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ACCA – Paper P2 INT
Corporate Reporting
December 2015
Revision Mock

Instructions

- Please complete your personal details above.
- All scripts should ideally be submitted to your Kaplan centre for marking via email to help speed up the marking process.
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Marking Report

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

Corporate Reporting

December 2015

Paper P2 INT

Time allowed

Reading and planning: **15 minutes**
Writing: **3 hours**

SECTION A: This question is compulsory and MUST be attempted

SECTION B: Two questions only to 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

This question is compulsory and MUST be attempted

1 The following financial statements relate to the Hessian Group:

Statement of financial position as at 30 April 2015 (with comparatives)

	2015	*2014*
Assets	$m	$m
Non-current assets		
Property, plant & equipment	645	561
Goodwill	136	127
Intangible assets	121	119
Investment in associates	96	72
	998	879
Current assets		
Inventories	167	156
Trade and other receivables	219	197
Cash and cash equivalents	64	87
	450	440
Total assets	1,448	1,319
Equity and liabilities	$m	$m
Share capital	200	200
Retained earnings	465	441
Other components of equity	204	206
	869	847
Non-controlling interest	202	163
Total equity	1,071	1,010
Non-current liabilities		
Loans	94	70
Deferred tax	87	79
Current liabilities		
Trade and other payables	140	100
Income tax payable	56	60
Total equity and liabilities	1,448	1,319

Statement of profit or loss and other comprehensive income for the year ended 30 April 2015

	$m
Revenue	2,322
Cost of sales	(1,356)
Gross profit	966
Operating expenses	(824)
Profit from operations	142
Share of profit of associate	73
Finance costs	(5)
Profit before tax	210
Income tax expense	(53)
Profit for the period	157
Other comprehensive income: items that will not be reclassified to profit or loss in future periods:	
Gains on revaluation of property, plant & equipment	4
Income tax on items that will not be reclassified	(1)
Total comprehensive income for the year	160
Profit attributable to:	
Equity holders of the parent	127
Non-controlling interests	30
Profit for the period	157
Total comprehensive income attributable to:	
Equity holders of the parent	130
Non-controlling interests	30
Total comprehensive income for the period	160

The following information is relevant to the Hessian group:

(i) Depreciation for the year ended 30 April 2015 was $196 million. Items of property, plant and equipment with a carrying amount of $21 million were disposed of for cash proceeds of $20 million.

(ii) On 1 May 2014, the Hessian group revalued an item of property, plant and equipment to its fair value of $12 million. The asset cost $10 million on 1 May 2012 and was attributed a ten year useful economic life. The total estimated useful economic life remains unchanged. The Hessian group has performed a reserves transfer in respect of the extra depreciation arising from the revaluation.

(iii) Dividends received from associates were $61 million.

(iv) On 1 May 2014, the Hessian group acquired 70% of the shares in Natural. Consideration for the share purchase was in two forms:

- Cash of $80 million
- An intangible asset with a fair value of $6 million and a carrying amount of $4 million. This was the only intangible asset disposed of by the Hessian group during the reporting period.

Hessian measured the non-controlling interest in Natural at its fair value of $40 million at the acquisition date. The fair values of Natural's identifiable net assets at the acquisition date were as follows:

	$m
Property, plant & equipment	90
Inventories	15
Cash and cash equivalents	12
Trade and other payables	(7)
Net assets at acquisition date	110

(v) During the year, Hessian purchased another 10% of the ordinary share capital of Beige for cash proceeds of $11 million. This increased Hessian's holding of Beige's ordinary shares from 80% to 90%. At the date of the share purchase, the non-controlling interest in Beige had a carrying amount of $13 million. Adjustments to equity attributable to the group have been recorded in 'other components of equity'.

(vi) Amortisation of intangible assets in the reporting period amounted to $8 million. The Hessian group also conducted an impairment review on a patent that generates income each time another company uses a particular patented production process. The patent had a carrying amount of $12 million on 30 April 2015. The asset's fair value less costs to sell was $5 million on the same date. The directors of the Hessian group have forecast that the patent will generate the following net cash flows:

Year ended	$m
30 April 2016	5.2
30 April 2017	3.0
30 April 2018	2.0
	10.2

The directors assumed that the cash flows would occur at the end of each year. They used a discount rate of 8%.

Required:

(a) Prepare a consolidated statement of cash flows using the indirect method for the Hessian group for the year ended 30 April 2015 in accordance with IAS 7 *Statement of Cash flows*.

Note: the notes to the statement of cash flows are not required. (35 marks)

Plaster is a public limited company that is unrelated to the Hessian group. Plaster has invested money in various ways and is unsure whether these amounts should be classified as 'cash equivalents' in the statement of cash flows. Details of the investments are provided below:

- $10 million that was placed in a high-interest deposit account. Plaster must give 30 days' notice to access the money, but will not incur any penalties for doing so. Plaster believes that the terms of this account still mean that it can be used to manage its short-term cash commitments.
- A $20 million investment in the ordinary shares of Egg Shell. Egg Shell is listed on a stock exchange, which means that Plaster can sell the shares quickly if it experiences short-term cash flow shortages. The shares were purchased with the intention of holding them for the long-term in order to receive dividend income.

Required:

(b) Explain whether the two investments above should be classified as 'cash equivalents'. (8 marks)

Plaster raised considerable amounts of cash during the year by selling items of property, plant and equipment (PPE). The directors of Plaster believe that presenting the proceeds received from the disposals within 'cash flows from investing activities' will jeopardise attempts to raise finance in the future. They have therefore decided to increase 'cash generated from operations' by the proceeds from the PPE disposals.

Required:

(c) Explain the likely impact of the directors' decision on users' perception of the statement of cash flows and discuss the ethical and professional issues that it raises. (7 marks)

(Total: 50 marks)

SECTION B

Two questions only to be attempted

2 Glaze is a company that prepares its financial statements in accordance with International Financial Reporting Standards. Its functional currency is the dollar ($). It is currently preparing financial statements for the year ended 31 March 2015.

(a) Glaze introduced a share-based payment scheme for 1,000 employees on 1 April 2014. Each employee was granted 2,000 share options. Each share option permits the holder to purchase one ordinary share in Glaze for $2 each and it will vest if the employees are still working for the company on 31 March 2017. Fifty employees had left the company by 31 March 2015 and it is expected that 100 more will leave prior to the vesting date. The fair value of one share option at the grant date was $6 and the fair value of one of Glaze's ordinary shares at the reporting date was $11.

In the jurisdiction in which Glaze operates, a tax deduction is given for equity-settled share-based payment schemes on the exercise date based on the intrinsic value of the share options. Glaze pays income taxes at a rate of 30%.

The directors would like an explanation of the accounting treatment of the above transaction, as well as any deferred tax impact. **(8 marks)**

(b) On 1 April 2014, Glaze made a large sale of goods to a new customer on extended credit terms. Control over the good passed on this date. The customer agreed to pay $3 million on 31 March 2016. Market rates of interest are 10%.

In March 2015 there were unexpected movements in currency markets which placed a large strain on the customer's cash balance. As at 31 March 2015, the customer agreed with Glaze that they will now pay $1 million on the original due date and a further $1.8 million on 31 March 2017.

The directors of Glaze require advice about the accounting treatment of the sale and the receivable. **(8 marks)**

(c) On 1 October 2014, Glaze purchased a property overseas with the aim of earning rental income. Glaze measures assets at fair value whenever permitted by an accounting standard. Glaze provides the tenants of this particular property with ancillary services, such as security and maintenance, but these were deemed to be insignificant to the arrangement as a whole. Total expenditure on the property was MK2.5 million. A breakdown of this amount is provided below:

	MKm
Purchase price	1.5
Recoverable sales tax	0.3
Legal fees	0.5
Allocated administrative overheads	0.2
	2.5

Glaze expects the building to have a useful life of approximately 50 years. On 31 March 2015, when the fair value of the property was MK3.0 million, Glaze agreed to increase the level of ancillary services offered to its tenant, causing them to constitute a significant part of the overall arrangement. Currency rates during the year were as follows:

	MK: $1
1 October 2014	1.8
31 March 2015	1.5

The directors wish to know how the property should be accounted for in the year ended 31 March 2015. **(7 marks)**

Required:

Discuss the correct accounting treatment of the above transactions for the year ended 31 March 2015.

Note*:* the mark allocation is shown against each of the three events above.

Professional marks will be awarded in question 2 for the clarity and quality of presentation and discussion. (2 marks)

(Total: 25 marks)

3 Slick is a public limited company with a reporting date of 31 March 2015. Its financial statements are prepared in accordance with International Financial Reporting Standards.

(a) Slick operates in the palm oil market and owns a plantation of oil palms. The harvested produce from these trees is called fresh fruit bunches (FFB). Slick mills, steams and presses the FFB in order to extract palm oil. The palm oil is then sold to manufacturers within the food and beverage industry.

Slick determines the fair value of its FFB at the point of harvest by estimating the quantity of palm oil that will be extracted and multiplying this by the quoted price of palm oil at the reporting date. Estimated costs to convert the FFB into palm oil are then deducted. The amount of palm oil obtained from FFB can vary dramatically, depending on factors such as climate and the delay between harvesting and processing. In the country in which Slick operates, there is an active market for FFB.

Some of the FFB held at the reporting date were harvested several days previously. Such delays cause fatty acids to build up in the FFB, severely diminishing the quality of the palm oil extract. As a result, these FFB cannot be processed or sold.

The directors require advice about the correct accounting treatment of the FFB.

(8 marks)

(b) Slick also operates in the retail industry. It runs 30 stores, which sell a range of decorative products for homes and gardens. These stores were purchased from another entity several years ago, giving rise to goodwill. This goodwill can be reasonably allocated to each store. The stores are all located in different cities. Slick's management monitor the performance of each store separately. Pricing, marketing, advertising and human resource policies are, however, all decided centrally.

The directors of Slick need to conduct an impairment review of the retail business. Due to the large number of centralised activities, they intend to treat the 30 stores and the central assets as a single cash generating unit.

The directors require advice as to whether this treatment is correct. **(6 marks)**

(c) Based on internal reporting, the directors believe that Slick has five different operating segments. Two of these operating segments are the palm oil business and the retail store business. Over the past few years, these two operating segments have made relatively similar gross profit margins. As a result, the directors believe that they exhibit similar economic characteristics and wish to aggregate them into one single reportable segment for inclusion in the operating segments disclosure.

The directors require advice as to whether these two operating segments could be aggregated for reporting purposes. **(5 marks)**

(d) Slick has spent $10 million on gold bullion, an asset that is actively traded. Slick purchased the gold for investment purposes and does not buy and sell gold in the ordinary course of business. One of the directors has suggested that gold meets the definition of a financial asset and that the investment should therefore be measured at fair value through profit or loss.

The directors require advice as to whether gold is a financial asset and whether the proposed accounting treatment is correct. **(4 marks)**

Required:

Discuss the correct accounting treatment of the above transactions for the year ended 31 March 2015.

Note*:* the mark allocation is shown against each of the four events above.

Professional marks will be awarded in question 3 for the clarity and quality of presentation and discussion. (2 marks)

(Total: 25 marks)

4 (a) In July 2014, the finalised version of IFRS 9 *Financial Instruments* was issued. This standard contains new rules for dealing with the impairment of financial assets, and represents a shift from an 'incurred loss' model to an 'expected loss' model of impairment accounting. Financial asset impairment rules apply to financial assets classified to be measured at amortised cost and also to some financial assets that are classified to be measured at fair value through other comprehensive income.

Required:

(i) Outline the rules governing financial asset classification. (7 marks)

(ii) Discuss the advantages and drawbacks of IFRS 9 *Financial Instruments* in terms of the accounting treatment of financial asset impairments (7 marks)

(b) At the start of the current period, Thistle, a public limited entity, purchased bonds issued by Thwaite. Thistle classified the financial asset to be measured at amortised cost. Thistle determined that the loan had a considerable level of credit risk at inception, due to uncertainties about Thwaite's short-term cash generation, but deemed that it was not credit impaired. By the reporting date, it was found that Thwaite's sales volumes had fallen in line with expectations, but reliable projections forecast an improvement in the following months. Thwaite has announced a restructuring exercise that will enable cost savings and which will help it to re-finance some of its other, higher-interest debts. The market price of Thistle's bonds has increased slightly over the period, despite an overall decline in bond prices generally.

Required:

Advise the directors of Thistle as to how the impairment rules of IFRS 9 *Financial Instruments* apply to its financial asset. (9 marks)

Professional marks will be awarded in question 4 for the clarity and quality of the presentation and discussion. (2 marks)

(Total: 25 marks)