Fundamentals Level – Skills Module

Financial Reporting

March/June 2018 – Sample Questions

F7 ACCA

Paper F7

Time allowed: 3 hours 15 minutes

This question paper is divided into three sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL 15 questions are compulsory and MUST be attempted

Section C – BOTH questions are compulsory and MUST be attempted

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

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

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Section C – BOTH questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

31 Below are extracts from the statements of profit or loss for the Perkins group and Perkins Co for the years ending 31 December 20X7 and 20X6 respectively.

	20X7 (Consolidated) $'000	20X6 (Perkins Co individual) $'000
Revenue	46,220	35,714
Cost of sales	(23,980)	(19,714)
Gross profit	22,240	16,000
Operating expenses	(3,300)	(10,000)
Profit from operations	18,940	6,000
Finance costs	(960)	(1,700)
Profit before tax	17,980	4,300

The following information is relevant:

On 1 September 20X7, Perkins Co sold all of its shares in Swanson Co, its only subsidiary, for $28·64m. At this date, Swanson Co had net assets of $26·1m. Perkins Co originally acquired 80% of Swanson Co for $19·2m, when Swanson Co had net assets of $19·8m. Perkins Co uses the fair value method for valuing the non-controlling interest, which was measured at $4·9m at the date of acquisition. Goodwill in Swanson Co has not been impaired since acquisition.

In order to compare Perkin Co's results for the years ended 20X6 and 20X7, the results of Swanson Co need to be eliminated from the above consolidated statements of profit or loss for 20X7. Although Swanson Co was correctly accounted for in the group financial statements for the year ended 31 December 20X7, a gain on disposal of Swanson Co of $9·44m is currently included in operating expenses. This reflects the gain which should have been shown in Perkins Co's individual financial statements.

In the year ended 31 December 20X7, Swanson Co had the following results:

	$m
Revenue	13·50
Cost of sales	6·60
Operating expenses	2·51
Finance costs	1·20

During the period from 1 January 20X7 to 1 September 20X7, Perkins Co sold $1m of goods to Swanson Co at a margin of 30%. Swanson Co had sold all of these goods on to third parties by 1 September 20X7.

Swanson Co previously used space in Perkins Co's properties, which Perkins Co did not charge Swanson Co for. Since the disposal of Swanson Co, Perkins Co has rented that space to a new tenant, recording the rental income in operating expenses.

The following ratios have been correctly calculated based on the above financial statements:

	20X7 (Consolidated)	20X6 (Perkins Co individual)
Gross profit margin	48·1%	44·8%
Operating margin	41%	16·8%
Interest cover	19·7 times	3·5 times

Required:

(a) **Calculate the gain on disposal which should have been shown in the consolidated statement of profit or loss for the Perkins group for the year ended 31 December 20X7.** (5 marks)

(b) **Remove the results of Swanson Co and the gain on disposal of the subsidiary to prepare a revised statement of profit or loss for the year ended 31 December 20X7 for Perkins Co only.** (4 marks)

(c) **Calculate the equivalent ratios to those given for Perkins Co for 20X7 based on the revised figures in part (b) of your answer.** (2 marks)

(d) **Using the ratios calculated in part (c) and those provided in the question, comment on the performance of Perkins Co for the years ended 31 December 20X6 and 20X7.** (9 marks)

(20 marks)

32 Below is the trial balance for Haverford Co at 31 December 20X7:

	$'000	$'000
Property – carrying amount 1 January 20X7 (note (iv))	18,000	
Ordinary shares $1 at 1 January 20X7 (note (iii))		20,000
Other components of equity (Share premium) at 1 January 20X7 (note (iii))		3,000
Revaluation surplus at 1 January 20X7 (note (iv))		800
Retained earnings at 1 January 20X7		6,270
Draft profit for the year ended 31 December 20X7		2,250
4% Convertible loan notes (note (i))		8,000
Dividends paid	3,620	
Cash received from contract customer (note (ii))		1,400
Cost incurred on contract to date (note (ii))	1,900	
Inventories (note (v))	4,310	
Trade receivables	5,510	
Cash	10,320	
Current liabilities		1,940
	43,660	43,660

The following notes are relevant:

(i) On 1 January 20X7, Haverford Co issued 80,000 $100 4% convertible loan notes. The loan notes can be converted to equity shares on 31 December 20X9 or redeemed at par on the same date. An equivalent loan without the conversion rights would have required interest of 6%. Interest is payable annually in arrears on 31 December each year. The annual payment has been included in finance costs for the year. The present value of $1 receivable at the end of each year, based on discount rates of 4% and 6%, are:

	4%	6%
End of year 1	0·962	0·943
End of year 2	0·925	0·890
End of year 3	0·889	0·840

(ii) During the year, Haverford Co entered into a contract to construct an asset for a customer, satisfying the performance obligation over time. The contract had a total price of $14m. The costs to date of $1·9m are included in the above trial balance. Costs to complete the contract are estimated at $7·1m.

At 31 December 20X7, the contract is estimated to be 40% complete. To date, Haverford Co has received $1·4m from the customer and this is shown in the above trial balance.

(iii) Haverford Co made a 1 for 5 bonus issue on 31 December 20X7, which has not yet been recorded in the above trial balance. Haverford Co intends to utilise the share premium as far as possible in recording the bonus issue.

(iv) Haverford Co's property had previously been revalued upwards, leading to the balance on the revaluation surplus at 1 January 20X7. The property had a remaining life of 25 years at 1 January 20X7.

At 31 December 20X7, the property was valued at $16m.

No entries have yet been made to account for the current year's depreciation charge or the property valuation at 31 December 20X7. Haverford Co does not make an annual transfer from the revaluation surplus in respect of excess depreciation.

(v) It has been discovered that inventory totalling $0·39m had been omitted from the final inventory count in the above trial balance.

Required:

(a) Calculate the adjusted profit for Haverford Co for the year ended 31 December 20X7. (6 marks)

(b) Prepare the statement of changes in equity for Haverford Co for the year ended 31 December 20X7. (6 marks)

(c) Prepare the statement of financial position for Haverford Co as at 31 December 20X7. (8 marks)

(20 marks)

End of Question Paper