Section A – ALL 15 questions are compulsory and MUST be attempted

1 Which of the following is a possible advantage of a rules-based system of financial reporting?

A It encourages the exercise of professional judgement
B It prevents a fire-fighting approach to the formulation of standards
C It offers accountants more protection in the event of litigation
D It ensures that no standards conflict with each other

---

2 IFRS 10 *Consolidated Financial Statements* states that 'A parent shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances'.

Which of the following situations requires an adjustment because of this constraint?

A A subsidiary has been acquired and its land is to be included in the consolidated financial statements at fair value

B A subsidiary carries its assets at historical cost but the parent's assets are carried at revalued amounts

C There have been intragroup transactions during the year which have resulted in unrealised profit in inventory at the year end

D There has been intragroup trading which has resulted in intragroup balances for receivables and payables at the year end

---

3 The following trial balance extract relates to Topsy Co as at 30 April 20X6:

	$'000	$'000
Land at cost	800	
Building:		
Valuation at 1 May 20X2	1,500	
Accumulated depreciation at 30 April 20X5		90
Revaluation surplus at 30 April 20X5		705

On 1 May 20X2, when the carrying amount of the building was $750,000, it was revalued for the first time to $1.5m and its remaining useful life at that date was estimated to be 50 years. Topsy Co has correctly accounted for this revaluation in the above trial balance. However, Topsy Co has not yet charged depreciation for the year ended 30 April 20X6 or transferred the excess depreciation from the revaluation surplus to retained earnings at 30 April 20X6.

In February 20X6, the land, but not the building, was independently valued at $950,000. This adjustment has yet to be made for the year ended 30 April 20X6.

What is the balance on the revaluation surplus of Topsy Co as at 30 April 20X6 after the required adjustments have been made?

$ ______

---

4 Plow Co purchased 3,500 of the 10,000 $1 equity shares of Styre Co on 1 August 20X4 for $6.50 per share.

Styre Co's profit for the year ended 31 July 20X5 was $7,500. Styre Co paid a dividend of $0.50 per share on 31 December 20X4.

What is the carrying amount of the investment in Styre Co in the consolidated statement of financial position of Plow Co as at 31 July 20X5?

A $25,375
B $22,750
C $27,125
D $23,625

5 Identify, by selecting the relevant box in the table below, which of the following statements are correct or incorrect when calculating the impairment loss of an asset?

Assets should be carried at the lower of their carrying amount and recoverable amount	Correct	Incorrect
The recoverable amount of an asset is the higher of value in use and fair value less costs of disposal	Correct	Incorrect

6 Which of the following statements is NOT true?

A In some countries, accounting standards can be a detailed set of rules which companies must follow.
B Local accounting standards can be influenced by the tax regime within a country.
C Accounting standards on their own provide a complete system of regulation.
D Accounting standards are particularly important where a company's shares are publicly traded.

7 Merlot Co had issued share capital on 1 January 20X9 of 2,000,000 equity $1 shares. On 1 October 20X9, a rights issue was made on a one for four basis which was fully taken up.

On 30 September 20X9, each share had a market value of $3.25, giving a theoretical ex-rights value of $2.84 per share.

Using the pull down list to select your answer what is the weighted average number of shares in issue for the year ended 31 December 20X9, in accordance with IAS 33 *Earnings per Share*?

[▼]

Pull down list

2,341,549 shares
1,935,769 shares
2,125,000 shares
2,431,778 shares

8 Which of the following would result in a credit to the deferred tax account?

(1) Interest receivable, which will be taxed when the interest is received
(2) A loan, the repayment of which will have no tax consequences
(3) Interest payable, which will be allowable for tax when paid
(4) Prepaid expenses, which have been deducted to calculate the taxable profits of the previous year

A 1 and 2
B 3 and 4
C 1 and 4
D 2 and 3

9 IFRS 15 *Revenue from Contracts with Customers* states that, where performance obligations are satisfied over time, entities should apply an appropriate method of measuring progress.

Which **TWO** of the following are appropriate **OUTPUT** methods of measuring progress?

- [ ] Total costs to date of the contract as a percentage of total contract revenue
- [ ] Physical milestones reached as a percentage of physical completion
- [ ] Surveys of performance completed to date as a percentage of total contract revenue
- [ ] Labour hours expended as a percentage of total expected labour hours

---

10 Fifer Co has a current ratio of 1.2:1 which is below the industry average. Fifer Co wants to increase its current ratio by the year end.

Which of the following actions, taken before the year end, would lead to an increase in the current ratio?

A Return some inventory which had been purchased for cash and obtain a full refund on the cost
B Make a bulk purchase of inventory for cash to obtain a large discount
C Make an early payment to suppliers, even though the amount is not due
D Offer early payment discounts in order to collect receivables more quickly

---

11 On 1 October 20X8, Picture Co acquired 60% shares in Frame Co. At 1 April 20X8, the credit balances on the revaluation surpluses relating to Picture Co and Frame Co's equity financial asset investments stood at \$6,400 and \$4,400 respectively.

The following extract was taken from the financial statements for the year ended 31 March 20X9:

	Picture Co	*Frame Co*
	\$	\$
Other comprehensive income: loss on fair value of equity financial asset investments	(1,400)	(800)

Assume the losses accrued evenly throughout the year.

What is the amount of the revaluation surplus in the consolidated statement of financial position of Picture Co as at 31 March 20X9?

A \$4,520
B \$4,760
C \$5,240
D \$9,160

---

12 A local authority department is responsible for waste collections. They have an annual budget to provide a regular collection service from households in the local area. The budget was increased to enable the department to increase the percentage of waste disposed of in an environmentally friendly manner.

Which of the following is the best measurement to justify the increase in the budget?

A An increase in the number of collections made during the period
B The percentage of waste recycled rather than being placed in landfill sites
C The fair value of the machinery used in making the collections
D A breakdown of expenditure between the cost of making collections and the cost of processing waste

---

13 Panther Co owns 80% of Tiger Co. An extract from the companies' individual statements of financial position as at 30 June 20X8 shows the following:

	Panther Co	*Tiger Co*
	$'000	$,000
Property, plant and equipment (carrying amount)	370	285

On 1 July 20X7, Panther Co sold a piece of equipment which had a carrying amount of $70,000 to Tiger Co for $150,000. The equipment had an estimated remaining life of five years when sold.

Using the pull down list below, select the carrying amount of property, plant and equipment in the consolidated statement of financial position of Panther Co as at 30 June 20X8?

[▼]

Pull down list

$591,000
$575,000
$671,000
$534,000

---

14 On 1 July 20X7, Lime Co acquired 90% of Soda Co's equity share capital. On this date, Soda Co had an internally generated customer list which was valued at $35m by an independent team of experts. At 1 July 20X7, Soda Co was also in negotiations with a potential new major customer. If the negotiations are successful, the new customer will sign the contract on 15 July 20X7 and the value of the total customer base would then be worth $45m.

What amount would be recognised for the customer list in the consolidated statement of financial position of Lime Co as at 1 July 20X7?

A $0
B $10m
C $35m
D $45m

---

15 Which of the following statements relating to goodwill is correct?

A Goodwill is amortised over its useful life with the charge expensed to profit or loss.

B On the investment in an associate, any related goodwill should be separately identified in the consolidated financial statements.

C The testing of goodwill for impairment is only required when circumstances exist which indicate potential impairment.

D If the fair value of a subsidiary's contingent liabilities can be reliably measured at the date of acquisition, they should be included in consolidated net assets and will increase goodwill.

(30 marks)

Section B – ALL 15 questions are compulsory and MUST be attempted

Each question is worth 2 marks.

The following scenario relates to questions 16–20.

Artem Co prepares financial statements to 30 June each year.

During the year to 30 June 20X5, the company spent $550,000 on new plant as follows:

	$'000
Plant cost	525
Delivery to site	3
Building alterations to accommodate the plant	12
Costs of initial testing of the new plant	2
Plant operator training costs	8

Artem Co's fixtures and fittings were purchased on 1 July 20X2 at a cost of $50,000. The directors have depreciated them on a straight-line basis over an estimated useful life of eight years assuming a $5,000 residual value. At 1 July 20X4, the directors realise that the remaining useful life of the fixtures is five years. There is no change to the estimated residual value.

Artem Co began a research project in October 20X3 with the aim of developing a new type of machine. If successful, Artem Co will manufacture the machines and sell them to customers as well as using them in their own production processes. During the year ended 30 June 20X4, costs of $25,000 were incurred on conducting feasibility studies and some market research. During the year ended 30 June 20X5, a further $80,000 was incurred on constructing and testing a prototype of the machine.

16 In accordance with IAS 16 *Property, Plant and Equipment*, what is the value of additions to plant for Artem Co for the year ended 30 June 20X5?

$ [ ]

---

17 Which of the following is **TRUE** in relation to the change in the remaining useful life of the fixtures and fittings?

A It is a change of accounting policy which should be retrospectively applied.
B It is a change of accounting policy which should be disclosed in the notes to the financial statements.
C It is a change of accounting estimate which should be retrospectively applied.
D It is a change of accounting estimate which should be prospectively applied.

---

18 Using the pull down list, select what is the depreciation charge for the fixtures and fittings for Artem Co for the year ended 30 June 20X5 in accordance with IAS 16?

[▼]

Pull down list

$7,500
$9,000
$7,750
$6,750

---

19 In accordance with IAS 38 *Intangible Assets*, what is the correct treatment of the $25,000 costs incurred on the research project by Artem Co during the year ended 30 June 20X4?

A They should be recognised as an intangible non-current asset as future economic benefits are expected from the use and sale of the machinery.

B They should be written off to profit or loss as an expense as they are research costs at this date.

C They should be included in tangible non-current assets as machinery which will be put into use once completed.

D They should be set against a provision made for the estimated total cost of the project which was set up at the start of the research.

---

20 In accordance with IAS 38, which of the following is true when Artem Co moves to the production and testing stage of the prototype during the year ended 30 June 20X5?

A The project has moved to the development stage. If the IAS 38 development expenditure criteria are met, Artem Co can choose whether or not to recognise the $80,000 costs as an intangible non-current asset.

B The project is still in its research stage and the $80,000 costs incurred by Artem Co cannot be recognised as an intangible non-current asset until a product is ready for sale.

C The project has moved to the development stage. If the IAS 38 development expenditure criteria are met, Artem Co must recognise the $80,000 costs as an intangible non-current asset.

D The project is still in its research stage and so Artem Co must expense the $80,000 costs to profit or loss.

The following scenario relates to questions 21–25.

Maykorn Co prepares its financial statements to 30 September each year. Maykorn Co's draft financial statements were finalised on 20 October 20X3. They were authorised for issue on 15 December 20X3 and the annual general meeting of shareholders took place on 23 December 20X3.

On 30 September 20X3, Maykorn Co moved out of one of its properties and put it up for sale. The property met the criteria as held for sale on 30 September 20X3. On 1 October 20X2, the property had a carrying amount of $2.6m and a remaining life of 20 years. The property is held under the revaluation model. The property was expected to sell for a gross amount of $2.5m with selling costs estimated at $50,000.

Maykorn Co decided to sell an item of plant during the year ended 30 September 20X3. On 1 October 20X2, the plant had a carrying amount of $490,000 and a remaining useful life of seven years. The plant met the held for sale criteria on 1 April 20X3. At 1 April 20X3, the plant had a fair value less costs to sell of $470,000, which had fallen to $465,000 at 30 September 20X3.

21 Identify, by selecting the relevant box in the table below, whether the following statements are true and in accordance with IAS 10 *Events After the Reporting Period*, for Maykorn Co?

All events which occur between 30 September 20X3 and 15 December 20X3 should be considered as events occurring after the reporting period	True	False
An event which occurs between 30 September 20X3 and 15 December 20X3 and which provides evidence of a condition which existed at 30 September 20X3 should be considered as an adjusting event	True	False

---

22 In accordance with IAS 10, which of the following events would be classed as a non-adjusting event in Maykorn Co's financial statements for the year ended 30 September 20X3?

A During October 20X3, there was evidence of a permanent diminution in the carrying amount of a property held at 30 September 20X3.

B On 1 December 20X3 the acquisition of a subsidiary was completed, following lengthy negotiations which began in September 20X3.

C The sale of inventory during October 20X3 at a value less than its cost. This inventory was included in the financial statements at cost on 30 September 20X3.

D The insolvency of a major customer during October 20X3, whose balance was included within receivables at 30 September 20X3.

---

23 What is the total amount charged to Maykorn Co's profit or loss in respect of the property for the year ended 30 September 20X3?

A $130,000
B $180,000
C $150,000
D $100,000

---

24 In accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, what is the carrying amount of the plant in Maykorn Co's statement of financial position as at 30 September 20X3?

Select your answer using the pull down list provided.

▼

Pull down list

$420,000
$470,000
$455,000
$465,000

---

25 Which of the following items should be classed as an asset held for sale under IFRS 5?

A Maykorn Co's head office building is to be demolished, at which point the land will be put up for sale. A number of prospective bidders have declared an interest and the land is expected to sell within a few months of the demolition.

B An item of plant was put up for sale at the start of the year for $500,000. Six parties have made a bid to Maykorn Co for the plant but none of these bids have been above $200,000.

C A chain of retail outlets are currently advertised for sale. Maykorn Co has provisionally accepted a bid, subject to surveys being completed. The surveys are not expected to highlight any problems. The outlets are currently empty.

D A brand name which Maykorn Co purchased in 20X2 is associated with the sale of potentially harmful products. Maykorn Co has decided to stop producing products under this brand, which is currently held within intangible assets.

The following scenario relates to questions 26–30.

Vitrion Co issued \$2m 6% convertible loan notes on 1 April 20X2. The convertible loan notes are redeemable on 31 March 20X5 at par for cash or can be exchanged for equity shares in Vitrion Co on that date. Similar loan notes without the conversion option carry an interest rate of 9%.

The following table provides information about discount rates:

	6%	*9%*
Year 1	0.943	0.917
Year 2	0.890	0.842
Year 3	0.840	0.772

On 1 April 20X3, Vitrion Co purchased 50,000 \$1 equity shares in Gowhizzo Co at \$4 per share, incurring transaction costs of \$4,000. The intention is to hold the shares for trading. By 31 March 20X4 the shares are trading at \$7 per share. In addition to the gain on investment, Vitrion Co also received a dividend from Gowhizzo Co during the year to 31 March 20X4.

26 In accordance with IAS 32 *Financial Instruments: Presentation*, which of the following describes an equity instrument?

A A contractual obligation to deliver cash or another financial asset to another entity

B A contract which is evidence of a residual interest in the assets of an entity after deducting all of its liabilities

C A contractual right to exchange financial instruments with another entity under potentially favourable conditions

D A contract which gives rise to both a financial asset of one entity and a financial liability of another

---

27 In accordance with IAS 32, how should the issue of the convertible loan notes be recognised in Vitrion Co's financial statements?

A As debt. Interest should be charged at 6% because it cannot be assumed that loan note holders will choose the equity option.

B As equity because the loan notes are convertible to equity shares.

C As debt and equity because the convertible loan notes contain elements of both.

D As debt. Interest should be charged at 9% to allow for the conversion of the loan notes.

---

28 What amount in respect of the loan notes will be shown under non-current liabilities in Vitrion Co's statement of financial position as at 1 April 20X2 (to the nearest \$'000)?

A \$2,000,000
B \$1,848,000
C \$1,544,000
D \$2,701,000

---

29 In accordance with IFRS 9 *Financial Instruments*, at what amount will the Gowhizzo Co shares be shown under investments in equity instruments in Vitrion Co's statement of financial position as at 31 March 20X4?

\$ ____

---

30 Where should the gain on the investment in Gowhizzo Co and its dividend be recognised in Vitrion Co's financial statements for the year ended 31 March 20X4?

A Both in profit or loss
B Gain on investment in other comprehensive income and the dividend in profit or loss
C Gain on investment in profit or loss and the dividend in other comprehensive income
D Both in other comprehensive income

(30 marks)

Section C – BOTH questions are compulsory and MUST be attempted

31 On 1 January 20X6, Laurel Co acquired 60% of the equity share capital of Rakewood Co in a share exchange in which Laurel Co issued three new shares for every five shares it acquired in Rakewood Co. The share issue has not yet been recorded by Laurel Co. Additionally, on 31 December 20X6, Laurel Co will pay to the shareholders of Rakewood Co $1.62 per share acquired. Laurel Co's cost of capital is 8% per annum.

At the date of acquisition, shares in Laurel Co and Rakewood Co had a market value of $7.00 and $2.00 each respectively.

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 30 SEPTEMBER 20X6

	Laurel Co	*Rakewood Co*
	$'000	$'000
Revenue	84,500	52,000
Cost of sales	(58,200)	(34,000)
Gross profit	26,300	18,000
Distribution costs	(2,000)	(1,600)
Administrative expenses	(4,100)	(2,800)
Investment income (note (iv))	500	400
Finance costs	(300)	nil
Profit before tax	20,400	14,000
Income tax expense	(4,800)	(3,600)
Profit for the year	15,600	10,400

Equity as at 1 October 20X5

	$'000	$'000
Equity shares of $1 each	20,000	15,000
Retained earnings	72,000	25,000

The following information is relevant:

(i) At the date of acquisition, Laurel Co conducted a fair value exercise on Rakewood Co's net assets which were equal to their carrying amounts with the following exceptions:

– An item of plant had a fair value of $4m above its carrying amount. At the date of acquisition it had a remaining life of two years.

– Inventory of $800,000 had a fair value of $1m. All of this inventory had been sold by 30 September 20X6.

(ii) Laurel Co's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Rakewood Co's share price at 1 January 20X6 can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

(iii) Laurel Co had traded with Rakewood Co for many years before the acquisition. Sales from Rakewood Co to Laurel Co throughout the year ended 30 September 20X6 were consistently $1.2m per month. Rakewood Co made a mark-up on cost of 20% on these sales. Laurel Co had $1.8m of these goods in inventory as at 30 September 20X6.

(iv) Laurel Co's investment income consists of:

- Its share of a dividend of \$500,000 paid by Rakewood Co in August 20X6.
- A dividend of \$200,000 received from Artic Co, a 25% owned associate which it has held for several years. The profit after tax of Artic Co for the year ended 30 September 20X6 was \$2.4m.

(v) Assume, except where indicated otherwise, that all items of income and expense accrue evenly throughout the year.

(vi) There were no impairment losses within the group during the year ended 30 September 20X6.

Required:

(a) Calculate the consolidated goodwill at the date of acquisition of Rakewood Co. **(7 marks)**

(b) Prepare the consolidated statement of profit or loss for Laurel Co for the year ended 30 September 20X6. **(13 marks)**

(Total = 20 marks)

32 Landing Co is considering the acquisition of Archway Co, a retail company. The summarised financial statements of Archway Co for the year ended 30 September 20X6 are:

STATEMENT OF PROFIT OR LOSS

	$'000
Revenue	94,000
Cost of sales	(73,000)
Gross profit	21,000
Distribution costs	(4,000)
Administrative expenses	(6,000)
Finance costs	(400)
Profit before tax	10,600
Income tax expense (at 20%)	(2,120)
Profit for the year	8,480

STATEMENT OF FINANCIAL POSITION

	$'000	$'000
ASSETS		
Non-current assets		
Property, plant and equipment		29,400
Current assets		
Inventory	10,500	
Bank	100	10,600
Total assets		40,000
EQUITY AND LIABILITIES		
Equity		
Equity shares of $1 each		10,000
Retained earnings		8,800
		18,800
Current liabilities		
4% loan notes (redeemable 1 November 20X6)	10,000	
Trade payables	9,200	
Current tax payable	2,000	21,200
Total equity and liabilities		40,000

From enquiries made, Landing Co has obtained the following information:

(i) Archway Co pays an annual licence fee of $1m to Cardol Co (included in cost of sales) for the right to package and sell some goods under a well-known brand name owned by Cardol Co. If Archway Co is acquired, this arrangement would be discontinued. Landing Co estimates that this would not affect Archway Co's volume of sales, but without the use of the brand name packaging, overall sales revenue would be 5% lower than currently.

(ii) Archway Co buys 50% of its purchases for resale from Cardol Co, one of Landing Co's rivals, and receives a bulk buying discount of 10% off normal prices (this discount does not apply to the annual licence fee referred to in note (i) above). This discount would not be available if Archway Co is acquired by Landing Co.

(iii) The 4% loan notes have been classified as a current liability due to their imminent redemption. As such, they should not be treated as long-term funding. However, they will be replaced immediately after redemption by 8% loan notes with the same nominal value, repayable in ten years time.

(iv) Landing Co has obtained some of Archway Co's retail sector average ratios for the year ended 30 September 20X6. It has then calculated the equivalent ratios for Archway Co as shown below:

	Sector average	*Archway Co*
Annual sales per square metre of floor space	$8,000	$7,833
Return on capital employed (ROCE)	18.0%	58.5%
Net asset (total assets less current liabilities) turnover	2.7 times	5.0 times
Gross profit margin	22.0%	22.3%
Operating profit (profit before interest and tax) margin	6.7%	11.7%
Gearing (debt/equity)	30.0%	Nil

A note accompanying the sector average ratios explains that it is the practice of the sector to carry retail property at market value. The market value of Archway Co's retail property is $3m more than its carrying amount (ignore the effect of any consequent additional depreciation) and gives 12,000 square metres of floor space.

Required

(a) After making adjustments to the financial statements of Archway Co which you think may be appropriate for comparability purposes, restate:

(i) Revenue;

(ii) Cost of sales;

(iii) Finance costs;

(iv) Equity (assume that your adjustments to profit or loss result in retained earnings of $2.3 million at 30 September 20X6); and

(v) Non-current liabilities. **(5 marks)**

(b) Recalculate comparable sector average ratios for Archway Co based on your restated figures in (a) above. **(6 marks)**

(c) Comment on the performance and gearing of Archway Co compared to the retail sector average as a basis for advising Landing Co regarding the possible acquisition of Archway Co. **(9 marks)**

(Total = 20 marks)