London
School of Business
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ACCA

Paper P2 (International)

Corporate Reporting

Tuition Mock Examination

June 2012

Question Paper

This paper is divided into two sections:

Section A – This ONE question is compulsory and MUST be attempted

Section B – TWO questions ONLY to be attempted

Time Allowed	15 minutes	Reading and planning
	3 hours	Writing

DO NOT OPEN THIS PAPER UNTIL YOU ARE READY TO START UNDER EXAMINATION CONDITIONS

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Section A – THIS ONE question is compulsory and MUST be attempted

1 Xtreme (X) owns 70% of Ginormous (G), a company situated in a foreign country. The currency of this country is the Kram (Kr). X acquired G at the beginning of the year, on 1 January.

It is the group's policy to value the non-controlling interest at the fair value of proportionate net assets.

Income statement for current year ended 31 December

	X	*G*
	$m	Krm
Revenue	10,000	28,000
Cost of sales	(6,500)	(14,000)
Gross profits	3,500	14,000
Operating expenses	(900)	(7,000)
Operating profit	2,600	7,000
Dividends received	60	
Interest expense	(700)	(3,000)
Interest income	200	1,000
Profit before tax	2,160	5,000
Tax	(860)	(1,000)
Profit after tax	1,300	4,000
Extraordinary item		(300)
Profit transferred	1,300	3,700

Reserve Movement

Accumulated profits brought forward	9,000	20,000
Dividends paid	(600)	(100)
Profit transferred	1,300	3,700
Accumulated profits carried forward	9,700	23,600

Statement of financial position as at 31 December

	X $m	*G* Krm
Non current assets		
Investment in G	2,000	
Tangible	11,500	34,000
Current assets	5,000	22,000
Current liabilities	(2,000)	(10,000)
Non current liabilities	(5,300)	(21,000)
	11,200	25,000

	X $m	*G* Krm
Share capital	1,000	500
Share premium	500	900
Reserves	9,700	23,600
	11,200	25,000

(1) The dividends were paid by G at the year end and received by X on that day.

(2) G has applied local GAAP, but has made some attempt to adapt to IFRS. As a result, G has recognised the fall in value of some plant that was damaged during the year as extraordinary.

(3) The fair value of the net assets of G at acquisition was Kr30,000 million. Goodwill is unimpaired. The increase in the fair value of G over carrying value is attributable to machines which are depreciated over 10 years on the straight line basis.

(4) During the year, X sold $80 million in goods to G at a margin of 20%. All of the goods had been utilised in production by the year end, but only one quarter of the relevant finished goods have been sold. G received the goods on 16 June and paid on 17 July. The foreign exchange difference remains in current liabilities.

(5) X made a loan of $100 million to G immediately after the acquisition on 1 January. This is still outstanding at the year end. The parent has recorded the asset in current assets. The subsidiary has recorded the liability in non current liabilities at the rate ruling at the year start.

(6) The following exchange rates are relevant:

	Kram to $1
1 January	13
16 June	14
17 July	15
31 December	18
Weighted average for year	17

Required:

(a) Prepare the income statement and statement of financial position for the group for the current year (round answer to the nearest $1m). (30 marks)

(b) Prepare a movement in consolidated reserves for the current year. (5 marks)

Ginormous buys, sells and borrows in Kram, with the exception of the two transactions described in paragraphs (4) and (5).

(c) Explain the concept of the presentational and functional currency and apply the concepts to Ginormous. (6 marks)

Xtreme have been chasing the acquisition of Ginormous for a number of years because Ginormous has products that Xtreme can use in the Xtreme market and Ginormous opens up a whole new customer base to the Xtreme products. Xtreme are extremely pleased with the acquisition, especially given the enormous profit that Ginormous has generated in its first year. But they are also extremely concerned that all this is lost in the consolidated financial statements which instead simply show the large unrealised currency loss in the performance statement.

(d) Explain how the currency loss on the retranslation of the subsidiary is presented and explain how Xtreme may be able to communicate the success they see in the Ginormous acquisition. (9 marks)

(50 marks)

Section B – TWO questions ONLY to be attempted

2 Group Therapy is a large conglomerate with many subsidiaries. The ultimate parent goes through six group transactions listed and described below.

(a) Yellow (Acquisition) (4 marks)

Ultimate parent buys 15% of Yellow for $21m at the year start. At the year-end the parent buys 45% for $80m. At this point the fair value of the initial 15% is $25. The fair value of the NCI is $65 and the fair value of NA is $75m.

Required:

Goodwill.

(b) Green (Transfer) (4 marks)

Ultimate parent buys 75% of Green for $100m at the year start. NCI is $30m and NA $40m.

At the year-end the parent buys another 5% for $9m. The NA at the year-end are $50m.

Required:

Transfer journals and effect on parental equity.

(c) Blue (Transfer) (4 marks)

Ultimate parent buys 80% of Blue for $110m at the year start. NCI is $27m and NA is $80m.

At the year-end the parent buys another 10% for $15m. The NA are $96m.

Required:

Transfer journals and effect on parental equity.

(d) Purple (Transfer) (4 marks)

Ultimate parent buys 80% of Purple for $110m at the year start when NCI $27m and NA were $80m.

At the year-end the parent sells 10% for $15 when NA were $96m.

Required:

Transfer journals and effect on parental equity.

(e) Cyan (Transfer) (4 marks)

Ultimate parent buys 65% of Cyan for $200m at the year start when. NCI was $150m and net assets were $180m.

At the year-end the parent sells 5% for $20m when NA were $150m.

Required:

Transfer journals and effect on parental equity.

(f) Black (Disposal) (5 marks)

Ultimate parent buys 60% of Black for $190m when NCI was $110m and NA $80m at the year start.

At the year-end the parent sells 15% for $50m. The remaining equity is valued at $145m. The growth in Black was $20m over the year.

Required:

Profit on disposal.

(25 marks)

3 Hobble is a famous football club playing soccer in the top division in a large European nation. It has been struggling in recent seasons and appears likely to be demoted from the top division at the end of the current season on 31 May. However, the accounting year end is to moths before that date on 31 March. The following are issues relating to the financial statements for the year ended 31 March:

(a) Star (9 marks)

The club owns the right to a star goal scorer. The club paid $20million to purchase the player and this gives Hobble the exclusive rights to play the star. The contract is for five years and started at the current accounting year start.

The player has put in a transfer request and seems certain to be sold at the end of the season, probably some time in June shortly after the year end. However, because the player is so important to the club, he will play every game until the end of the season.

The star has been the only good thing in a dreadful season and thought to be worth $60million based on his prolific goal scoring and offers from other clubs. So Hobble propose to carry the star at $60million in current assets.

(b) Bond (7 marks)

To help with cash flow, the company has issued a $100m convertible bond. This was issued at the year start at face value and will be redeemed at face value or converted into equity in four years from issue. The market interest rate for an equivalent bond with no option was 8%.

The bond was secured on the stadium.

(c) Stadium (9 marks)

The stadium has an opening carrying value of $24m and a remaining life of 12 years from the year start. The year end value is estimated at $40m.

The club sell the stadium to their bank for $30m at the year end. The contract allows Hobble to continue to use the stadium and continues to require Hobble to maintain the stadium for the next 11 years. At the end of the 14 years the stadium is transferred back to Hobble at a compulsory repurchase price of $30m.

In exchange for the right of occupancy Hobble will pay $2.4m per annum. This is calculated to be 8% of $30m.

Hobble propose to recognise a profit on disposal $6m.

Required:

Discuss the effect of the above issues upon the current financial statements of Hobble. (Show calculations as appropriate.)

(25 marks)

4 Adoption of International Financial Reporting Standards (IFRS) often involves significant changes policies. Companies moving from a local accounting system to IFRS frequently find that they must change both the detail in their financial reporting and the way that they view the whole process of communication of performance and position.

Despite these barriers to convergence, IFRS are becoming increasingly acceptable in world financial markets. This is driven partly by the users demanding that accountants express themselves using one system for financial reporting. But the move to convergence is also being driven by the companies themselves.

Companies often see substantial advantage in using the global language of financial reporting. Once companies have accepted the investment required to adopt IFRS, they frequently see the opportunities that using IFRS opens as regards international finance.

In order to facilitate the process of convergence, the International Accounting Standards Board (IASB) have continued to develop and improve IFRS. One such project addressed some of the issues related to groups and resulted in IFRS3(2008 revised). This has changed some of the ways in which group reporting issues are addressed.

Required:

(a) Discuss the barriers to convergence and the issues that the IASB continue to manage as a part of their quest for worldwide acceptance of IFRS. (15 marks)

(b) Explain the changes to group accounting introduced by IFRS3(2008 revised). (10 marks)

(25 marks)