December Exams, 2014

Multiple Choice Questions (20%)
Choose the Correct Answer

1	D	11	C
2	D	12	C
3	A	13	A
4	B	14	C
5	C	15	D
6	C	16	C
7	C	17	D
8	D	18	C
9	B	19	D
10	D	20	D

TRUE & FALSE (10%)

1	FALSE
2	FALSE
3	TRUE
4	FALSE
5	FALSE
6	TRUE
7	FALSE
8	FALSE
9	TRUE
10	FALSE

Exercises (30 %)

Exercise I:

A recently established company generally incurs the following costs:

1-	Pre-opening costs	**No**
2-	Confidential formulas, templates, and designs	**Yes**
3-	Internally generated accounting software	**No**
4-	Goodwill acquired in cases of merger	**Yes**
5-	Operating and broadcast rights	**Yes**
6-	Patented medicine produced by a company and approved for medical use.	**Yes**
7-	Cost of quality management training sessions for the management.	**No**
8-	Legal costs incurred for the acquisition of copyright	**Yes**

Required:

Which of the above mentioned banks is qualified for capitalization according to Accounting Standard 38.

Exercise 2:

The data below is related to the inventory items of company F for the year N.

Stock at the beginning of the period 150 items unit price 504$

Purchases of the period:

January 14	50 units	509$
December 28	80 units	512$
May 11	40 units	515$
June 2	100 units	500$
September 16	60 units	503$
December 30	70 units	506$

Number of units sold during the period: 400 units

On December 31, the physical inventory indicated the existence of 150 units of this item, and the inventory cost is determined using the First In First Out method (FIFO).

Required: According to Standard IAS2

1- Determine the inventory cost at the end of the period using the FIFO method.
2- Determine the net realizable inventory value at the end of the period, given that the unit selling price at the physical inventory date was 506$, that the estimated rate of sales and distribution costs constitutes 5% of the selling price, and that the general administrative expenses constitute 7% of the selling price.
3- Determine the inventory value that will be indicated in the balance sheet on 31/12/n
4- Determine the cost of goods sold in the income statement.

1- تحديد تكلفة مخزون آخر المدة:

مخزون آخر الفترة من أحدث عناصر المشتريات:

70 وحدة × 506 =	35,420
60 وحدة × 503 =	30,180
20 وحدة × 500 =	10,000
	75,600

2- صافي القيمة القابلة للتحقق = سعر البيع

- مصاريف الإتمام – مصاريف البيع والتوزيع

$$= 506 - \left(\frac{5}{100} \times 506\right)$$

$$= 506 - 25{,}3 = 480{,}7$$

المخزون آخر الفترة بصافي القيمة القابلة للتحقق

$$= 150 \times 480{,}7 = 72{,}105$$

3- يظهر المخزون في الميزانية بالتكلفة أو بصافي القيمة القابلة للتحقق أيهما أقل وفقاً للمعيار IAS_2 وهنا صافي القيمة القابلة للتحقق أقل منه بالتكلفة.

4- تكلفة البضاعة المباعة في قائمة الدخل هي من مخزون أول الفترة وأقدم عناصر المشتريات:

150 × 504 =	75,600
50 × 509 =	25,450
80 × 512 =	40,960
40 × 515 =	20,600
80 × 500 =	40,000
	202,610

Exercise 3:

Khouzama Co. bought an equipment for $120,000 which has:

- useful life of 5 years
- salvage value at the end of the 5 years amounts to $12,500.

The sale expenses are estimated at $1,500.

The following schedule shows each of the fair value and the used value at the end of each year.

	End of year		
	n	n + 1	n + 2
	$	$	$
Fair value	92,000	65,000	42,000
Used Value	106,000	64,000	27,000

Required : According to IAS 36

a. Determine the replacement value at the end of each year (n, n+1, n+2)
b. Determine the depreciation amount at the end of each year (n, n+1, n+2) and the amount that is to be recognized as impairment (if applicable).
c. Determine the net value that is to be recorded in the financial position statement at the end of each year December 31, (n, n+1, n+2).

القيمة القابلة للاسترداد هي القيمة العادلة أو القيمة الاستعمالية أيهما أعلى.

	ن	ن + 1	ن + 2
القيمة القابلة للاسترداد	**106,000**	**65,000**	**42,000**

2- قسط الإهلاك في 12/31/ن

$$= \frac{\text{تكلفة – صافي القيمة المتبقية المقدرة}}{\text{العمر النافع}}$$

$$= \frac{11000 - 120000}{5} = \frac{109000}{5} = \mathbf{21,800}$$

القيمة الدفترية الصافية = تكلفة – مجموع الإهلاك
= 21,800 – 12,000
= 98,200
القيمة القابلة للاسترداد = 106,000 وهي أكبر من القيمة الدفترية الصافية أي لا يوجد خسارة انخفاض قيمة.
في 12/31/ن+1
قسط الاستهلاك مماثل لقسط الإهلاك في 12/31/ن = 21800
مجموع الإهلاك = 21800 + 21800 = 43600
القيمة الدفترية الصافية في 12/31/ن + 1 = 120000 – 43600 = 76400
القيمة القابلة للاسترداد = 65000 وهي أصغر من القيمة الدفترية الصافية وهكذا فان
خسارة انخفاض القيمة = 76400 – 65000 = 11400

يتم الاعتراف بهذا المبلغ كمصروف عن السنة ن +1.

التكلفـــــة:	**120000**
مجموع الاستهلاك:	**43600**
خسارة انخفاض القيمة	**11400**
	65000

قسط/ الاستهلاك = $\frac{65000 - 11000}{3} =$ **18000**

مجموع الإهلاك = 21800 + 21800 + 18000 = 61600

وبناءً عليه يظهر في الميزانية للأصل بالقيمة القابلة للاسترداد وهي مماثلة للتكلفة مطروحاً منها مجمع الإهلاك وخسارة انخفاض القيمة.

في 12/31/ن + 2

القيمة الدفترية الصافية في 12/31/ن+2 = 120000 – 61600 – 11400 = 47000

- أو هو 65000 – 18000 = 47000

12/31/ن+2

- **القيمة القابلة للاسترداد = 42000 وهي اقل من القيمة الدفترية الصافية .**
- **خسارة انخفاض القيمة = 47000 – 42000 = 5000**

يتم الاعتراف بهذا المبلغ كمصروف في 12/31/ن+2 ويظهر الأصل في الميزانية بقيمة القابلة للاسترداد وهي مماثلة لصافي

القيمة الدفترية بعد الاعتراف بخسارة انخفاض القيمة:

التكلفـــــة:	**120000**
مجموع الإهلاك:	**(61600)**
خسارة	**(11400)**
انخفاض القيمة	**($5000)**
	42000

-3 القيم التي يجب الافصاح عنها في قائمة المركز المالي

في 12/31/ن : 98200

في 12/31/ن +1: 65000

في 12/31/ن + 2: 42000

Solve the following problem (Obligatory) (20%)

CASE 1 - Consolidated statement of financial position

Company A holds investments in two other entities, Company B and Company C. The statements of financial position of the three entities at 30 September 2013 were as follows:

	Company A	Company B	Company C
	$000	$000	$000
Assets			
Non-current assets:			
Property, plant and equipment (notes 1 & 2)	132,000	100,000	90,000
Investments (note 1)	139,000	0	0
	271,000	**100,000**	**90,000**
Current assets:			
Inventories (note3)	40,000	34,000	32,000
Trade receivables (note 4)	40,000	32,000	30,000
Financial assets (note 5)	10,000	0	0
Cash and cash equivalents	9,000	11,000	8,000
	99,000	**77,000**	**70,000**
Total assets	**370,000**	**177,000**	**160,000**
Equity and liabilities			
Equity			
Share capital ($1 shares)	100,000	60,000	70,000
Retained earnings	138,000	48,000	29,000
Total equity	**238,000**	**108,000**	**99,000**
Non-current liabilities:			
Long-term borrowings	60,000	30,000	25,000
Deferred tax	30,000	12,000	10,000
Total non-current liabilities	90,000	42,000	35,000
Current liabilities:			
Trade and other payables (note 4)	35,000	20,000	20,000
Short-term borrowings	7,000	7,000	6,000
Total current liabilities	42,000	27,000	26,000
Total equity and liabilities	**370,000**	**177,000**	**160,000**

Note 1 – Investments

Investment in Company B: Company A subscribed for 48 million shares in Company B at par on the date of Company B incorporation on 1 October 2005. The investment is shown at original cost of $48 million.

Investment in Company C: On 1 April 2013 Company A purchased 49 million shares in Company C for a cash payment of $91 million. This investment is also shown at original cost.

The profit of Company C for the year ended 30 September 2013 was $8 million. Company C did not pay or declare any dividends in the period.

The directors of Company A carried out a fair value exercise to measure the identifiable assets and liabilities of Company C at 1 April 2013. The following matters emerged:

A property having a carrying value of $20 million had an estimated market value of $30 million (including non-depreciable land of $15 million). The estimated future economic life of the depreciable element at 1 April 2013 was 30 years. In the year ended 30 September 2013 Company C charged depreciation of $320,000 on this property.

Plant and equipment having a carrying value of $60 million had an estimated market value of $65 million. The estimated future economic life of the plant at 1 April 2013 was five years.

Inventory having a carrying value of $10 million had an estimated fair value of $12 million. This entire inventory was sold prior to 30 September 2013.

The fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax.

Note 2 – Sale of plant to Company B

On 1 October 2012 Company A purchased an item of plant for $4 million and immediately sold it to Company B for $4.4 million. The estimated useful economic life of the plant is four years from 1 October 2012.

Note 3 – Intra-group sale of inventories

The inventories of Company B and Company C at 30 September 2013 included components purchased from Company A during the year at a cost of $25 million to Company B and $15 million to Company C. Company A supplied these components at cost plus a mark-up of 25%. All the supplies were made after 1 April 2013.

Note 4 – Trade receivables and payables

The trade receivables of Company A included $6 million receivable from Company B and $5 million receivable from Company C in respect of the purchase of components (see note 3). The trade payables of Company B and Company C include an equivalent amount payable to Company A.

Note 5 – Financial assets

During the period Company A made a temporary investment of $10 million in listed securities and designated the investments as fair value through profit or loss. The market value of the portfolio (none of which was sold before the year-end) was $9.5 million.

Note 6 – Other information

The non-controlling interests of the two subsidiaries are valued at the proportionate of goodwill. The goodwill arising on acquisition of Company C has not suffered any impairment since 1 April 2012.
The rate of tax to apply to temporary differences is 25%. You can ignore the temporary differences caused by any adjustments for unrealized profits and the financial assets.

Required:

Prepare the consolidated statement of financial position of Company A at 30 September 2013.
share of the respective identifiable net assets, and therefore they are not credited with any amount in respect

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1- A- Consolidated balance sheet of Alpha at 30 September 2007 (all numbers in $'000 unless otherwise stated)

Assets

Non-current assets:

Property, plant and equipment (132,000 + 100,000 + 90,000 + (9,910 + 4,500 (W1)) – 300 (W5))	336,110
Goodwill (W2)	15,575
	351,685
Current assets:	
Inventories (40,000 + 34,000 + 32,000 – 8,000 (W5))	98,000
Trade receivables (40,000 + 32,000 + 30,000 – (6,000 + 5,000 (intra-group)))	91,000
Financial assets (10,000 – 500 (W4))	9,500
Cash and cash equivalents (9,00 + 11,000 + 8,000)	28,000
	226,500
Total assets	578,185
Equity and Liabilities	
Equity attributable to equity holders of the parent	
Share capital	100,000
Retained earnings (W4)	169,041
	269,041
Minority interest (W3)	54,542
Total equity	323,583
Non-current liabilities:	
Long-term borrowings (60,000 + 30,000 + 25,000)	115,000
Deferred tax (30,000 + 12,000 + 10,000 + 3,602 (W6))	55,602
Total non-current liabilities	170,602
Current liabilities:	
Trade and other payables (35,000 + 20,000 + 20,000 – (6,000 + 5,000 (intra-group)))	64,000
Short-term borrowings (7,000 + 7,000 + 6,000)	20,000
Total current liabilities	84,000
Total equity and liabilities	578,185

	Maximum DO NOT DOUBLE COUNT
Workings – unless stated all figures in $'000	

Working 1 – Net assets table – Gamma:

	Acquisition date	**Balance sheet date**
Share capital	70,000	70,000
Retained earnings:		
Per accounts of Gamma (29,000 – 6/12 x 8,000)	25,000	29,000
Property adjustment – see below	10,000	9,910
Plant and equipment adjustment – see below	5,000	4,500
Inventories adjustment	2,000	nil
Deferred tax on temporary differences (W6)	(4,250)	(3,602)
Net assets for the consolidation	107,750	109,808

The post-acquisition profits are 2,058 (109,808 – 107,750).

Note re: post-acquisition depreciation adjustments:

- For the property this is 90 ((15,000 x 1/30 x 6/12) – (320 x 6/12)), This makes the closing adjustment 9,910 (10,000 – 90),
- For the plant and equipment this is 500 (5,000 x 1/5 x 6/12), This makes the closing adjustment 4,500 (5,000 – 500),

Working 2 – Goodwill on consolidation

Alpha has owned 80 % of the equity shares of Beta since incorporation, This gives Alpha control over the operating and financial policies of Beta, Therefore under the provisions of IAS 27 – *Consolidated and Separate Financial Statements* – Alpha will consolidate Beta as a subsidiary, The cost of this investment is 48,000, Because the shares have been owned since incorporation, there will be no goodwill or pre-acquisition reserves,

Alpha owns 70 % of the equity shares of Gamma, The purchase was made on 1 April 2007 and Gamma will be a subsidiary from this date, The cost of investment is 91,000,

Cost of investment	91,000
70 % of net assets at 1 April 2007 (107,750 (W1))	(75,425)
So goodwill equals	15,575

Working 3 – Minority interest:

Beta – 20 % x 108,000	21,600
Gamma – 30 % x 109,808 (W1)	32,942
	54,542

Working 4 – Retained earnings

Alpha – per own financial statements	138,000
Revaluation of financial assets at fair value through profit and loss	(500)
Beta (80 % x 48,000)	38,400
Gamma (70 % x 2,058 (W1)	1,441
Unrealised profits (300 + 8,000 (W5)	(8,300)
	169,041

Working 5 – Unrealised profits

On PPE ((4,400 – 4,000) x 3/4)	300
On inventory:	
Sales to Beta (25/125 x 25,000)	5,000
Sales to Gamma (25/125 x 15,000)	3,000
	8,000

Working 6 - Deferred tax on temporary differences:

Fair value adjustments:

	Acquisition date	**Balance sheet date**
Property adjustment	10,000	9,910
Plant and equipment adjustment	5,000	4,500
Inventories adjustment	2,000	nil
Net taxable temporary differences	17,000	14,410
Related deferred tax (25 %)	4,250	3,602

CHOOSE EITHER CASE 2 OR CASE 3 (20%)

CASE 2 - Construction Contract

Sandy is a contractor which is currently working on two contracts:
(Using IAS 11, cumulative method)

	Deep Sea Contract	Blue Mountain
	000$	000$
Contract Price (Fixed)	3,000	5,000
Date work commenced	1 Jan 2011	1 Jan 2012
Proportion of work completed during the year ended December 31, 2011	30%	—
Invoiced to customer during year ended December 31, 2011	900	—
Cash received from customer during year ended December 31,2011	800	—
Costs Incurred during year ended December 31, 2011	650	—
Estimated Cost to complete at December 31, 2011	1300	—
Proportion of work completed during the year ended December 31,2012	25%	45%
	000LL	000LL
Invoiced to customer during year ended December 31, 2012	750	2,250
Cash received from customer during year ended December 31,2012	700	2,250
Costs Incurred during year ended December 31,2012	580	1,900
Estimated Cost to complete at December 31,2012	790	3,400

Note:
Sandy recognized revenue and profit on long term contracts in relation to the proportion of work completed.

Required:

(a) Calculate the figures that will appear in Sandy income statement for the year ended December 31, 2012 and the balance sheet at that date in respect of each of these contracts.

Sandy Income Statement.

	000 L.L.
Revenues	3000
Cost of sales	(3076)
Loss for the year (W2 : 224-300)	(76)

Sandy Balance Sheet

	000 L.L.
Inventories	119
Receivables	150
Due to customers	650

To test each project gain or loss

	Deep Sea	Blue Mountain
	000 L.L.	000 L.L.
Revenues	3,000	5,000
Less: Cost of Sales		
Costs incurred in 2011	(650)	
Costs incurred in 2012	(580)	(1,900)
Estimated Costs to complete in 2012	(790)	(3,400)
	980	(300)
	Ok As it is a profit	A provision must be taken in addition to the cost

Profit

Deep Sea	2011	2012
	000 L.L.	000 L.L.
Revenues	3,000	3,000
Less: Cost of Sales		
2011 Cost	(650)	(650)
2012 Cost	-	(580)
Estimated costs to complete	(1,300)	(790)
	1050	980
	×30%	×55%
	315	539

Gross Profit for the Year

Deep Sea	
	000 L.L.
Gross Profit for the project in 2012	539
Gross Profit for the project in 2011	(315)
Gross Profit for the year	224

Income Statement

	Total	Deep Sea	Blue Mountain
	000 L.L.	000 L.L.	000 L.L.
Revenues	3000	750	2,250
Cost of sales	(3076)	(526)	(2,550)
Loss for the year	(76)	224	(300)

Due form /To Customers

	Deep Sea	Blue Mountain
	000 L.L.	**000 L.L.**
Costs incurred to data		
(650 + 580)	**1,230**	**1,900**
	539	**(300)**
Progress Billing (900 + 750)	**(1,650)**	**(2,250)**
	119	**(650)**

Amounts Receivable

Invoice to date		
900 + 750	**1,650**	**2,250**
Cash Received		
800 + 700	**(1,500)**	**(2,250)**
	150	**=**

Case 3 - Property, plant and Equipment

XYZ Company had the following tangible non-current assets at 31 December 2011:

	Cost	Depreciation	Carrying amount
	\$000	\$000	\$000
Land	500	0	500
Buildings	400	80	320
Plant and machinery	1,613	458	1,155
Fixtures and fittings	390	140	250
Assets under construction	91	0	91
	2,994	678	2,316

In the year ended 31 December 2012 the following transactions occur:

1) Further costs of $53,000 are incurred on buildings being constructed by the company. A building costing $100,000 is completed during the year.

2) A deposit of $20,000 is paid for a new computer system which is undelivered at the year end.

3) Additions to plant are $154,000.

4) Additions to fixtures, excluding the deposit on the new computer system are $40,000.

5) The following assets are sold:

	Cost	Depreciation brought forward	Proceeds
	$000	$000	$000
Plant	277	195	86
Fixtures	41	31	2

6) Land and buildings were revalued at 1 January 2012 to $1,500,000, of which land is worth $900,000. The revaluation was performed by a consulting company on the basis of their fair value.

7) The useful life of the buildings is unchanged. The buildings were purchased ten years before the revaluation.

8) Depreciation is provided on all assets in use at the year-end at the following rates:

Buildings 2% per annum straight line

Plant 20% per annum straight line

Fixtures25% per annum reducing balance

Required:

Show the disclosures under IAS 16 "Property, plant and Equipment" that are required in the notes to XYZ's published financial statements for the year ended 31 December 2012.

Accounting policies

(a) Property, plant and equipment is stated at historical cost less depreciation, or at valuation.

(b) Depreciation is provided on all assets, except land, and is calculated to write down the cost or valuation over the estimated useful life of the asset.

The principal rates are as follows.

Buildings	**2% pa straight line**
Plant and machinery	**20% pa straight line**
Fixtures and fittings	**25% pa reducing balance**

Fixed asset movement	**Land and buildings**	**Plant and machinery**	**Fixtures, fittings, tools and equipment**	**Payments on account and assets in the course of construction**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Cost / valuation					
Cost at 1 January 2004	**900**	**1,613**	**390**	**91**	**2,994**
Revaluation adjustment	**600**	**—**	**—**	**—**	**600**
Additions	**—**	**154**	**40**	**73(W1)**	**267**
Reclassification	**100**	**—**	**—**	**(100)**	**—**
Disposals	**—**	**(277)**	**(41)**	**—**	**(318)**
Cost at 31 December 2004	**100**	**1,490**	**389**	**64**	**2,043**
2004 valuation	**1,500**	**-**	**-**	**-**	**1,500**
Depreciation					
at 1 January 2004	**80**	**458**	**140**	**—**	**678**
Revaluation adjustment	**(80)**	**—**	**—**	**—**	**(80)**
Provisions for year (W2)	**17**	**298**	**70**	**—**	**385**
Disposals	**—**	**(195)**	**(31)**	**—**	**(226)**
at 31 December 2004	**17**	**561**	**179**	**—**	**757**
Net book value					
at 31 December 2004	**1,583**	**929**	**210**	**64**	**2,786**
at 31 December 2003	**820**	**1,155**	**250**	**91**	**2,316**

Land and buildings have been revalued during the year by Messrs. Jackson & Co on the basis of their fair values.

The corresponding historical cost information is as follows.

	Land and buildings
Cost	**$000**
Brought forward	**900**
Reclassification	**100**
Carried forward	**1,000**
Depreciation	
Brought forward	**80**
Provided in year	**10**
Carried forward	**90**
Net book value	**910**

WORKINGS

	$000
Additions to assets under construction	**53**
Deposit on computer	**20**
	73

	$000
Depreciation on buildings $\frac{600}{40} + (100 \times 2\%)$	**17**
2% straight line depreciation is equivalent to a 50 year life.	
The buildings are ten years old at valuation and therefore have 40 years remaining.	
Depreciation on plant (1,613 + 154 – 277) ×20%	**298**
Depreciation on fixtures (390 + 40 – 41 – 140 + 31) × 25%	**70**