ACCA INTERIM ASSESSMENT

Corporate Reporting

December 2011

Paper P2 (INT/UK)

Time allowed Reading time: **15 minutes** Writing time: **3 hours**

This paper is divided into two sections

Section A This question is compulsory and MUST be answered

Section B Answer BOTH questions

Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

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SECTION A

This question is compulsory and MUST be answered

QUESTION 1

Holding, a listed entity, owns 80% of the equity share capital of Remote, a listed entity which is situated in a foreign country. Holding acquired Remote on 1 May 20X8 for 490 million dinars when the retained earnings of Remote were 172 million dinars. Remote has not revalued its assets or issued any equity capital since its acquisition by Holding. The following financial statements relate to Holding and Remote:

Statements of financial position at 30 April 20X9

	Holding	*Remote*
	$(m)	Dinar(m)
Non-current assets:		
Property, plant and equipment	843	146
Investment in Remote	196	
Current assets:		
Inventory	264	62
Receivables	442	202
Financial asset	2	
Cash and equivalents	37	86
	1,784	496
Equity and liabilities		
Equity shares of $1/1dinar	220	60
Share premium account	100	30
Retained earnings	720	222
	1,040	312
Non-current liabilities	70	42
Current liabilities:		
Trade payables	624	98
Income tax	50	44
	1,784	496

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Statements of comprehensive income for year ended 30 April 20X9

	Holding	*Remote*
	$m	Dinar(m)
Revenue	400	426
Cost of sales	(240)	(288)
Gross profit	160	138
Distribution and administrative expenses	(60)	(48)
Profit before taxation	100	90
Income tax expense	(40)	(40)
Profit for the year	60	50

The following information is relevant to the preparation of the consolidated financial statements of Holding:

(a) The fair value of the net assets of Remote at the date of acquisition is to be assumed to be the same as the carrying value, except as follows:

   (i) land had a fair value which was 100 million dinars in excess of its carrying value at the date of acquisition.

   (ii) plant and equipment had a fair value of 50 million dinars in excess of its carrying value at the date of acquisition. At that date, it was estimated that the plant and equipment had a remaining useful life of five years.

(b) Goodwill and non-controlling interest is to be measured at fair value. At the date of acquisition, it was estimated that the fair value of non-controlling interest was 102 million dinars. At the reporting date, goodwill was impairment tested and found to be impaired by 10%. Any impairment is charged to cost of sales.

(c) Holding has a financial asset of $2 million on its statement of financial position which represents a holding of shares in a major listed company. Holding maintains a portfolio of shares held for trading. At 30 April 20X9, the only holding in the portfolio was 500,000 shares in Direction Plc, a major listed company with 30 million equity shares in issue. The investment was recognised on its date of purchase, 13 February 20X9, at a cost of $4 per share. At 30 April 2009, due to press speculation of a takeover at Direction Plc, the fair value of the shares had risen to $5 per share.

(d) During the year, Holding sold goods to Remote valued at $5 million, and none of these goods remained in inventory at the year end. Any exchange gain or loss on settlement of the liability by Remote has already been accounted for.

(e) Remote operates with a significant degree of autonomy in its business operations.

(f) The following exchange rates are relevant to the financial statements:

	Dinars to $
30 April/1 May 20X8	2.5
1 February 20X9	2.0
30 April 20X9	2.1
Average rate for year to 30 April 20X9	2.0

Required:

(a) Prepare a consolidated statement of comprehensive income for the year ended 30 April 20X9 and a consolidated statement of financial position at that date in accordance with International Financial Reporting Standards. (35 marks)

The finance director of Holding has recently heard that the International Accounting Standards Board (IASB) has developed its own Framework for Financial Reporting, which identifies several elements of financial statements and makes it clear that any item that does not fall within one of the definitions of these elements should be excluded from the financial statements.

Required:

(b) Discuss briefly the importance of ethical behaviour in the preparation of financial statements. (7 marks)

(c) Discuss whether the following are elements of financial statements:

(i) goodwill

(ii) provisions (8 marks)

Two marks are available for the quality of the discussion of the ethical, professional and conceptual issues.

(Total: 50 marks)

SECTION B

Answer BOTH questions

QUESTION 2

The following draft statements of financial position relate to Long, Foot and Short, all listed entities, as at 30 November 20X3:

	Long $m	*Foot* $m	*Short* $m
Non-current assets			
Property, plant and equipment	329	185	64
Investment in Foot	345	–	–
Investment in Short	69	50	–
Investment in Micro	11	–	–
	754	235	64
Current assets	120	58	40
	874	293	104
Equity and liabilities			
Called up equity share capital of $1	460	110	50
Share premium	264	20	10
Retained earnings	120	138	35
	844	268	95
Non-current liabilities – deferred tax	20	20	5
Current liabilities	10	5	4
	874	293	104

The following information is relevant to the preparation of the group financial statements:

(i) Long acquired ninety per cent of the equity share capital of Foot and twenty-six per cent of the equity share capital of Short on 1 December 20X2 in a share for share exchange when the retained earnings were Foot $136 million and Short $30 million. The fair value of the net assets at 1 December 20X2 was Long $650 million, Foot $315 million and Short $119 million. Any increase in the consolidated fair value of the net assets over the carrying value is attributable to property held by the companies. There had been no new issue of shares since 1 December 20X2.

(ii) Foot had acquired a sixty per cent holding in Short five years earlier for a consideration of $50 million when the retained earnings of Short were $10 million. The fair value of the net assets at that date was $80 million with the increase in fair value attributable to property held by the companies. Property is depreciated within the group at five per cent per annum.

(iii) Long purchased a forty per cent interest in Micro, an incorporated entity on 1 December 20X2. The only asset of Micro is a portfolio of investments which is held for trading purposes. The stake in Micro was purchased for cash for $11 million. The carrying value of the net assets of Micro on 1 December 20X2 was $18 million and their fair value was $20 million. On 30 November 20X3, the fair value of the net assets was $24 million. Long exercises significant influence over Micro. Micro values the portfolio on a 'mark to market' basis.

(v) Foot has included a brand name in its property, plant and equipment at the cost of $9 million. The brand earnings can be separately identified and could be sold separately from the rest of the business. The fair value of the brand at 30 November 20X3 was $7 million. The fair value of the brand at the time of Foot's acquisition by Long was $9 million.

(vi) The policy of Long is to measure goodwill and non-controlling interest at fair value. At the date of acquisition, the fair value of the non-controlling interest in Foot and Short (both direct and indirect) was $36 million and $27 million respectively.

Required:

Prepare the consolidated statement of financial position of the Long Group at 30 November 20X3 in accordance with International Financial Reporting Standards.

(Total: 25 marks)

QUESTION 3

Walsh, a listed entity, acquired 80% of the equity share capital of Marsh, a listed entity, on 1 April 20X3 when the retained earnings of Marsh were $350 million (credit). The cost of the shares of Marsh was $544 million and the equity capital acquired by Walsh was 120 million of the $1 equity shares. On 1 July 20X6, Walsh sold 20 million shares of $1 of Marsh for $350 million. There has been no change in the equity share capital of Marsh since 1 April 20X3.

On 1 April 20X6, Walsh acquired 85% of the 200 million equity shares of $1 of Short, a listed entity at a cost of $900 million.

The draft income statements for the year ended 31 December 20X6 are:

	Walsh	*Marsh*	*Short*
	$m	$m	$m
Revenue	10,000	8,000	2,000
Cost of sales	(7,000)	(5,500)	(800)
Gross profit	3,000	2,500	1,200
Administrative expenses	(880)	(570)	(180)
Distribution costs	(1,310)	(830)	(240)
Profit from operations	810	1,100	780
Interest payable	(7)	–	(4)
Bank interest receivable	5	–	–
Profit before tax	808	1,100	776
Tax	(250)	(350)	(200)
Profit for the year	558	750	576

	Walsh	*Marsh*	*Short*
	$m	$m	$m
Notes:			
Dividends paid in the year	(85)	–	–
Retained earnings at 1 Jan 20X6	1,500	1,650	675

The following information is relevant to the preparation of the group accounts.

(i) The goodwill relating to the acquisition of Short has been impaired by $11m in the current period. Goodwill relating to the acquisition of Marsh has been fully written off in the previous year.

(ii) The policy of the group is to account for goodwill based upon the proportion of net assets of each subsidiary company.

(iii) The sale of the shares in Marsh has not been accounted for in the accounting records of Walsh (ignore the taxation aspects of the sale).

(iv) Short sold goods to Walsh to the selling value of $80 million on 1 August 20X6 at cost plus 20%. Walsh had sold $62 million of these goods at the year end.

(v) Assume that the fair values of the net assets of the subsidiary entities were the same as the book values at the date of acquisition.

(vi) Assume that profits accrue evenly and that there are no other reserves than the retained earnings.

Required:

Prepare a consolidated statement of comprehensive income for the Walsh Group, together with a summary of retained earnings, for the year ended 31 December 20X6.

(Total: 25 marks)