Step 1 of the five-step model necessitates the identification of the contract with the customer when specific criteria are met. Which of the following statements about the contract identification process is INCORRECT? A. Contracts may take various forms but must be enforceable, have commercial substance, and be approved by the parties involved. B. If a contract does not meet the criteria in IFRS 15, it cannot be re-evaluated to determine whether it subsequently meets the criteria. C. It should be likely that the entity will collect the consideration in exchange for the goods or services. D. The rights of each party concerning the goods or services to be transferred and the payment terms must be discernible.

16.(2) Step 2 involves the identification of performance obligations within the contract. What is the primary factor in recognizing a distinct performance obligation? A. The distinctiveness of the product or service. B. The determination of payment terms. C. The transfer of risks and rewards to the customer. D. The enforceability of the contract.

16 (3.) Step 3 mandates the entity to ascertain the transaction price. Which of the following factors is NOT considered when determining the transaction price? A. Non-cash consideration. B. Sales taxes. C. Time value of money. D. Variable consideration.

16. (4) Step 4 entails allocating the transaction price to each performance obligation based on the relative stand-alone selling prices. What provides the best evidence of a stand-alone selling price? A. Adjusted market prices for similar goods or services. B. Expected cost plus a margin. C. The observable price when the entity sells that good or service separately. D. Unadjusted market prices for a competitor's goods or services.

16 (5) Step 5 requires recognizing revenue when (or as) each performance obligation is satisfied. Which of the following factors may indicate the transfer of control?

1. The customer obtains legal title to the asset.
2. The entity possesses a present right to payment for the asset.

3. The entity transfers physical possession of the asset.

A. 1 only    B. 1 and 2 only    C. 3 only    D. 1, 2, and 3

17. Thompson Company experienced a tumultuous year, facing multiple legal cases arising from issues with various components in the products it manufactures. Thompson has finalized its financial statements for the year ending on December 31, 20X7. Thompson boasts a thoroughly documented and robust environmental policy, with a track record of adherence to its principles.

17 (1) A client has initiated legal action against Thompson, alleging injuries sustained while using one of its products. In response, Thompson has filed a lawsuit against a supplier, asserting that the supplier is at fault. Legal counsel predicts that Thompson is likely to lose the case brought by the client and win the case against the supplier. Identify the appropriate treatment for each of the following scenarios.

Case involving the client    Case involving the supplier

Take no action    Take no action

Contingent liability    Contingent asset

Provision    Asset

17 (2) Thompson offers a one-year warranty with its products. Historical data reveals that 2% of the products require major repairs within one year, while 6% require minor repairs. If all products needed major repairs, the cost to Thompson would amount to \$800,000. If all products needed minor repairs, the cost would be \$80,000. What provision should be recognized at year-end? \$\_\_\_\_\_

17(3) Additional concerns have arisen at Thompson, and the company's assistant accountant is uncertain about the accounting treatment for the following situations:

(i) Thompson operates various machines that require periodic overhauls to meet safety inspection standards. Many of these overhauls are scheduled for the next 12 months.

(ii) Thompson has caused environmental damage during the construction of a new facility. There is no legal requirement for Thompson to remediate the land.

Which of the following items should be recorded as provisions?

A. (i) and (ii) B. (i) only C. (ii) only D. Neither

17 (4) On January 15, 20X8, Thompson noted the following events:

A major customer declared bankruptcy. Inventory was damaged in a flood and subsequently sold at a loss on January 20, 20X8. Which of these events should be treated as an adjusting event according to IAS 10 Events After the Reporting Period?

A. Bankruptcy of the major customer B. Damage to inventory C. Neither event D. Both events

17(5) Which of the following statements regarding IAS 10 Events After the Reporting Period is accurate?

- A. All non-adjusting events must be disclosed in the notes to the financial statements.
- B. IAS 10 covers the period from the reporting date up to the annual general meeting.
- C. Adjusting events provide evidence of conditions in existence at the reporting date.
- D. All adjusting events must be disclosed in the notes to the financial statements.

18. On 1 April 20X4 Penfold acquired 80% of Superted's equity shares in a share for share exchange. Penfold issued 2 shares for every 5 acquired in Superted. Penfold's share price on 1 April 20X4 was \$5.30. The share exchange has not yet been recorded. Extracts from the individual financial statements of Penfold and Superted as at 30 September 20X4 are shown below.

	Penfold \$000	Superted \$000
Property, plant and equipment	345,000	141,000
Trade receivables	32,400	38,000
Equity shares of \$1 each	170,000	15,000
Other components of equity (share premium)	6,000	2,000

(i) During the year, Penfold traded with Superted, and had a payable of \$6 million at 30 September 20X4. Superted's receivable balance differed from this due to a \$2 million payment from Penfold not being received until October 20X4.

(ii) Penfold measures the non-controlling interest at fair value. At the date of acquisition this was \$7.2 million.

(iii) Superted made a profit of \$24 million for the year ended 30 September 20X4.

(iv) Penfold sold an item of plant to Superted on 1 April 20X4 for \$25 million when its carrying amount was \$20 million. It had a remaining useful life of 5 years at this date.

(v) Penfold also owns 30% of Arnold, an unrelated entity. Penfold are not able to appoint any members of the board of Arnold as the other 70% is held by another investor who is able to

appoint all members of the board.

18(1) What will be reported as other components of equity on the consolidated statement of financial position as at 30 September 20X4?

- A \$31,440,000
- B \$26,640,000
- C \$28,640,000
- D \$33,440,000

18 (2) What will be reported as receivables on the consolidated statement of financial position as at 30 September 20X4? \$ \_\_\_\_\_,000

18 (3) What will be reported as non-controlling interest on the consolidated statement of financial position as at 30 September 20X4?

- A \$9,700,000
- B \$9,500,000
- C \$7,200,000
- D \$9,600,000

18 (4) What will be reported as property, plant and equipment on the consolidated statement of financial position as at 30 September 20X4? \$ \_\_\_\_\_,000

18 (5) How should the investment in Arnold be recorded in the consolidated statement of financial position of Penfold?

- A A subsidiary
- B An associate
- C A financial instrument
- D A contingent asset

**SECTION - C**

**Answer ALL the following**

**2\*20 = 40**

19. The following trial balance relates to JK at 30 September 20X7:

	\$000	\$000
Ordinary share capital \$1 shares		100,000
Share premium		30,000
Revaluation reserve		145,000
Retained earnings reserve 1 October 20X6		285,611
6% Loan notes (note 3)		74,389
5% Convertible loan notes (note 4)		100,000
Revenue		565,000
Cost of sales	339,000	
Distribution costs	53,730	
Administrative expenses	44,810	
6% Loan note interest paid (note 3)	4,200	
5% Convertible loan note interest paid (note 4)	5,000	
Income tax (note 6)		2,150
Inventory at 30 September 20X7 (note 1)	64,320	
Bank	29,885	
Trade receivables	48,670	
Trade payables		69,650
Land and Buildings - valuation (note 2)	450,000	
Plant and Equipment - cost	265,585	
Plant and Equipment - acc depreciation 1 October 2006 (note 2)		63,400
Financial assets (note 5)	130,000	
	-----	-----
	1,435,200	1,435,200
	-----	-----

Notes:

(1) Included in inventory are some items at their cost of \$25 million. Following damage that had taken place during the year, it is now thought that these items can be sold for \$30 million but only after they have been repaired and repackaged which will cost \$8 million.

(2) Land and Buildings were revalued to \$450 million (including land \$100 million) from their previous carrying amount of \$375 million on 1 October 20X6. This has already been recorded; however depreciation for the year has not yet been recorded. At 1 October 20X6 the buildings had a remaining life of 35 years. Plant and Equipment is to be depreciated at 20% reducing balance per annum.

(3) JK issued its 6% loan notes on 1 October 20X4. They were issued at their nominal value of \$70 million. They will be repaid at a premium in 20Y4. The finance department have calculated that the loan notes have an effective rate of interest of 9%.

(4) On 1 October 20X6, JK issued 5% convertible loan notes at their par value of \$100 million. The loan notes are redeemable at par on 30 September 20Y0 or may be converted into 150 ordinary shares for every \$100 of loan note. An equivalent loan note without the conversion option would have carried an interest rate of 8%. Interest of \$5 million has been paid on 30 September 20X7.

The present value of \$1 payable at the end of year, based on interest rates of 5% and 8% are:

End of year	5%	8%
1	0.95	0.93
2	0.91	0.86
3	0.86	0.79

(5) The financial assets (held for trading purposes) represent investments in the equity shares of listed companies. These investments are classified as 'at fair value through profit or loss'. At 30 September 20X7 the fair value of these investments was estimated to be \$150 million.

(6) The balance on the income tax account in the trial balance is an overprovision arising as a result of the settlement of the previous year's tax charge. The directors have estimated the provision for income tax for the year to 30 September 20X7 at \$24 million.

**Required:** Prepare the statement of profit or loss and other comprehensive income of JK for the year ended 30 September 20X7 and a statement of financial position as at that date. (20 marks)

20. On June 1, 20X0, Falcon Enterprises acquired an 80% stake in the equity share capital of Swift Industries. The consideration for the acquisition consisted of two components: an exchange of three Falcon Enterprises shares for every five Swift Industries shares acquired and a cash payment of \$800,000. The share issuance related to this acquisition has not yet been recorded in Falcon Enterprises' books. At the acquisition date, Falcon Enterprises' shares had a market value of \$5 each. Below are the summarized draft financial statements for both companies as of September 30, 20X0:

#### Statements of Financial Position as of September 30, 20X0

	Falcon Enterprises (\$000)	Swift Industries (\$000)
<b>Assets</b>		
Non-current assets	25,500	13,900
Investments	1,800	Nil
<b>Total non-current assets</b>	<b>27,300</b>	<b>13,900</b>
<b>Current assets</b>		
Inventory	5,300	500
Receivables	4,200	1,100
Bank	3,000	800
<b>Total current assets</b>	<b>12,500</b>	<b>2,400</b>
<b>Total assets</b>	<b>39,800</b>	<b>16,300</b>
<b>Equity and Liabilities</b>		
Equity shares of \$1 each	12,000	5,000
Other equity reserve - 30 September 20W9 (Note 4)	500	Nil
Retained earnings	12,300	4,500
<b>Total equity</b>	<b>24,800</b>	<b>9,500</b>
<b>Liabilities</b>		
Current liabilities	15,000	6,800
<b>Total liabilities</b>	<b>15,000</b>	<b>6,800</b>
<b>Total equity and liabilities</b>	<b>39,800</b>	<b>16,300</b>

**Relevant Information:**



1. At the acquisition date, the fair values of Swift Industries' assets were equal to their carrying amounts, except for property, which was \$1.2 million below carrying amount with a remaining useful life of 8 years. Swift Industries did not adjust its financial statements for this.
2. Falcon Enterprises had \$2 million of inventory supplied by Swift Industries post-acquisition, with a 25% mark-up on cost.
3. Falcon Enterprises had a trade payable balance of \$350,000 to Swift Industries, differing from Swift Industries' corresponding receivable due to an unrecorded \$130,000 payment from Falcon Enterprises.
4. Falcon Enterprises' investments included shares classified as fair value through other comprehensive income (FVTOCI), which increased in value by \$300,000 during the year.
5. Falcon Enterprises valued the non-controlling interest at fair value, deemed to be \$3.5 million.
6. Consolidated goodwill was impaired by \$1.5 million as of September 30, 20X0.
7. Swift Industries reported a profit of \$3.9 million for the year ended September 30, 20X0.

**Required:** Prepare the consolidated statement of financial position for Falcon Enterprises as of September 30, 20X0.

&&&&&&&&&&