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ACCA – Paper F7
Financial Reporting
June 2015
Revision Mock

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Notice to Markers

1 When commenting about the script performance, please ensure on individual questions and on overall assessment your comments cover areas of examination technique including:

• Time management	• Handwriting	• Presentation and layout	• Use of English
• Points clearly and concisely made	• Relevance of answers to question	• Coverage and depth of answer	• Accuracy of calculations
• Calculations cross-referenced to workings	• All parts of the requirement attempted	• Length of answers equates to marks available	• Read the question carefully

2 For each question, please provide suitable constructive comments

Question Number	General Comments	Exam Technique Comments

ACCA REVISION MOCK

Financial Reporting

June 2015

Paper F7

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

This paper is divided into two sections:
Section A – ALL TWENTY questions are compulsory and MUST be attempted.
Section B – ALL THREE questions are compulsory and MUST be attempted.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

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SECTION A

ALL 20 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

EACH QUESTION IS WORTH 2 MARKS

1 The working capital cycle shows the length of time between incurring production costs and receiving the cash returns from these.

Which of the following will reduce the length of a company's working capital cycle?

A Increasing lead production times

B Increasing the inventory turnover period

C Increasing the receivables collection period

D Increasing the payables payment period

2 **Which of the following is not a valid reason for an increase in the level of gearing?**

A A revaluation loss has been recorded in the year

B New shares were issued during the year

C A new loan has been taken out in the year

D New assets were taken out under finance leases during the year

3 On 1 October 20X7 Piccolo acquired 80% of Skater and paid cash immediately of $2 million. Piccolo agreed to pay a further amount on 1 October 20X9 that was contingent upon the post-acquisition performance of Skater.

At the date of acquisition Piccolo assessed the fair value of this contingent consideration at $3.5 million, but by the year ended 30 September 20X8 it was assessed that the amount to be paid would now be $3.1 million.

How would the above be recorded in the Statement of Financial Position as at 30 September 20X8?

	Goodwill (Purchase consideration)	*Current liabilities (Contingent consideration)*	*Group retained earnings*
	$000	$000	$000
A	5,500	3,500	Nil
B	5,500	3,100	+ 400
C	5,100	3,500	– 400
D	5,100	3,100	+ 400

4 Pipe acquired 60% of Stork on 1 April 20X9. At the date of acquisition, the fair values of Stork's net assets were equal to their carrying amounts with the following exceptions:

An item of property had a fair value of $4 million above its carrying amount. At the date of acquisition it had a remaining life of 20 years. Ignore deferred tax relating to this fair value.

Stork had an unrecorded deferred tax liability of $2.4 million. The fair value of the deferred tax liability at 30 September 20X9 was $2 million

Extracts of the Statement of Financial Position at 30 September 20X9 is shown below:

	Pipe	*Stork*
	$000	$000
Property, plant and equipment	42,500	19,700
Deferred tax	5,200	nil

What amounts should be shown for property, plant and equipment and deferred tax in the Consolidated Statement of Financial Position at 30 September 20X9?

	Property, plant and equipment	*Deferred tax*
	$000	$000
A	66,100	7,200
B	66,200	7,600
C	66,100	5,200
D	62,200	7,200

5 The issued share capital of Raki, a public listed company, at 30 September 20X8 was $90 million. Its shares are denominated at 50 cents each.

On 1 February 20X9 Raki Plc made a fully subscribed rights issue of one new share for every four held at a price of $2.40 per share. The market price of the equity shares immediately before the issue was $3.90.

The profit after tax for the year ended 30 September 20X9 was $32 million. During the year an ordinary dividend of $3 million was paid along with an irredeemable preference dividend of $1.2 million.

What is the basic earnings per share figure for the year ended 30 September 20X9?

A 14.3 cents

B 14.9 cents

C 32.6 cents

D 13.8 cents

6 Which of the following statements about financial information are correct?

(i) It is sometimes necessary to exclude complex information, that may be relevant, from financial statements, because it is too difficult for users to understand

(ii) Information is only material if its omission or misstatement could influence the decisions of users

(iii) Information does not need to have a predictive or confirmatory value to be relevant

(iv) It is expected that all users can understand information in the financial statements

A (i) only

B (i), (ii) and (iii)

C (ii) only

D (iii) and (iv)

The following scenario relates to questions 7 and 8

TXU is a listed entity that operates in a highly competitive market. A new entrant to this market has created pressure amongst the competitive entities by developing a marginally lower quality product and selling it at a lower price. The result has been a shift in market share to this new entrant in the last few months of the financial period just ended.

Extracts from TXU's financial information for the year are as follows:

	20X2	*20X1*
	$m	$m
Revenue	$678m	$618m
Gross profit margin	32.4%	35.0%
Operating profit margin	5.2%	4.6%
Current ratio	1.3	2.0
Quick ratio	0.5	1.1
Inventories holding period	167 days	100 days
Receivables collection period	65 days	60 days
Payables payment period	156 days	109 days
Cash and cash equivalents	–	$24m
Short-term borrowings	$47m	–

7 Which one of the following statements is a valid conclusion that can be drawn from the above ratios?

A The increase in inventory holding period has resulted in a fall in current ratio.

B The increase in inventory holding period has resulted in a fall in quick ratio.

C The increase in the inventory holding period has resulted in a reduction in cash.

D The increase in inventory holding period has resulted in a fall in gross profit margin.

8 **Which one of the following statements is NOT a valid conclusion that can be drawn from the above ratios?**

A As the current ratio is greater than 1 there are no major liquidity concerns.

B The increase in payables payment period has been caused by the lack of cash.

C The increase in receivables collection period has contributed to the lack of cash.

D The management of TXU have controlled costs well to minimise the impact of the new entrant on profit.

9 Jack acquired a gold mine on 1 April 20X8 at a cost of $8 million. As a consequence of constructing the mine, Jack is obligated to rectify the damage caused to the environment. This has a present value of $800,000. This work will be done in 5 years, at the end of the mine's useful life. The company's cost of capital is 10%

What total amount should be accounted for in Jack's Statement of Profit or Loss, in respect of the above for the year ended 31 March 20X9?

A $1,760,000

B $1,749,020

C $1,699,347

D $1,840,000

10 Paws Plc received a government grant of $80,000 towards the purchase of an item of plant on 1 April 20X7. Paws Plc depreciates the plant to which the grant was intended over its useful economic life of ten years, and uses the deferred income method in relation to capital grants.

What would be the balance on the deferred income non-current liability account in respect of the grant as at 31 March 20X9?

A $56,000

B $64,000

C $68,000

D $60,000

11 Casey's trial balance recorded a brand name with a carrying value of $14 million. This was based on an original cost of $20 million and accumulated amortisation of $6 million at 1 April 20X8. The brand name is being amortised over its 10 year useful economic life.

An impairment review on 1 October 20X8 concluded that the brand name had a value in use of $11 million and a net selling price of $9 million. At 1 October 20X8 the useful economic life remaining on the brand name was 5 years.

What should be the charge to the statement of profit or loss, in respect of the brand, for the year ended 31 March 20X9?

A $4,100,000

B $2,000,000

C $5,200,000

D $3,000,000

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12 IFRS 5 *Assets Held for Sale and Discontinued Operations* outlines a discontinued operation as a part of an enterprise that has either been disposed of, or is classified as held for sale.

Which of the following would NOT meet the criteria for a discontinued operation?

A Restructuring of a business segment

B Subsidiary acquired exclusively with a view to resale

C Part of a co-ordinated plan to dispose a geographical area of operations

D A separate major line of business or geographical area of operations

13 On 1 December 20X8 Perrie acquired 75% of Sorrel's equity shares by means of an immediate cash payment of $8 million. Below is an extract from the statements of financial position as at 31 March 20X9:

	Perrie	*Sorrel*
	$000	$000
Investments	11,500	4,200

Perrie has recorded its investment in Sorrel at the cost of the immediate cash payment; other equity investments are carried at fair value through profit or loss as at 1 April 20X8. As at 31 March 20X9, these investments had fair values of $4.3 million and $3.9 million respectively.

What gain or loss should be shown in the consolidated statement of profit or loss for the year ended 31 March 20X9?

A $7,500,000 loss

B $800,000 gain

C $300,000 loss

D $500,000 gain

14 On 1 April 20X9 Pandora purchased 80% of Silver. From this date Pandora sold goods to silver at a selling price of $36 million. Pandora made a profit of cost plus 25% on these sales. $15 million (at cost to Silver) of these goods remained in the inventories of Silver at 30 September 20X9.

What adjustment should be made in the cost of sales of the group statement of profit or loss in respect of unrealised profit for the year ended 30 September 20X9?

A Increase $3 million

B Decrease $3 million

C Increase $7.2 million

D Decrease $7.2 million

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15 Pursue acquired 100% of Shade on 1 April 20X8 making an immediate cash payment of $15 million. At the date of acquisition the fair value of Shade's net assets was $17 million resulting in a bargain purchase (negative goodwill) of $2million.

How would the $2 million bargain purchase be recorded in the Consolidated Statement of Financial Position?

A Recognise in profit or loss over its useful economic life

B Recognise immediately as a gain in profit or loss

C Deduct from goodwill in the consolidated statement of financial position

D Recognise immediately as a gain in other comprehensive income

16 **In accordance with the Conceptual Framework for Financial Reporting, which of the following characteristics must information have if it is to be a faithful representation?**

(i) Completeness

(ii) Predictive value

(iii) Consistency

(iv) Neutrality

A (ii) and (iii)

B (i) and (iii)

C (i) and (iv)

D (ii) and (iv)

17 **Which of the following statements defines 'equity' according to the IASB's *Conceptual Framework for Financial Reporting*?**

A Equity is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

B Equity is the residual interest in the assets of the entity after deducting all its liabilities.

C Equity is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

D Equity is decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities.

18 Shown below are extracts from Woodburn's statements of financial position as at 31 March:

	20X9	*20X8*
	$000	$000
Equity shares of 50c each	1,250	1,000
Retained earnings	680	520

On 1 October 20X8 there was a bonus issue of shares of one new share for every four previously held, utilising retained earnings. Profit for the year amounted to $760,000.

What will be the amount shown in financing activities for dividends paid?

A $600,000

B $350,000

C $100,000

D $760,000

19 Kitty sold a property to Hasbro, a finance company on 31 March 20X9 for $3 million. The carrying amount of the property at 31 March 20X9 was $2.8 million. Kitty has the option to repurchase the property three years later, on 31 March 20Y2 for $3.4 million at which time the property is estimated to be worth $4 million. Hasbro cannot use the property without the prior consent of Kitty.

Which ONE of the following statements is true about the sale of the property?

A Kitty should derecognise the property and record a profit on disposal of $200,000.

B Kitty should only derecognise the property if it is considered likely that the option to repurchase the property will be exercised.

C Kitty should continue to recognise the property in its financial statements and the cash 'proceeds' should be recorded as a liability.

D Kitty should derecognise the property and defer the profit on disposal over the next three years.

20 Flutter's year end is 31 March 20X9 and the following potential liabilities have been identified:

(i) The cost of a reorganisation that has been approved by the board in March 20X9 and communicated to interested parties.

(ii) A best estimate relating to potential refunds under Flutter's goodwill refund policy.

(iii) The dismantling cost of an off shore oil rig in ten years time, required under terms of the licence.

(iv) The cost of replacing a part in an item of plant after five years.

Which of the above should be recognised as liabilities in Flutter's Statement of Financial Position as at 31 March 20X9?

A All of the above

B (i), (ii) and (iii)

C (ii), (iii) and (iv)

D (i), (iii) and (iv)

(Total: 40 marks)

SECTION B

ALL 3 QUESTIONS ARE COMPULSORY AND MUST BE ATTEMPTED

1 COCKERILL

Cockerill's most recent financial statements are detailed below.

Statements of financial position for the years ended 31 March:

	2015		*2014*	
	$000	$000	$000	$000
Assets				
Non–current assets				
Property, plant and equipment (note (ii))		38,200		39,800
Development costs		560		640
		38,760		40,440
Current assets				
Inventories	3,440		2,460	
Trade receivables	3,320		2,840	
Bank	420		100	
		7,180		5,400
Total assets		45,940		45,840
Equity and liabilities				
Equity				
Equity shares of $1 each		8,000		4,000
Share premium		5,480		2,320
Retained earnings		5,020		3,480
		18,500		9,800
Non – current liabilities				
Loan notes	4,000		16,000	
Deferred tax liability	160		1,240	
Finance lease liability (note (ii))	7,250		7,250	
Government grants	7,000		5,000	
		18,410		29,490
Current liabilities				
Tax payable	1,860		1,300	
Trade payables	4,220		2,900	
Finance lease liability (note (ii))	1,950		1,350	
Government grants	1,000		1,000	
		9,030		6,550
Total equity and liabilities		45,940		45,840

Statements of profit or loss for the years ended 31 March:

	2015
	$000
Revenue	27,300
Cost of sales	(16,920)
Gross profit	10,380
Operating expenses (note (i))	(4,320)
Profit from operations	6,060
Finance costs	(980)
Profit before tax	5,080
Income tax	(1,540)
Profit for the year	3,540

(i) The notes to the accounts state that operating expenses include the following:

	$000
Depreciation	2,540
Amortisation of development costs	120
Amortisation of government grants (credit)	1,000

(ii) During the year, Cockerill acquired new assets. These were funded by a number of methods. Firstly, Cockerill disposed of old plant and equipment for $2 million. These assets were no longer required and had a carrying value of $2.4 million. This enabled Cockerill to spend cash on some new assets.

Secondly, Cockerill acquired a number of assets during the year under finance leases. Cockerill's accounts show that finance lease liabilities of $1.5 million were repaid during the year.

Required:

Prepare a statement of cash flows for Cockerill plc for the year ended 31 March 2015, in accordance with IAS 7 *Statement of Cash Flows*, using the indirect method.

(Total: 15 marks)

2 POUTON

On 1 April 2014 Pouton acquired 75% of Sherwood's equity shares, when Sherwood's retained earnings were $82 million.

Pouton paid $120 million cash, and promised to pay $8 million on 31 March 2017. The cash consideration has been recorded, but no entries have been made in respect of the deferred consideration. Pouton has a cost of capital of 7%.

On 1 January 2015, Pouton also acquired 25% of the 28 million equity shares of Allen paying $4 in cash per acquired share. This consideration **has** been recorded by Pouton. Allen made a loss of $16 million for the year ended 31 March 2015, and had retained earnings of $120 million as at 31 March 2015.

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The statements of financial position for both companies at 31 March 2015 are below:

	Pouton	*Sherwood*
Non-current assets:	$000	$000
Property, plant and equipment	345,000	141,000
Investments	173,000	0
	518,000	141,000
Current assets:		
Inventories	43,000	17,320
Trade receivables	32,400	38,000
Bank	18,600	10,000
	94,000	65,320
Total assets	**612,000**	**206,320**
Equity and liabilities		
Equity		
Equity shares of $1 each	170,000	15,000
Retained earnings	337,650	106,000
Total equity	507,650	121,000
Current liabilities	104,350	85,320
Total equity and liabilities	**612,000**	**206,320**

The following information is relevant:

(i) The fair values of the net assets of Sherwood were equal to their carrying amounts with the exception of a building, which had a carrying value of $16 million but a fair value of $19 million. At the date of acquisition, the building was deemed to have a remaining useful life of 40 years.

(ii) The remaining investments in Pouton are investments which they have elected to hold as fair value through profit or loss. These investments are valued at $28,000 at the year end.

(iii) During the year, Pouton traded with both Sherwood and Allen, and had payables to both of $6 million and $4 million respectively. Sherwood's receivable balance differed from this due to a $2 million payment from Pouton not being received until October. Allen's receivable balance agreed with the $4 million payable recorded by Pouton.

(iv) Pouton measures the non-controlling interest at fair value at the date of acquisition. At the date of acquisition, the non-controlling interest had a fair value of $16.875 million.

Required:

Prepare the consolidated statement of financial position for the year ended 31 March 2015.

(Total: 15 marks)

3 CHESTNUT

The following trial balance relates to Chestnut as at 31 March 2015.

	$000	$000
Equity shares of 50 cents each		50,000
Leasehold property - at valuation at 1 April 2014	60,000	
Plant and equipment at cost	60,000	
Accumulated depreciation of plant at 1 April 2014		22,000
Intangibles (note (iv))	14,000	
Equity dividend paid	12,500	
6% preference shares of $1 each (note (v))		52,000
Convertible loan note (note (iii))		10,000
Convertible loan note interest paid (note (iii))	400	
Inventory at 31 March 2015 (note (vii))	35,250	
Trade receivables	41,375	
Bank	20,350	
Trade payables		42,000
Revenue (note (i))		387,500
Cost of sales	293,130	
Preference dividend paid (note (v))	3,000	
Administrative expenses	34,370	
Distribution costs	24,375	
Investment income		4,500
Retained earnings at 1 April 2014		12,125
Revaluation surplus at 1 April 2014		9,000
Income tax (note (vi))	875	
Deferred tax (note (vi))		10,500
	599,625	599,625

The following notes are relevant:

(i) Chestnut's revenue includes $6 million of revenue for credit sales made on a 'sale or return' basis. At 31 March, customers who had not paid for the goods had the right to return $2 million of them. Chestnut makes a margin of 30% on all these sales. In the past, Chestnut's customers have sometimes returned goods under this type of agreement.

(ii) Non-current assets

The leasehold property had a remaining life of 20 years as at 1 April 2014. The company's policy is to revalue its property at each year end and at 31 March 2015 it was valued at $62 million. Ignore deferred tax on the revaluation.

All plant is to be depreciated at 25% per annum using the reducing balance basis.

At 31 March 2015, Chestnut decided that new plant would be purchased in 2015 and put the entire plant up for sale. In May 2015 the plant was sold for $32 million.

All depreciation is to be charged to cost of sales.

(iii) On 1 April 2014 Chestnut issued a $10 million 4% convertible loan note, which is repayable on 31 March 2018. Chestnut chose to issue the convertible as it meant that there would be a lower finance than the 8% interest rate charged on similar loan notes. The present value of $1 payable at the end of each year, based on discount rates of 4% and 8% are:

		4%	8%
Year	1	0.96	0.93
	2	0.92	0.86
	3	0.89	0.79
	4	0.85	0.735

(iv) The intangible asset in the trial balance represents the research and development of a new product, Citra. The project began on 1 April 2014 and costs were incurred evenly over 7 months up to 31 October 2014, when the project was launched. Initially the directors of Halpert were unsure whether to proceed, but following successful tests in 2014, the approval to develop Citra was given on 1 July 2014. It is anticipated that Citra will last for 5 years.

(v) The 6% preference shares were issued at par on 1 April 2013 for $50 million. They are redeemable at a large premium which gives them an effective finance cost of 10% per annum.

(vi) The directors have estimated the provision for income tax for the year to 31 March 2015 at $5.7 million. The required deferred tax provision at 31 March 2015 is $7 million; all adjustments to deferred tax should be taken to the statement of profit or loss and other comprehensive income. The balance of current tax in the trial balance represents the under/over provision of the income tax liability for the year ended 31 March 2015.

(vii) During the year, Chestnut decided to value their inventory using weighted average cost rather than FIFO. This has been incorporated into the closing inventory balance. If the average cost had always been used, opening inventory would have been lower by $2 million.

Required:

(a) Prepare the statement of profit or loss and other comprehensive income for Chestnut for the year ended 31 March 2015. (13 marks)

(b) Prepare the statement of financial position for Chestnut as at 31 March 2015. (12 marks)

(c) Prepare the statement of changes in equity for Chestnut for the year ended 31 March 2015. (5 marks)

Notes to the financial statements are not required.

(Total: 30 marks)

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