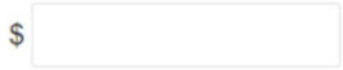
Q1. Which of the following is NOT an indication that a contract contains a lease under IFRS 16 Leases?

A. The customer has the right to obtain substantially all the economic benefits from the asset during the period of use
B. The customer has the right to direct the use of the asset
C. The supplier has substantive rights to substitute the asset throughout the period of use
D. The asset is implicitly specified in the contract

Q2. On 1 November 20X8, Burford made an upfront payment in full of $45,000 for a nine-month lease of a piece of equipment. Burford's year end is 31 December 20X8. The company wishes to take advantage of any available recognition exemptions in IFRS 16 Leases.

Assuming Burford applies any permitted exemption, what amount would be charged to Burford's statement of profit or loss for the year ended 31 December 20X8 in respect of this transaction?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Q3. Batley Co owns a machine, which is carried in the financial statements at $2,880,000. The machine could be sold for $1,920,000, incurring marketing costs of $48,000. It would cost $2,400,000 to replace and the expected discounted future cash flows that the machine will produce amount to $2,280,000.

What is the amount of the impairment loss suffered by the asset?

$

Q4. Which of the following is a possible reason why a company's inventory holding period would decrease from one year to the next?

A. Seasonal fluctuations in orders
B. A reduction in selling prices
C. Obsolete inventory lines
D. A fall in demand for its products

Q5. Chipping is preparing its financial statements for the year ended 31 December 20X8. At 1 January 20X8, Chipping had equity investments which had a carrying amount of $16.8 million. These included $9.6 million shares held for trading and $7.2 million shares for which an irrevocable election had been made at initial recognition. At 31 December 20X8, all of the equity investments were still held by Chipping. The shares held for trading had a fair value of $8.7 million and the other shares had a fair value of $8.6 million.

What amounts will be recognised in the statement of profit or loss and other comprehensive income for the year ended 31 December 20X8 in relation to the equity investments?

A. $0.9 million loss recognised in profit or loss and $1.4 million gain recognised in other comprehensive income
B. $0.5 million gain recognised in profit or loss
C. $0.9 million loss recognised in other comprehensive income and $1.4 million gain recognised in profit or loss
D. $0.5 million gain recognised in other comprehensive income

Q6. On 1 July 20X5, Banana Co acquired 160,000 of the 200,000 $1 shares of Lemon Co. At the date of acquisition, the retained earnings of Lemon Co were $1,560,000. Consideration comprised the following:

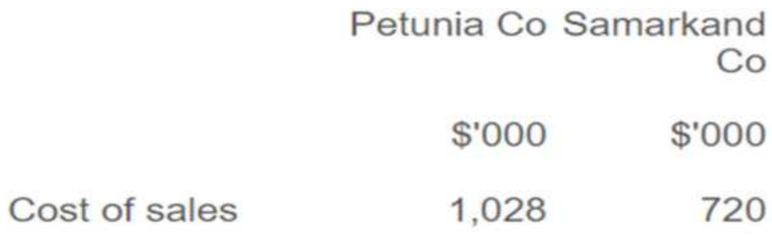
- $680,000 cash payable immediately
- $960,000 payable on 1 July 20X6
- 1 share in Banana Co for every 2 shares acquired in Lemon Co. The market value of each share in Banana Co on 1 July 20X5 was $2.40 and their nominal value was $1.

Banana Co's cost of capital is 6%. Banana Co measures non-controlling interests at fair value. The fair value of the non-controlling interest at 1 July 20X5 was estimated to be $425,000.

What was the goodwill arising on acquisition?

A. $369,660
B. $497,000
C. $442,660
D. $330,660

Q7. On 1 June 20X7, Petunia Co acquired 75% of Samarkand Co. The draft figures for cost of sales in the individual statements of profit or loss for the year ended 30 September 20X7 are as follows:



	Petunia Co	Samarkand Co
	$'000	$'000
Cost of sales	1,028	720

Petunia Co sold $35,000 worth of goods every month to Samarkand Co throughout the year, with a mark-up on cost of 25%. At 30 September 20X7, Samarkand Co held $35,000 of these goods in inventory.

What is Petunia Co's consolidated cost of sales for the year ended 30 September 20X7?

$

Q8. During the year ended 30 June 20X6, Wilson Co revalues three of its factories upwards.

What effect will the revaluation have on return on capital employed and on gearing for the year ended 30 June 20X6?

A. ROCE will decrease, gearing will increase
B. ROCE will decrease, gearing will decrease
C. ROCE will increase, gearing will decrease
D. ROCE will increase, gearing will increase

Q9. The following information has been taken or calculated from the financial statements of Hillingdon Co for the year ended 31 December 20X8:

Revenue for the year ended 31 December 20X8	$6,205,000
Inventory turnover	five times
Trade receivables at 31 December 20X8	$714,000
Cost of sales for the year ended 31 December 20X8	$5,400,000
Cash cycle at 31 December 20X8	80 days

Calculate Hillingdon's trade payables period as at 31 December 20X8.

days

Q10. According to the Conceptual Framework for Financial Reporting, which TWO of the following are NOT enhancing qualitative characteristics of financial information?

A. Comparability
B. Materiality
C. Relevance
D. Verifiablity

Q11. Mappermund Co, is preparing its individual financial statements for the year ended 31 December 20X8. On 1 September 20X8 it ordered goods from an unrelated foreign company, whose currency is the Krown, at a cost of K580,000. The goods were delivered on 1 October 20X8. Half of the amount outstanding was paid on 1 November 20X8 and the remaining balance was paid on 1 February 20X9.

Mappermund's functional currency is the dollar. The following exchange rates are available for the year:

At 1 September 20X8:	$1 = 2 krowns
At 1 October 20X8:	$1 = 2.4 krowns
At 1 November 20X8:	$1 = 1.9 krowns
At 31 December 20X8:	$1 = 1.8 krowns
At 1 February 20X9:	$1 = 1.6 krowns

What exchange difference is recognised in Mappermund’s statement of profit or loss in the year ended 31 December 20X8?

A. A loss of $7,631
B. A loss of $16,111
C. A loss of $31,799
D. A loss of $72,077

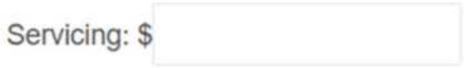
Q12. On 1 April 20X8, Pemberley Co, a manufacturing company sold one of its factories to Bakewell Co, for its fair value of $12,600,000, and immediately leased it back. At the date of the agreement, the carrying amount of the factory was $11,900,000. The present value of the future lease payments is $11,238,150 and the transaction constitutes a sale in accordance with IFRS 15 Revenue from Contracts with Customers. How much should Pemberley Co recognise in profit or loss on 1 April 20X8 in respect of this transaction?

A. $1,361,850
B. $700,000
C. $624,342
D. $75,658

Q13. Dovercourt Copiers Co sells a photocopier to Manningtree for $8,400. The price includes five years’ servicing. The copier is also sold without servicing for $7,740 and servicing is sold for $172 per annum.

Under IFRS 15 Revenue from Contracts with Customers, how should the $8,400 transaction price be split between the different performance obligations?

Copier: $

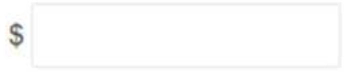

Servicing: $

Q14. Which TWO of the following are correct in respect of historical cost accounting?

A. Profit tends to be understated in times of inflation
B. Financial capital maintenance measures profit as the increase in the equity of an entity
C. Depreciation charges are unrealistically low in times of inflation
D. IFRSs are based exclusively on historical cost

Q15. Dennison Co had issued share capital of 2,000,000 ordinary shares as at 1 July 20X8. The company made a profit for the year ended 30 June 20X9 of $6,000,000. On 1 January 20X9, Dennison Co had a bonus issue of 1 for 5.

Calculate the basic EPS of Dennison Co for the year ended 30 June 20X9, to 2 decimal places.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Following case study for Q16 to Q20:

Ashleigh Co, a construction company, has plans to expand. To finance this expansion, Ashleigh raised finance by means of the following transactions in the year ended 31 December 20X4.

(i) Ashleigh issued a 5% bond on 1 January 20X4 at its face value of $10 million. Direct costs of the issue were $250,000 and interest is payable annually in arrears. The bond will be redeemed on 31 December 20X6 at a premium. The effective interest rate applicable to the bond is 7% per annum.

(ii) On 1 January 20X4 Ashleigh issued $20m of 6% convertible loan notes at par. Interest is payable in arrears on 31 December each year. On 31 December 20X8 the loan note is redeemable at par or convertible into equity shares at the option of the holder on the basis of 20 shares for each $100 of loan. A similar instrument without the conversion option would have an interest rate of 7% per annum. Ashleigh pays tax on its profits at 20%.

(iii) On 1 September 20X4 Ashleigh issued 150,000 $10 6% four-year irredeemable preference shares at par.The 6% annual dividend is fixed and non-discretionary.

(iv) On 1 October 20X4 Ashleigh made a 1 for 4 rights issue which was fully taken up. The new shares were issued for $7.50. Prior to the rights issue Ashleigh had 100 million $1 ordinary shares in issue and the market value of each immediately prior to the rights issue was $8.20.

The present value of $1 receivable at the end of each year based on discount rates of 6% and 7% are:

End of year	6%	7%
1	0.94	0.94
2	0.89	0.87
3	0.84	0.82
4	0.79	0.76
5	0.75	0.71

Q16. Which of the following meet the definition of a financial liability in accordance with IFRS 9 Financial Instruments?

(1) A bond issued by an entity

(2) A contract to exchange financial instruments with another entity under conditions which are potentially favourable

(3) A contract to exchange financial instruments with another entity under conditions which are potentially unfavourable

(4) Bank overdraft

A. 1 and 2 only
B. 1, 2 and 4
C. 1, 3 and 4
D. 4 only

Q17. At what amount will the $10 million 5% bond appear in the statement of financial position as at 31 December 20X4?

A. $10,455,000
B. $10,200,000
C. $10,250,000
D. $9,932,500

Q18. How much will be credited to equity on 1 January 20X4 in respect of the convertible loan notes?

A. $0.73m
B. $0.88m
C. $4.92m
D. $5.8m

Q19. Which of the following statements is true?

A. The 6% four-year irredeemable preference shares are presented as equity instruments in accordance with their legal classification.
B. The 6% four-year irredeemable preference shares are a liability because in law the claims of preference shareholders generally rank above those of ordinary shareholders.
C. The 6% four-year irredeemable preference shares are a liability because the holder has a contractual obligation to deliver a non-mandatory dividend.
D. The 6% four-year irredeemable preference shares are presented as equity instruments because they are irredeemable.

Q20. In planning for the medium term, the directors of Ashleigh wish to know how the convertible loan notes might affect the company's equity share capital. A useful way to see the potential impact is to calculate a diluted EPS figure. When calculating diluted EPS for Ashleigh for the year ended 31 December 20X4, which weighted average number of ordinary shares should be used in the calculation?

A. 104,000,000
B. 107,552,730
C. 110,250,000
D. 111,552,730

Following case studies for Q21 to Q25:

Synergetica Co operates in the energy industry. The company is working on a number of projects and is considering how to treat them in the financial statements for the year ended 31 December 20X5. In doing so, it has enlisted the help of Brandonis Co, an independent, qualified valuer.

The government's environmental authority has granted to the company, at a nominal cost, an exclusive licence to manufacture and distribute an environmentally friendly hydraulic fracturing chemical. Synergetica wishes the fair value of the licence to be reflected in the financial statements at the year end, and has obtained from Brandonis a valuation of $50 million.

During the year, Synergetica spent $20 million developing a prototype extended-life battery. Commercial production will commence in January 20X6 and the company has identified a number of profitable markets in which the battery will be sold.

During the year, Synergetica acquired a subsidiary, Betteria Co for $80 million, when the fair value of Betteria's net assets was $60 million. Betteria Co had spent $14 million on a new research project and had correctly expensed this to profit or loss. The directors of Synergetica, with the help of Brandonis Co, have reliably assessed the project to have a substantial fair value. Betteria also has a customer list, but Brandonis has said it is unable to measure its fair value reliably.

Synergetica spent $8 million on a global advertising campaign which was concluded in the previous financial year and from which benefits are expected to flow in the future.

At 31 December 20X5 Synergetica's trial balance showed a separately acquired brand at cost of $60 million, less accumulated amortisation brought forward at 1 January 20X5 of $20 million. Amortisation is based on a twenty-year useful life. An impairment review on 1 July 20X5 concluded that the brand had a value in use of $25 million and a remaining useful life of six years. However, on the same date Synergetica Co received an offer to purchase the brand for $32 million, less an administration fee of $2 million.

Q21. Which of the following should be recognised in the financial statements of Synergetica for the year ended 31 December 20X5?

(1) The licence only

(2) The advertising campaign

(3) The prototype

A. 1 only
B. 1 and 2
C. 1 and 3
D. 2 and 3

Q22. How should Synergetica Co treat the goodwill arising on its acquisition of Betteria Co?

A. It should be written off to retained earnings
B. It should be capitalised and amortised over ten years
C. It should be capitalised and reviewed for impairment every ten years
D. It should be capitalised and reviewed for impairment every year

Q23. Which of the following assets of Betteria should be recognised in the consolidated financial statements of Synergetica for the year ended 31 December 20X5?

A. The customer list only
B. Both the research project and the customer list
C. Neither the research project nor the customer list
D. The research project only

Q24. Which of the following costs may not be recognised as an intangible asset under IAS 38 Intangible Assets?

A. The salary cost of staff working on a development project
B. The cost of training staff to use a newly developed system
C. The cost of testing a newly new product during the development phase
D. The amortisation cost of a patent acquired to generate an intangible asset

Q25. What should be the carrying amount of the brand in the statement of financial position of Synergetica Co as at 31 December 20X5? (Answer to the nearest $'000)

$ □

Folllowing case study is from Q26 to Q30:

SkyBound Co manufactures equipment and machinery for the transport industry, and the financial statements are being prepared for the year ended 31 December 20X5.

In July 20X5, in consequence of a downturn in the industry, the directors of SkyBound Co decided to close down one of its regional factories. The decision was made at a board meeting and a formal closure plan was subsequently developed. The plan was made public and communicated to all parties affected on 31 August 20X5. The closure was complete by 1 October 20X5 and from this date, both the factory building and the plant within it were marketed for sale.

The directors of SkyBound Co have provided the following information relating to the closure:

At 1 October 20X5 the factory was measured at cost $14.5 million, less accumulated depreciation $3 million. From October to December 20X5, it was marketed by a property agent at a price of $13 million, which was determined to be its fair value throughout that period. Market transactions at the end of 31 December 20X5, however, suggest that actual selling prices achieved for an industrial building of this nature in the current market conditions are 10% less than the price at which they are marketed. The expected costs to sell are $500,000.

At 31 December 20X5 the factory remained unsold.

When the closure announcement was made on 31 August 20X5 it was also announced that of the factory's 700 employees, 80 would be retrained and deployed to other subsidiaries within the SkyBound group at a cost of $200,000. The remainder would be given a redundancy package averaging $6,000 per employee. SkyBound also committed to spending $150,000 to invest in new distribution networks in order to deliver goods from its other factories to customers of the factory that would close.

The factory's plant had a carrying amount of $6.8 million at 1 January 20X5 and a remaining useful life of 10 years. At 1 October 20X5 it had a fair value of $6.2million and would incur selling costs of $50,000. The fair value was unchanged at 31 December 20X5.

Q26. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations prescribes the recognition criteria for non-current assets held for sale. For an asset or a disposal group to be classified as held for sale, the sale must be highly probable.

Which of the following must apply for the sale to be considered highly probable?

(1) A buyer must have been located
(2) The asset must be marketed at a price that is reasonable in relation to fair value
(3) Management must be committed to a plan to sell the asset
(4) The sale must be expected to take place within the next six months

A. 2 and 3
B. 3 and 4
C. 1 and 4
D. 1 and 2

Q27. At what amount should an asset classified as 'held for sale' be measured?

A. Lower of carrying amount and fair value less costs to sell
B. Lower of carrying amount and value in use
C. Higher of value in use and fair value less costs to sell
D. Higher of carrying amount and recoverable amount

Q28. At what amount should the factory be measured in SkyBound Co's statement of financial position as at 31 December 20X5?

A. $11.2 million
B. $11.5 million
C. $11.7 million
D. $12.5 million

Q29. At 31 August 20X5 what provision should be made for costs associated with the closure of the regional factory?

A. $3,720,000
B. $3,870,000
C. $3,920,000
D. $4,070,000

Q30. Which statement regarding the factory's plant is correct?

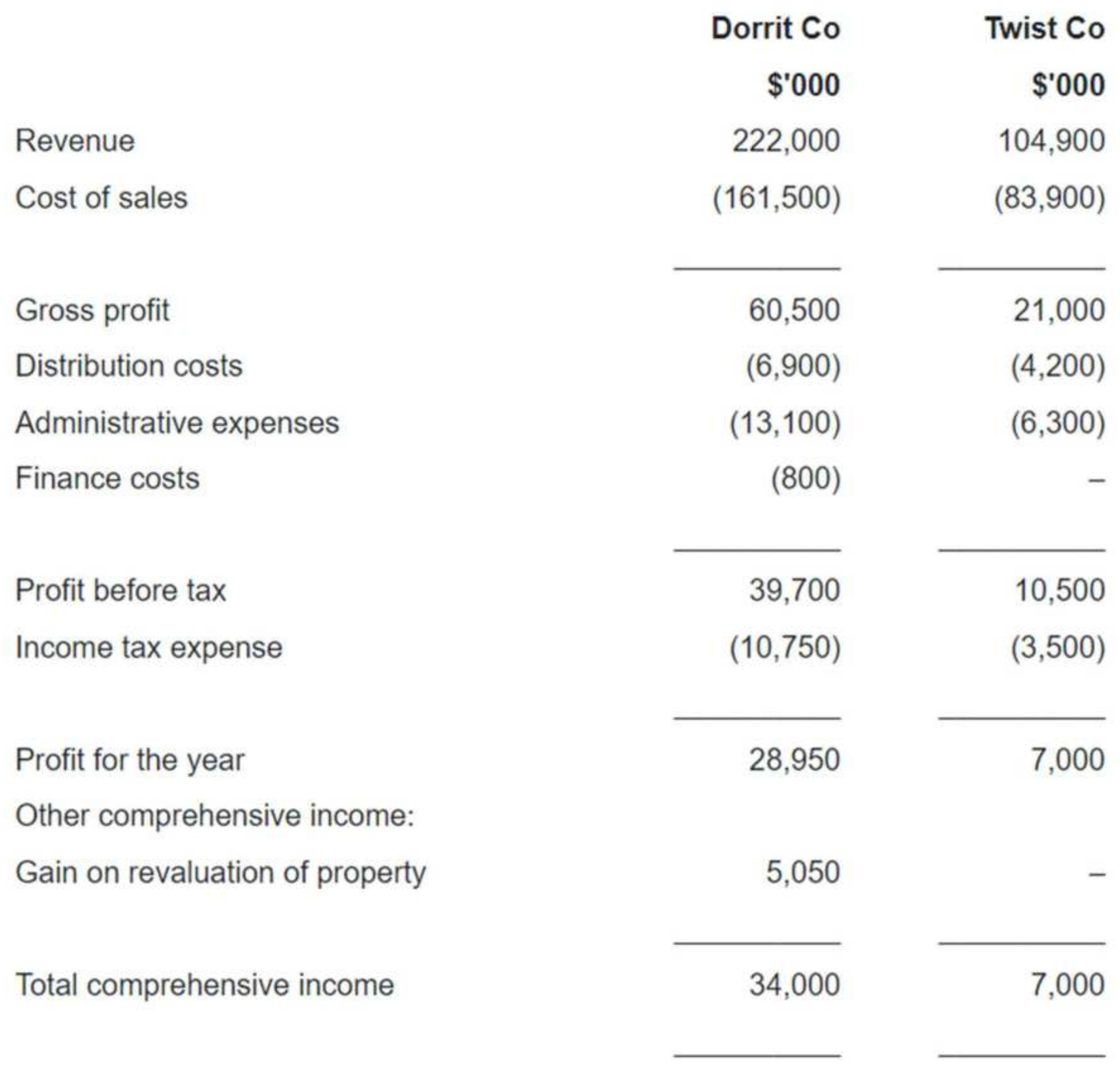
A. The plant is presented as a current asset at 31 December 20X5 with a carrying amount of $6.12 million
B. A depreciation charge of $510,000 and an impairment charge of $140,000 are recognised in the year ended 31 December 20X5 in respect of the plant
C. The plant is presented as a non-current asset at 31 December 20X5 with a carrying amount of $6.15 million
D. A depreciation charge of $680,000 and an impairment charge of $30,000 are recognised in the year ended 31 December 20X5 in respect of the plant

Q31. This scenario relates to four requirements.

Dorrit Co acquired 75% of the equity share capital of Twist Co on 1 July 20X8. The acquisition took place by means of a share exchange of two shares in Dorrit Co for every three acquired shares in Twist Co. At the date of acquisition, shares in Dorrit Co and Twist Co had a market value of $3.20 and $2.30 each respectively. The remainder of the consideration was cash payable on 1 July 20X9. Dorrit Co will pay 28 cents for each acquired share in Twist Co. Dorrit Co has a cost of capital of 8% per annum. None of the consideration has been recorded in the books of Dorrit Co.

The summarised draft financial statements of both companies are as follows.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X8:



	Dorrit Co	Twist Co
	$'000	$'000
Revenue	222,000	104,900
Cost of sales	(161,500)	(83,900)
Gross profit	60,500	21,000
Distribution costs	(6,900)	(4,200)
Administrative expenses	(13,100)	(6,300)
Finance costs	(800)	–
Profit before tax	39,700	10,500
Income tax expense	(10,750)	(3,500)
Profit for the year	28,950	7,000
Other comprehensive income:		
Gain on revaluation of property	5,050	–
Total comprehensive income	34,000	7,000

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 20X8

	Dorrit Co	**Twist Co**
	$'000	**$'000**
ASSETS		
Non-current assets		
Property, plant and equipment	65,500	48,650
Current assets		
Inventories (note(ii))	15,050	4,200
Trade receivables	19,900	8,750
Cash and cash equivalents	–	1,050
	34,950	14,000
Total assets	100,450	62,650
EQUITY AND LIABILITIES		
Equity		
Equity shares of $1 each	36,000	31,500
Revaluation surplus (note(i))	6,000	–
Retained earnings	22,050	12,250
	64,050	43,750
Non-current liabilities		
Long-term loan	8,750	3,400
Current liabilities		
Trade payables	11,900	12,700
Bank	5,950	–
Current tax payable	9,800	2,800
	27,650	15,500
Total equity and liabilities	100,450	62,650

The following information is relevant:

i. Immediately after the acquisition of Twist Co on 1 July 20X8, Dorrit Co transferred an item of plant with a carrying amount of $3 million to Twist Co for an agreed price of $5 million. At this date the plant had a remaining life of two and a half years. Dorrit Co had included the profit on this transfer as a reduction in its depreciation costs. All depreciation is charged to cost of sales.

ii. At the date of acquisition, the fair values of Twist Co's assets and liabilities were equal to their carrying amounts with the exception of Twist Co's property which had a fair value of $14 million above its carrying amount. For consolidation purposes, this led to an increase in depreciation charges (in cost of sales) of $350,000 in the post-acquisition period to 31 December 20X8. Twist Co has not incorporated the fair value property increase into its separate financial statements.

   The policy of the Dorrit Co group is to revalue all properties to fair value at each year end. On 31 December 20X8, the increase in Dorrit Co's property has already been recorded, however, a further increase of $2,100,000 in the value of Twist Co's property from the acquisition date to 31 December 20X8 has not been recorded.

iii. In the period since the acquisition, there was adverse publicity concerning one of Twist Co's major product lines. As a result the goodwill which arose on the acquisition of Twist Co has been impaired by $1,800,000 as at 31 December 20X8. Goodwill impairment should be treated as an administrative expense.

iv. Dorrit Co's policy is to measure the non-controlling interest at fair value at the date of acquisition. For the purpose of measuring the non-controlling interest, assume that Twist Co's share price at that date is representative of the fair value of the shares held by the non-controlling interest.

v. Assume, except where indicated otherwise, that all items of income and expenditure accrue evenly throughout the year.

Required:

(a) Calculate the goodwill arising on the acquisition of Twist Co on 1 July 20X8. (4 marks)

(b) Calculate the following amounts for presentation in the consolidated statement of financial position:

(i) Group retained earnings

(ii) Non-controlling interest (6 marks)

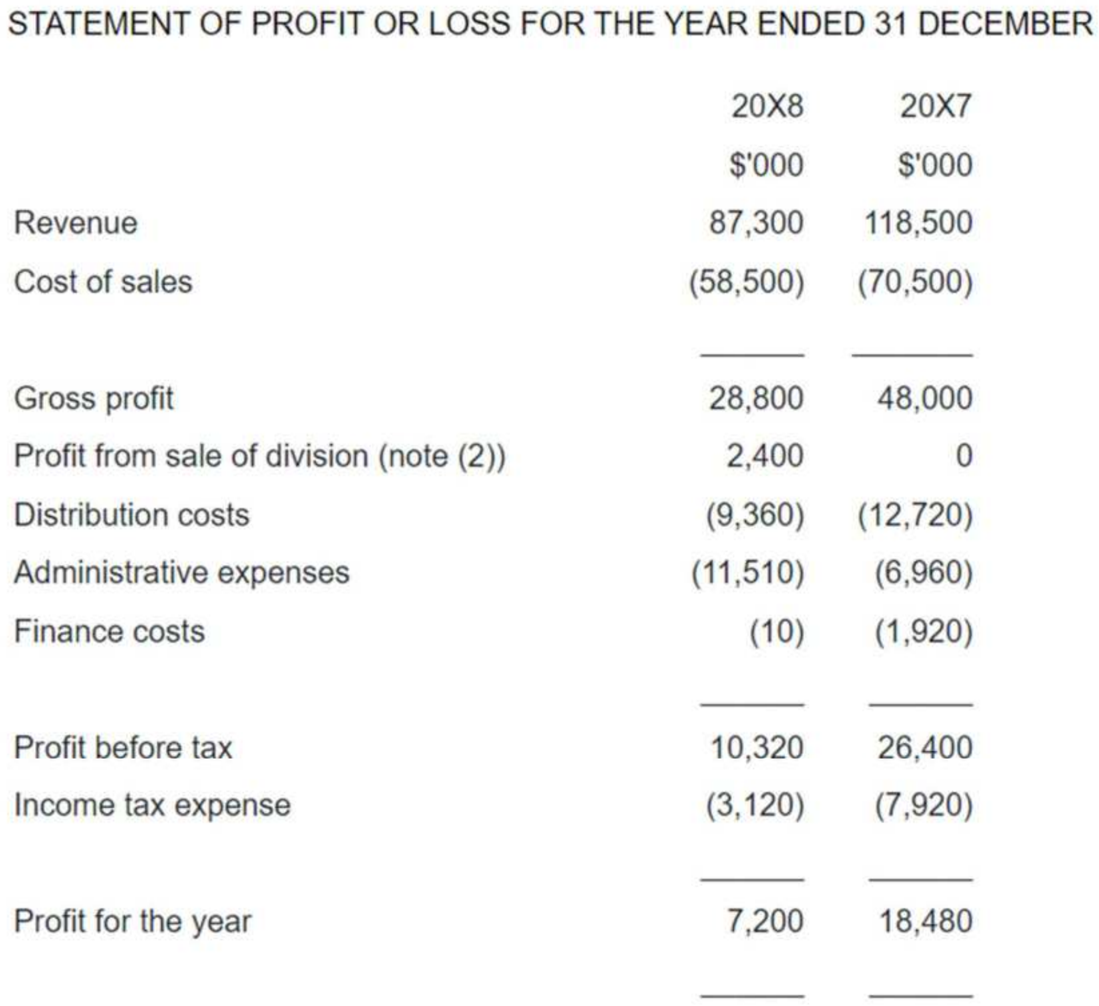
(c) Prepare the consolidated statement of profit or loss and other comprehensive income for Dorrit Co for the year ended 31 December 20X8.

Note: Work to nearest $’000 (10 marks)

(20 marks)

Q32. This scenario relates to three requirements.

The following are extracts from the most recent financial statements of Griffin Co, a public company.



STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER

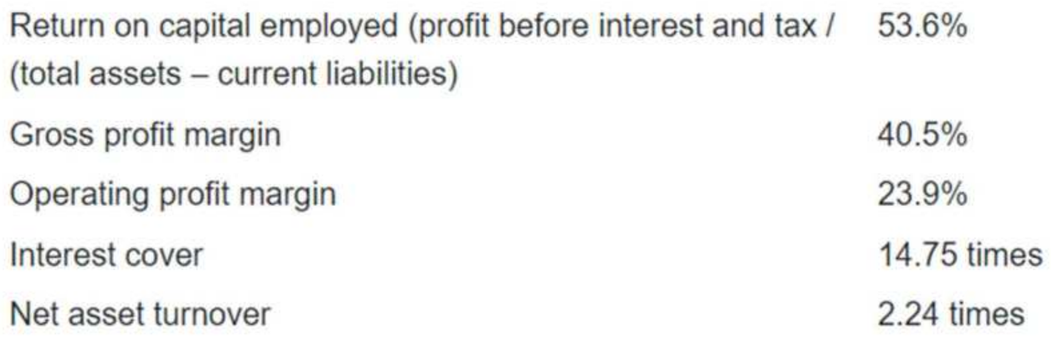
	20X8	20X7
	$'000	$'000
Revenue	87,300	118,500
Cost of sales	(58,500)	(70,500)
Gross profit	28,800	48,000
Profit from sale of division (note (2))	2,400	0
Distribution costs	(9,360)	(12,720)
Administrative expenses	(11,510)	(6,960)
Finance costs	(10)	(1,920)
Profit before tax	10,320	26,400
Income tax expense	(3,120)	(7,920)
Profit for the year	7,200	18,480

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	20X8		20X7	
	$'000	$'000	$'000	$'000
ASSETS				
Non-current assets				
Property, plant and equipment		39,120		45,600
Intangible – goodwill		0		4,800
		39,120		50,400
Current assets				
Inventories	8,160		13,920	
Trade receivables	3,120		5,760	
Cash and cash equivalents	3,600		0	
		14,880		19,680
Total assets		54,000		70,080
EQUITY AND LIABILITIES				
Equity				
Equity shares of $1 each		24,000		24,000
Retained earnings		16,800		9,600
		40,800		33,600
Non-current liabilities				
5% loan notes		200		19,200
Current liabilities				
Bank overdraft	0		3,360	
Trade and other payables	10,120		7,440	
Current tax payable	2,880		6,480	
		13,000		17,280
Total equity and liabilities		54,000		70,080

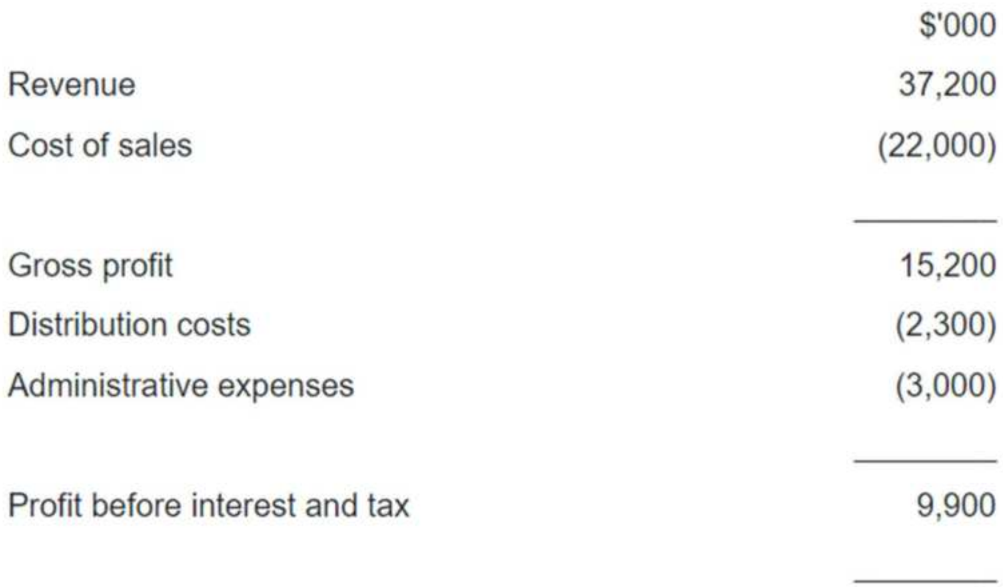
Notes

1. Based on Griffin Co's financial statement extracts, the following ratios have been calculated for the year ended 31 December 20X7:



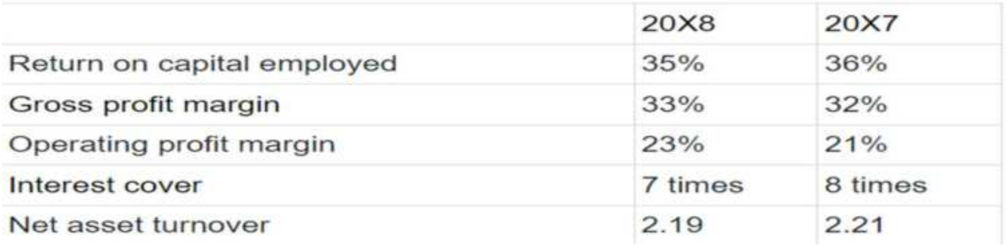
Return on capital employed (profit before interest and tax / (total assets – current liabilities)	53.6%
Gross profit margin	40.5%
Operating profit margin	23.9%
Interest cover	14.75 times
Net asset turnover	2.24 times

2. By the end of 20X7, Griffin Co concluded that one of its divisions was no longer a good fit with the company's strategy. On 1 January 20X8, Griffin Co sold the net assets (including goodwill) of the division, which had been independently operated, for $19.2m cash on which it made a profit of $2.4m. The division reported the following results for the year ended 31 December 20X7, which have been included in Griffin Co's statement of profit or loss:



	$'000
Revenue	37,200
Cost of sales	(22,000)
Gross profit	15,200
Distribution costs	(2,300)
Administrative expenses	(3,000)
Profit before interest and tax	9,900

3. The following is a list of comparable industry average key performance indicators (KPIs) for 20X8, calculated in the same way as those of Griffin Co:



	20X8	20X7
Return on capital employed	35%	36%
Gross profit margin	33%	32%
Operating profit margin	23%	21%
Interest cover	7 times	8 times
Net asset turnover	2.19	2.21

Required:

(a) For Griffin Co:

(i)Calculate equivalent ratios to those in Note 1 above for the year ended 31 December 20X8, excluding the profit on the sale of the division. (4 marks)

(ii) Calculate equivalent ratios to those in Note 1 above for the year ended 31 December 20X7, excluding the contribution made by the division that has been sold. (4marks)

Your answer should provide explanatory notes for the calculations where appropriate.

(b) Analyse and compare the financial performance and position of Griffin Co for the year ended 31 December 20X8 and 20X7, based on the ratios calculated in Part (a). Your analysis should make reference, where relevant, to the industry average equivalent ratios. (12 marks)

(20 marks)