Q1. This scenario relates to three requirements. The following is an extract from the trial balance of Mims Co for the year ended 31 December 20X5:

	$'000	$'000
Revenue		24,300
Cost of sales	11,600	
Administrative expenses	10,900	
Distribution costs	7,300	
Income tax (note (3))	140	
Deferred tax liability 1 January 20X5 (note (3))		7,700
Provision at 1 January 20X5 (note (2))		4,600
Retained earnings at 1 January 20X5		43,200
Equity share capital ($1) at 1 January 20X5		60,000
Intangible assets (note (6))	3,300	
Investment property (note (5))	19,000	
Finance costs	1,400	
Investment income		500
Suspense account		46,500

The following information is relevant:

(1) Mims Co noted there was an error in the inventory count at 31 December 20X4, meaning that the closing inventory balance in the 20X4 financial statements was overstated by $0.7m. No entries have yet been made to correct this error.

(2) The provision relates to a court case in existence since December 20X4. Mims Co settled this case on 31 December 20X5 for $6m. The full amount was credited correctly to cash, with a corresponding debit entry being made in the suspense account.

(3) The income tax figure in the trial balance relates to the under/over provision from the previous year. The current year tax is estimated to be a tax refund of $1.2m. In addition to this, the deferred tax liability at 31 December 20X5 is estimated to be $8.2m.

(4) On 30 September 20X5, Mims Co made a 1 for 4 rights issue. The exercise price was $3.50 per share. The proceeds were correctly accounted for in cash, with a corresponding credit entry being made in the suspense account.

(5) Mims Co acquired an investment property for $20m cash on 1 January 20X5 and decided to use the fair value model to account for investment properties. As the property is expected to have a 20 year useful life, depreciation was recorded on this basis. The fair value of the property at 31 December 20X5 has been assessed at $22m but no accounting has taken place in relation to this. All depreciation and amortisation is charged on a pro-rata basis to administrative expenses. There were no other acquisitions or disposals of non-current assets.

(6) Mims Co incurred a number of expenses in relation to brands during the year and has capitalised the following costs as intangible assets:

-$1.3m cash was paid on 1 April 20X5 to promote one of its major brands which is deemed to have an indefinite life.

-$2m cash was paid on 1 October 20X5 to acquire a brand from one of its competitors. Mims Co expect the brand to have a useful life of five years. Mims Co intends to sell it after five years. At the point of sale, it is estimated that the value of the brand will have increased and so no amortisation has been accounted for in the current year.

(7) Mims Co paid a dividend of $0.04 per share on all existing shares 31 December 20X5, recording the dividend paid in administrative expenses.

Required:

(a) Prepare the statement of profit or loss for Mims Co for the year ended 31 December 20X5.

(12 marks)

(b) Prepare the statement of changes in equity for Mims Co for the year ended 31 December 20X5.

(5 marks)

(c) Prepare the following extracts from the statement of cash flows for Mims Co for the year ended 31 December 20X5:

(i) Cash flows from investing activities; and

(ii) Cash flows from financing activities.

(3 marks)

(20 marks)

Q2. This scenario relates to four requirements.

The Pinardi group operates in the fragrance and cosmetics industry. On 1 January 20X7 Pinardi Co disposed of one of its subsidiaries, Silva Co, for cash of $42m. Silva Co manufactures jewellery and was sold because the Pinardi group wanted to exit this particular sector.

Extracts from the consolidated financial statements of the Pinardi group for the years ended 31 December 20X6 and 20X7 are as follows:

Statement of profit or loss	**20X7**	**20X6**
	$'000	**$'000**
Revenue	98,300	122,400
Cost of sales	(47,600)	(71,800)
Gross profit	**50,700**	**50,600**
Operating expenses	(33,700)	(37,400)
Profit from operations	**17,000**	**13,200**
Finance costs	(3,200)	(5,500)
Profit before tax	**13,800**	**7,700**
Statement of financial position		
Inventories	13,300	22,400
Cash	31,400	14,600
Non-current liabilities	42,000	61,000

The following information is relevant:

(1)The accounting assistant has not accounted for Silva Co as a discontinued operation because the disposal occurred on 1 January 20X7. No figures from Silva Co have been included in the 20X7 financial statements extracts above. The proceeds from the disposal have been recorded in cash, with all net assets and goodwill derecognised. The balancing figure was held in a suspense account.

(2) Pinardi Co acquired 100% of Silva Co on 1 January 20X1 and goodwill was calculated as $6m. The goodwill had been impaired by 30% in 20X5. The net assets at 1 January 20X7 were $35m.

(3) As part of the sales agreement, the Pinardi group will receive an annual fee of $2m for the use of the Silva Co brand. The 20X7 annual fee has been included in the Pinardi group revenue for the year ended 31 December 20X7.

(4) Results obtained from Silva Co's individual published financial statements show the following key information:

	20X7	20X6
	$'000	$'000
Revenue	39,000	36,000
Gross profit	18,800	12,600
Profit from operations	8,000	6,000

(5) Prior to the disposal Silva Co used to use some property belonging to the Pinardi group. Following the disposal, the Pinardi group moved its cosmetic division into this property.

Previously the cosmetic division had leased external facilities for $2.5m a year. At 1 January 20X7 the lease had ten years remaining. To exit the lease, the Pinardi group made a one-off payment of $3m to the lessor and recorded it as operating expenses.

(6) The Pinardi group acquires raw materials from overseas. In 20X6 the group recorded foreign exchange gains of $3m, and in 20X7 the group made a foreign exchange loss of $1m. Both items were recognised within operating expenses.

Required:

(a) Calculate the gain on disposal of Silva Co that would need to be included in the consolidated statement of profit or loss for the Pinardi group for the year ended 31 December 20X7. (2 marks)

(b) Explain whether or not the disposal of Silva Co is likely to constitute a discontinued operation, and the correct accounting treatment for this. (3 marks)

(c) Calculate the following ratios, using the pre-formatted table, for the Pinardi group for 20X7 and 20X6:

- Gross profit margin;

- Operating profit margin;

- Interest cover; and

- Inventory turnover days. (4 marks)

(d) Analyse the performance and position for the Pinardi group for the year ended 31 December 20X7 compared to the year ended 31 December 20X6. (11 marks)

(20 marks)

Q3. Loudon Co has prepared a draft statement of profit or loss for the year ended 30 September 20X8 (before any adjustments required by notes (1) to (4) below). The draft profit has been added to retained earnings and the summarised trial balance of Loudon Co as at 30 September 20X8 is:

	$'000	**$'000**
Equity shares of $1 each		10,000
Retained earnings as at 30 September 20X8 (draft)		4,122
Office building at cost	20,000	
Factories cost 1 October 20X7 (note (2))	40,000	
Office building accumulated depreciation 1 October 20X7		4,000
Factories accumulated depreciation 1 October 20X7		11,100
Environmental provision 1 October 20X7 (note (3))		1,228
Current liabilities		34,500
Current assets	14,700	
Proceeds of 5% loan note (note (1))		5,000
Deferred Tax		1,500
Interest paid (note (1))	250	
Suspense account (note (2))		3,500
	74,950	**74,950**

The following notes are relevant:

(1) Loan note

A 5% loan note was issued on 1 October 20X7 at its face value of $5m. Direct costs of the issue amounted to $0.125m and were charged to profit or loss. The loan will be redeemed in five years time at a substantial premium which gives an effective interest rate of 8%. The annual repayments of $250,000 ($5m at 5%) are paid on 30 September each year.

(2) Non-current assets

Loudon Co acquired an office building for $20m on 1 October 20X2 with an estimated useful life of 25 years. Depreciation is charged on a pro-rata basis. On 1 April 20X8, the building was deemed to be impaired as its fair value was estimated to be $12m. At that date the estimated remaining life was revised to 12 years. Ignore the deferred tax consequences of this revaluation.

Loudon Co had ten factories. On 1 October 20X7 Loudon Co sold one of its factories with a carrying amount of $3m (cost $5m and accumulated depreciation $2m) for $3.5m. The proceeds were credited to the suspense account.

No depreciation has yet been charged on any non-current asset for the year ended 30 September 20X8. The factories are depreciated at 15% per annum using the reducing balance method.

(3) Environmental provision

Loudon Co has an obligation to clean-up environmental damage caused at one of its factory sites during 20X7. The clean-up is due to take place at the end of the factory's useful life. The liability has been accounted for appropriately and the balance at 1 October 20X7 represents the correct present value at that date. Loudon Co has a cost of capital of 5%.

(4) Deferred tax

At 30 September 20X8, the tax written down value of property, plant and equipment was $25m. The income tax rate applicable to Loudon Co is 20%.

Required:

(a) Prepare a schedule of adjustments required to the retained earnings of Loudon Co as at 30 September 20X8 as a result of the information in notes (1) to (4). (8 marks)

(b) Prepare the statement of financial position of Loudon Co as at 30 September 20X8.

Note: The notes to the statement of financial position are not required. All calculations should be rounded to the nearest $'000.

(12 marks)

(20 marks)

Q4. At 1 January 20X8, the Karl group consisted of the parent, Karl Co, and two wholly-owned subsidiaries. There were no intra-group transactions during the year.

The sale of one of the subsidiaries, Sinker Co, was completed on 31 December 20X8 when Karl Co sold its entire holding for $20m cash. Sinker Co had net assets of $29m at the date of disposal. The sale does not meet the definition of a discontinued operation and has been correctly accounted for in the consolidated financial statements. The gain/loss on disposal of Sinker Co is included in administrative expenses.

Karl Co had originally purchased Sinker Co on 1 January 20X2 for $35m. The fair value and carrying amount of net assets of Sinker Co at the date of acquisition were $28m. Goodwill was considered to be impaired by 70% at 31 December 20X8.

Extracts from the consolidated financial statements for the years ended 31 December 20X8 and 20X7 are shown below:

Extracts from the statements of profit or loss for the year ended 31 December:

	Consolidated 20X8 $m	**Consolidated 20X7 $m**
Revenue	289	272
Cost of sales	(165)	(140)
Gross profit	**124**	**132**
Administrative expenses	(45)	(23)
Distribution costs	(15)	(13)
Operating profit / (loss)	**64**	**96**

Extracts from the statements of financial position as at 31 December:

	Consolidated 20X8 $m	**Consolidated 20X7 $m**
Current assets	112	125
Equity	621	578
Non-current liabilities	100	150
Current liabilities	36	161

The following information is also relevant:

(1)The majority of non-current liabilities is comprised of bank loans.

(2) Sales of Sinker Co represented 14% of the total group sales for 20X8, however, in March 20X8, Sinker Co lost a significant customer contract resulting in a number of redundancies. These redundancy costs amounted to $15m and are included in administrative expenses. Overall, Sinker Co made an operating loss of $17m.

(3) The Karl group manufactures food packaging. The inventory included in the above consolidated statements of financial position is:

Group inventory at:	Inventory $m
31 December 20X8	65
31 December 20X7	78

(4) At 31 December 20X8, Sinker Co had inventory of $42m.

Required:

(a) Calculate the gain/loss arising on the disposal of Sinker Co in the consolidated financial statements of the Karl group. (4 marks)

(b) Based on the financial statements provided, calculate the following ratios and comment on the financial performance and position of the Karl group for the years ended 31 December 20X8 and 20X7:

(i) Gross profit margin;

(ii) Operating profit margin;

(iii) Return on capital employed;

(iv) Current ratio; and

(v) Gearing ratio (debt/(debt+equity)).

Note: a maximum of 5 marks is available for the calculation of ratios (13 marks)

(c) Comment on how the sale of Sinker Co will affect the comparability of the consolidated financial statements for the years ended 31 December 20X7 and 20X8. (3 marks)

(20 marks)