LEBANESE ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

International Financial Reporting Standards

JULY 2015

MULTIPLE CHOICE (25%)

1 - Which of the following is not a component of a complete set of financial statements?

A. A statement of changes in equity
B. A management commentary
C. A set of notes
D. A statement of cash flows

2 - The main financial performance statement is:

A. The statement of comprehensive income
B. The statement of financial position
C. The statement of changes in equity
D. The statement of cash flows

3 - The main purpose of the statement of changes in equity is:

A. To show an entity's assets, liabilities and equity at the end of an accounting period
B. To show an entity's income, expenses and profit for an accounting period
C. To show how each component of an entity's equity has changed during an accounting period
D. To show an entity's total equity at the end of an accounting period

4 - The term "accounting policies" refers to:

A. The measurement bases used by an entity
B. The accounting concepts and conventions adopted by an entity
C. The accounting principles applied by an entity
D. All of the above

5- If an entity gave a product warranty which has been produced directly from the manufacturer, trader, or retailer, what is the IFRS that might cover this warranty?

A. IFRS 4
B. IAS 39
C. IAS 18 and IAS 37
D. IAS 32

6 - A material prior period error should be corrected:

A. Retrospectively
B. Prospectively
C. Either retrospectively or prospectively
D. Prospectively unless it is impracticable to do so

7 - On 31 December 2011, a company acquires land for $500,000. The land is revalued at $530,000 on 31 December 2012 and $460,000 on 31 December 2013.

The company prepares financial statements to 31 December each year and uses the revaluation model in relation to land.

The correct accounting treatment of each revaluation in the statement of comprehensive income is as follows:

A. 2012 Income $30,000 2013Expense $70,000
B. 2012 Other comprehensive income $30,000 2013Expense $70,000
C. 2012 Other comprehensive income $30,000 2013 Negative other comprehensive income $70,000
D. 2012 Other comprehensive income $30,000 2013 Negative other comprehensive income $30,000 Expense $40,000

8 – if the governmental grant was conditional for certain events, then it must be recognized as:

A. Income when the conditions are met.
B. Income when the grant is approved.
C. Credited to a deffered government account when the conditions of the grant are met.
D. Credited to a deffered government account when the grant is approved

9 - How should research and development expenditure be dealt with in an entity's financial statements?

A. Research and development expenditure should always be written off as an expense
B. Research and development expenditure should always be capitalised as an intangible asset
C. Research expenditure should always be written off as an expense but development expenditure should always be capitalised as an intangible asset
D. Research expenditure should always be written off as an expense but development expenditure should be capitalised as an intangible asset if it satisfies certain conditions

10 - The net realisable value of inventories is defined by IAS2 as:

A. Selling price
B. Cost price
C. Selling price less costs of completion
D. Selling price less costs of completion and selling costs

11 - A company uses the indirect method for reporting cash flows from operating activities. During an accounting period, plant which had cost $30,000 some years ago was sold for $3,000. The accumulated depreciation on this plant at the time of disposal was $25,000. The effects of this transaction on the statement of cash flows are as follows:

A. Operating activities: Subtract loss on disposal $2,000 Investing activities: Cash received on disposal of plant $3,000
B. Operating activities: Add disposal proceeds $3,000 Investing activities: Subtract loss on disposal of plant $2,000
C. Operating activities: Add back loss on disposal $2,000 Investing activities: Cash received on disposal of plant $3,000
D. Operating activities: Add back loss on disposal $5,000 Investing activities: Cash received on disposal of plant $3,000

12 – Is it allowed or requested for an entity to change its accounting policies regarding Exploration and Evaluation expenses according to IFRS 6?

A. Yes . It is allowed or requested for an entity to change its accounting policies regarding Exploration and Evaluation expenses if the outcome from this change will render additional information to the users of the financial statements.
B. Yes. The entity is free to change its accounting policies regarding these expenses as long as the selected policies will result in suitable and reliable information.
C. Yes, only if the change in the policy will be more suitable for the needs of the financial statements users for taking economic decisions and more reliable.
D. The entity is not allowed to change its accounting policies regarding these expenses, except when a new standard is adopted or when a current standard is ameneded.

13 – Which of the following is not regarded as a required disclosure according to IFRS 6?

A. Information about trade reserve
B. Accounting policies related to Exploration and Evaluation including the recognition of Exploration and Evaluation assets .
C. The value of the assets, liabilities, income, expenses, and operational and investing cash flows generated from the Exploration and Evaluation of Mineral resources.
D. Information which determines and clarifies the amounts recognized in the financial statements resulting from Exploration and Evaluation of mineral resources

The questions 14- 16 refer to this case

Omega purchased at the beginning of April year N a real estate which needs renovation and has incurred the following expenditures:

Land acquisition cost	$90,000
Building acquisition cost	410,000
Registration fees	83,000
Contracts expenses	3,500
Commissions	40,700
Architect expenses	22,000
Major Repairs expenses	242,000

14 - The amount that must be recorded as expenses :

A. $127,200
B. $ 0
C. $123,500
D. None of the above

15 – In refer to the above case, the land acquisition cost that must be recorded is

A. $ 112,896
B. $ 115,830
C. $ 102,370

D. None of the above

.

16 – In refer to the above case, the building acquisition cost that must be recorded is

A. $ 805,954
B. $ 778,304
C. $ 752,911
D. None of the above

The questions 17- 19 refer to this case

At the end of December Year N-4, Omega revalued a real estate that has been purchased on January Year N-11 for the amount of $400,000 (out of which Land amounted to $80,000) the useful life of the building had determined for 20 years. It had been depreciated using the straight – line method without taking into consideration any residual value. The fair value of the real estate had been set at $450,000 out of which $150,000 was for land. There was no change for the depreciation period. At July 1 year N, the real estate was sold for $500,000.

17 – The revaluation value was:

A. $ 178,000
B. $ 162,000
C. $ 170,000
D. None of the above

18- In refer to the case, and on assumption that the company has closed the accumulated depreciation account on revaluation, the depreciation amount of the building at December 31, N

A. $ 12,500
B. $ 16,000
C. $ 8,000
D. None of the above

19 - In refer to the case, the profit from disposal of fixed assets:

A. $ 137,500
B. $ 284,000
C. $ 315,500
D. None of the above

20 – On April 1, N-1, the acquisition cost of the equipment amounted to $24,000. The depreciation was set on the declining balance method of depreciation for ten years by doubling the straight line rate. The depreciation expense as at December 31, N amounted to:

A. $ 2,300
B. $ 4,080
C. $ 3,840
D. None of the above

21 - An entity working in a highly volatile market where the currency highly fluctuates and there are seasonal variations in the income and expenses pattern, which of the points listed below, must be used to transfer the accounts in the comprehensive income statement items of the foreign subsidiary:

A. Rate at the year end
B. Average year rate
C. Average rate for each quarter
D. Average monthly rates.

22 – According to IFRS, which of the following methods must be used to combine the operations?

A. Joint venture Method
B. Equity Method
C. Proportional consolidation Method
D. Acquisition Method.

23 - According to the FASB conceptual framework, an entity's revenue may result from

A. A decrease in an asset from primary operations.
B. An increase in an asset from incidental transactions.
C. An increase in a liability from incidental transactions.
D. A decrease in a liability from primary operations.

24. A cash flow of $200,000 may be received by Lydia Nickels, Inc. in one year, two years, or three years, with probabilities of 20%, 50%, and 30%, respectively. The rate of interest on default risk-free investments is 5%. The present value factors are

PV of 1, at 5%, for 1 year is .95238
PV of 1, at 5%, for 2 years is .90703
PV of 1, at 5%, for 3 years is .86384

What is the expected present value of Lydia Nickels' cash flow (in whole dollars)?

A. $181,406
B. $180,628
C. $ 90,703
D. $ 89,925

25. Under a royalty agreement with another company, Wand Co. will pay royalties for the assignment of a patent for three years. The royalties paid should be reported as expense

A. In the period paid.
B. In the period incurred.
C. At the date the royalty agreement began.
D. At the date the royalty agreement expired.

TRUE & FALSE (7%)

1 - Standard IAS1 does not prescribe a format for each of the primary financial statements. **True** or False?

2 – When the change in the market price of financial instruments is recognized, the change is recorded directly in the instruments account if they are for speculation, and in the "revaluation reserve" if they were classified as available for sale . True or **False**?

3 - Borrowing costs that are directly attributable to the acquisition of a qualifying asset must be capitalised as part of the cost of that asset. **True** or False?

4 - Expenditure on advertising and promotion never gives rise to the acquisition of an intangible asset. **True** or False?

5 - The IAS36 definition of "corporate assets" specifically excludes goodwill. True or False?

6 - A previously-recognised impairment loss relating to goodwill should be reversed if there is evidence that the loss no longer exists. True or False?

7 - If the inflow of cash relating to a sales transaction is delayed until some time after the transaction has occurred, the amount of revenue arising is discounted to present value, so long as the effect of such discounting is material. **True** or False?

8 - IAS7 requires that all entities which comply with international standards should present a statement of cash flows. **True** or False?

9 - An entity's functional currency is defined by international standard IAS21 as the currency in which the entity's financial statements are presented. True or **False**?

10 - When translating from an entity's functional currency to a presentation currency, any resulting exchange differences are recognised in other comprehensive income. **True** or False?

11 - The "Revaluation Surplus" account that results from a revaluation of plant assets to fair value is reported on the statement of financial position as a contra account to the plant asset that was revalued. True or **False**?

12 - A change in the estimated useful life of a plant asset may cause a change in the amount of depreciation recognized in the current and future periods, but not to prior periods. **True** or False?

13 - When plant assets are exchanged, the cost of the new asset is the book value of the old asset plus any cash paid. True or **False**?

14 – According to the IFRS, the biological assets are an independent group of the tangible fixed assets. True or **False**?

EXERCISES (48%)

1 - SLOPE Int'l entered into a finance Lease on January 1, 2012.

The terms of the Lease were 20 payments of $ 100 six-monthly in arrears. The cash price of the assets was $ 1,200. The interest rate implicit in the Lease is 5.5% (per six-month period).

Required (^%):

(a) Show the interest allocation for the first three six –monthly periods using the actuarial method and sum of digits method.

Actuarial method

Period	Amount owed at the start of the period	Interest @ 5.5%	Rental	Amount owed at the end of the period
1	1,200	66	(100)	1,166
2	1,166	64	(100)	1,130
3	1,130	62	(100)	1,092
4				

Sum of digits method

Interest is allocated to all twenty periods, therefore for the sum of the digits calculation n = 20

Total finance charge

Rentals (20* $100)	**2,000**
Cash price of the assets	**(1,200)**
	800

Period	Weighting	Fraction (x800)	Interest charge
1	20	20/210	76
2	19	19/210	72
3	18	18/210	68
4	17	17/210	64
20	1	1/210	4
210			

n(n+1)

(b) Show how the Lease would be carried in the financial statements of Slope Int'l as December 31, 2012 using the sum of digits method.

2 Financial Statements

FINANCE LEASE PAYABLE

			01/01/2012	**Non-current Assets**	**1,200**
30/06/2012	**Cash**	**100**	**30/06/2012**	**Interest**	**76**
30/06/2012	**Bal c/d**	**1,176**			
		1,276			**1,276**
31/12/2012	**Cash**	**100**	**31/12/2012**	**Interest**	**72**
30/06/2013	**Cash**	**100**	**30/06/2013**	**Interest**	**68**

Notes to the accounts

At June 30, 2012 the company is committed to the following payments under a finance lease

	$
Not later than 1 year	**200**
Later than 1 year and not later than 5 years	**800**
Later than 5 years	**900**
	1,900

Depreciation

$$\frac{\$1{,}200}{10 \text{ years}} \times \frac{6}{12} = \$60$$

Noncurrent assets will include an amount of $1,140 (1,200-60)

---

2 - Sigma is a listed entity that made a profit after tax of $35 million for the year ended 30 September 2014. There were no discontinued operations. At 1 October 2013 Sigma had 70 million ordinary shares and 30 million preferred shares in issue. The preferred shares were correctly presented in equity within the statement of financial position. In the year ended 30 September 2014 Sigma declared and paid a dividend of 12 cents per share to the ordinary shareholders and 6 cents per share to the preferred shareholders.
On 31 December 2013 Sigma made a fully subscribed rights issue of two ordinary shares for every seven held at $1.35 per share. The fair value of an ordinary share at 31 December 2013 was $1.80.
Throughout the financial year Sigma had 20 million convertible loan notes on which interest of 5 cents per note was payable annually in arrears. The carrying amount of the liability element of the loan note at 1 October 2013 was $23 million and the effective rate of interest was 7%. The rate of income tax in the jurisdiction in which Sigma operates is 20% and the finance cost that is charged in profit or loss is subject to income tax at that rate.
The notes are convertible into ordinary shares from 1 October 2015 at the option of the note holder. The conversion terms are one ordinary share for every loan note held.

Required (10%):

Compute the basic and diluted EPS of Sigma for the year ended 30 September 2014.

Computation of earnings for EPS purposes

35,000 – (30,000 x 6%) = 33,200.

Computation of theoretical ex-rights fair value and 'adjustment factor'

(7 x $1·80 + 2 x $1·35) x 1/9 = $1·70. So adjustment factor is 1·80/1·70

Computation of weighted average number of shares in issue

(70,000 x 3/12 x 1·80/1·70) + (90,000 x 9/12) = 86,029

Compute basic EPS

33,200/86,029 = 38·6 cents

Compute 'earnings' for diluted EPS **33,200 + ((23,000 x 7%) x 80%) = 34,488**

Compute 'number' for diluted EPS **86,029 + 20,000 = 106,029**

Compute diluted EPS **34,488/106,029 = 32·5 cents**

---

3 - Delta is a wine manufacturer. The company manufactures wine from several grape harvests. The manufacturing process involves maturing wine in stainless steel for three years before bottling. The wine is sold at cost plus 200%.

On the first day of its accounting period Delta sold 100.000 liters of one-year old wine to Gamma, a bank, on the following terms.

- Sale price $500.000 (i.e. cost).
- Delta has the option (a call option) to repurchase the wine at any time over the next two years at cost plus a markup.
- The mark up is based on an annual rate of interest of 12% and will be prorated (i.e. time apportioned).
- Gamma has the option (a put option) to sell the wine to Delta in two years' time at a price based on a similar formula.

Required (6%):

Explain how this transaction should be accounted for in the books of Delta at:

(a) Inception;

(b) The end of the first year; and

(c) On repurchase.

Has there in substance been a sale?

Is the repurchase likely to happen? If so, it is not a 'real' sale and the legal form should be set aside.

Factors to consider:

Sale is unusual – being at cost and to a bank – which indicates it is not a "real" sale.

A mirror image put and call option means the repurchase is bound to occur.

Watnest will not take possession of the maturing inventory.

Ruby is paying a borrows return

Conclusion: Not a sale but a financing arrangement

----

4 - The Mall company for mechanical equipment manufacturing has signed a contract in July Year N with one of its client to deliver specialized equipment which will be manufactured upon

request. The contract was signed in the amount of $1,200,000. and was delivered during May Year N+2. The following information was extracted at each stage of manufacturing:

<u>Year N:</u>
July 5: signing of contract: Sales Price $1,200,000 Estimated Cost: $ 950,000
December 31, Cost incurred to date $323,000

<u>Year N+1:</u>
December 31, Cost incurred to date $814,000
Revaluation of Total Cost $1,100,000 Reassessment of Final Price $1,300,000

<u>Year N+2:</u>
May 15, Actual price for the sale of the equipment $1,380,000
Cost incurred to date $1,150,000

Required (10%):

a) Calculate the recognized revenue for the year ending December 31, Year N
b) Calculate the recognized profit for the year ending December 31, N
c) Calculate the recognized revenue for the year ending December 31, Year N+1
d) Calculate the recognized profit for the year ending December 31, N+1
e) Calculate the recognized profit upon delivery of the final contract.

بمتابعة مراحل تنفيذ العقد:

- عند إقفال حسابات الدورة المالية في ١٢/٣١/ن يتم تحديد نسبة التقدم في الأشغال كما يلي:

نسبة التقدم في الأشغال= $\dfrac{\text{تكلفة الأشغال لغاية تاريخ الجرد}}{\text{التكلفة الإجمالية المقدرة للعقد}}$

نسبة التقدم في الأشغال= $\dfrac{323,000}{950,000}$ = ٣٤ %

ويتم الاعتراف بجزء من الإيراد نسبته ٣٤ % من الإيراد الكلي كما يلي:

الإيراد المعترف به = ١،٢٠٠،٠٠٠ × ٣٤% = ٤٠٨،٠٠٠ $

يتم تسجيل هذا المبلغ كمبيعات حقيقية كما يلي:

من حـ/ذمم مدينة على أشغال لم تبلغ مرحلة تحرير فواتيرها		408,000
إلى حـ/مبيعات منتجات تامة الصنع	408,000	

الأثر على نتيجة الدورة المالية ن

408,000	مبيعات منتجات تامة الصنع
-323,000	تكلفة الإنتاج
85,000	**الربح المعترف به**

في ١٢/٣١/ن+١ يعاد احتساب نسبة التقدم في الأشغال كما يلي:

نسبة التقدم في الأشغال= $\dfrac{814,000}{1,100,000}$ = ٧٤ %

الإيراد المعترف به = (١،٣٠٠،٠٠٠ × ٧٤%) – ٤٠٨،٠٠٠ = ٥٥٤،٠٠٠

ليسجل كما يلي:

من حـ / ذمم مدينة على أشغال لم تبلغ مرحلة تحرير فواتيرها إلى حـ / مبيعات منتجات تامة الصنع	554,000	554,000

أثر ذلك على نتيجة الدورة المالية ن+١

554,000	مبيعات منتجات تامة الصنع
-491,000	تكلفة الإنتاج
63,000	**الربح المعترف به**

وبتتبع أثر ذلك على نتيجة الدورة المالية ن +٢

418,000	مبيعات منتجات تامة الصنع
-336,000	تكلفة الإنتاج
82,000	**الربح المعترف به**

وبذلك يكون الربح قد الاعتراف به مقسماً على السنوات (ن) و (ن+١) و (ن+٢) كما يلي:

85,000	في سنة ن
63,000	في سنة ن+١
82,000	في سنة ن+٢
230,000	**المجموع**

ويتطابق هذا المجموع مع ربح العقد بكامله البالغ ١،٣٨٠،٠٠٠ -١،١٥٠،٠٠٠ =٢٣٠،٠٠٠

----

5 - The financial year agrees to the calendar year for company X. At March 1, N the company requested to purchase a big manufacturing furnace to be used for the company activities. The contract amounted to $587,000 HT (Non-revisable). The manufacturing of this furnace will need 15 months and it will be delivered on June 1, N+1.

The settlement will be as follows:

Date	Type	Amount
March 1, N	Upon request	$60,000
August 1, N	Payment certificate	$90,000
March 1, N+1	Payment certificate	$200,000
June 1, N+1	Final receipt	Balance

The financing for the purchase of this asset has been done by non-specific loans. The loans have been acquired at the beginning of the financial period N, and must be settled at the beginning of year N+2 as follows:

Bank	Amount	Rate
BLOM	$500,000	6.25 %
Arab Bank	400,000	7.00 %
Bank Med	$250,000	6.20 %

The furnace usage period was estimated to be for 12 years. The radiator will be replaced every 4 years and its cost is estimated at 25% out of the total cost.

Required (8%):

a) The weighted average interest rate?
b) Cost of the furnace?
c) Record the acquisition of the asset journal entry at June 1, N+1
d) Record the depreciation entry as at December 31, N+1

١ـ تحديد المتوسط المرجح لمعدل الفائدة

مبلغ الفائدة		معدل الفائدة		القرض
31,250	=	6.25%	×	500,000
28,000	=	7.00%	×	400,000
15,500	=	6.20%	×	250,000
74,750		**6.50%**		**1,150,000**

٢ـ تحديد تكلفة الأصل الثابت

الفائدة عن دفعة الطلب $= \text{٦٠٠،٠٠٠} \times \frac{6.5}{100} \times \frac{15}{12} =$ ٤،٨٧٥

الفائدة عن دفعة الإنجاز الأولى $= \text{٩٠،٠٠٠} \times \frac{6.5}{100} \times \frac{10}{12} =$ ٤،٨٧٥

الفائدة عن دفعة الإنجاز الثانية $= \text{٢٠٠،٠٠٠} \times \frac{6.5}{100} \times \frac{3}{12} =$ ٣،٢٥٠

تكلفة الاقتراض ١٣،٠٠٠

تكلفة الأصل الثابت = ٥٨٧،٠٠٠ + ١٣،٠٠٠ = ٦٠٠،٠٠٠ د.ع.م

توزيعها بين المكونين:

على جدران الفرن = ٦٠٠،٠٠٠ × ٧٥ % = ٤٥٠،٠٠٠

على بطانة الفرن = ٦٠٠،٠٠٠ × ٢٥ % = ١٥٠،٠٠٠

٣ـ تسجيل قيد اقتناء الفرن في ١/٦/ن+١

من حـ/ الفرن – الجسم		450,000
من حـ/ الفرن - البطانة		150,000
من حـ/ الدولة - ضريبة القيمة المضافة القابلة للتنزيل على أصول ثابتة		58,700
إلى حـ/ تحويل أعباء مالية إلى حسابات أخرى	13,000	
إلى حـ/ سلفات ودفعات على شراء أصول ثابتة	350,000	
إلى حـ/ البنك	295,700	

٤ـ تسجيل قيد الإهلاك في ٣١/١٢/ن+١

قسط إهلاك جدران الفرن عن سنة (ن) $= \text{٤٥٠،٠٠٠} \times \frac{1}{12} \times \frac{7}{12} =$ ٢١،٨٧٥

قسط إهلاك بطانة الفرن عن سنة (ن) $= \text{١٥٠،٠٠٠} \times \frac{1}{4} \times \frac{7}{12} =$ ٢١،٨٧٥

٦٥١٢	من حـ/ أعباء إهلاك أصول ثابتة مادية		٤٣،٧٥٠
٢٨٢٤٣١	إلى حـ/ مجمع إهلاك الفرن – الجسم	٢١،٨٧٥	
٢٨٢٤٣٢	إلى حـ/ مجمع إهلاك الفرن - البطانة	٢١،٨٧٥	

----

6 – At January 1, N a company Omnia has purchased a patent as follows:

- Down payment in the amount $20,000 paid by check.
- Royalty in the rate of 1% of the sales (for the activity the patent protects) to be paid at the end of each year for 15 years.
- Paid cash for fees in the amount of $3,000 to register the patent in the concerned governmental institutions.

Other Information:

- The current market discount rate is 6% annually.
- The annual sales was expected to grow in the amount of $500,000 as a result of acquiring the patent.
- The actual annual sales (related to the activity which the patent protects) amounted to $500,000 and thus Omnia paid $5,000 by check as royalties.

Required (6%):

a) Determine the acquisition cost of the patent according IAS 38 and IAS 23
b) Record the acquisition journal entry for the patent
c) Record the royalty entry for the first year.

القيمة الحالية للأتاوى السنوية = ٥٠٠،٠٠٠× ١% × $\frac{(1.06)^{-15}-1}{0.06}$ = ٤٨،٥٦١ $

تتكون تكلفة البراءة من العناصر التالية:

الدفعة النقدية	٢٠،٠٠٠
الرسوم المهنية	٣،٠٠٠
مجموع الأتاوى السنوية (٥،٠٠٠ × ١٥)	٧٥،٠٠٠
تكلفة البراءة	٩٨،٠٠٠

الفوائد = (٥،٠٠٠ × ١٥) – ٤٨،٥٦١ = ٢٦،٤٣٩ $

وتسجل كما يلي:

بيان	**المبالغ**	
	دائن	**مدين**
من حـ/ البراءات		٩٨،٠٠٠
إلى حـ/ البنك	٢٠،٠٠٠	
إلى حـ/ الصندوق	٣،٠٠٠	
إلى حـ/ موردو الأصول الثابتة	٤٨،٥٦١	
إلى حـ/ فوائد برسم الدفع على أصول ثابتة	٢٦،٤٣٩	

وعند دفع الأتاوى العائدة للسنة ن:

بيان	**المبالغ**

	دائن	مدين
من حـ/موردو الأصول الثابتة		٢،٠٨٦
من حـ/ فوائد برسم الدفع على أصول ثابتة		٢،٩١٤
إلى حـ/ البنك	٥،٠٠٠	

ويحسب الاستهلاك على مبلغ ٩٨،٠٠٠ $

CASE (20%)

The income statements and summarized statements of changes in equity of ABC, MONO and TRIO for the year ended 30 September 2006 are given below:

Income Statements

	ABC	MONO	TRIO
	$'000	$'000	$'000
Revenue	125,000	100,000	90,000
Cost of sales	(70,000)	(60,000)	(51,000)
Gross profit	55,000	40,000	39,000
Other operating expenses	(20,000)	(15,000)	(15,000)
Income from investments	9,000	5,000	4,500
Finance costs	(11,000)	(8,000)	(7,500)
Profit before tax	33,000	22,000	21,000
Income tax expense	(9,000)	(6,000)	(5,400)
Profit for the year	24,000	16,000	15,600

Summarized Statements of Change in Equity

Balance at 1 October 2005	110,000	60,000	56,000
Profit for the year	24,000	16,000	15,600
Dividends paid	(14,000)	(5,000)	nil
Balance at 30 September 2006	120,000	71,000	71,600

Notes to the Financial Statements

Note 1

(i) On 1 October 2002 ABC purchased an 80% equity shareholding in MONO. The equity of MONO as shown in its own financial statements at that date was $35 million. At the date of acquisition MONO owned some land with a book value of $25 million and a market value of $35 million, and some plant with a book value of $12 million and a market value of $16 million. The plant is depreciated on a straight line basis and the remaining useful economic life of the plant at 1 October 2002 was estimated at four years.

(ii) On 1 February 2006 ABC purchased a 75% shareholding in TRIO. At the date of acquisition TRIO had registered a brand name that had a fair value of $27 million. TRIO had not recognised this amount in its own individual financial statements. The directors of ABC estimated that this brand would provide TRIO with significant competitive advantage for a 15-year period from 1 February 2006.

(iii) Other than mentioned in notes (i) and (ii) above there were no fair value adjustments necessary on acquisition of MONO or TRIO.

(iv) ABC presents depreciation and amortisation charges as part of cost of sales.

(v) No impairment of goodwill on acquisition of either company has been identified up to and including 30 September 2006.

(vi) In addition to the equity investments made by ABC in MONO and TRIO, on 1 February 2006 ABC lent $20 million to MONO at an effective annual interest rate of 8%.

Note 2

ABC supplies products used by MONO and TRIO. Sales of the products to MONO and TRIO during the year ended 30 September 2006 were as follows (all sales were made at a mark up of 25% on cost):

– Sales to MONO $10 million.
– Sales to TRIO (all in the post-acquisition period) $3 million.

At 30 September 2006 and 30 September 2005 the inventories of MONO and TRIO included the following amounts in respect of goods purchased from ABC.

Amount in inventory at:

	30/9/2006	30/9/2005
	$'000	$'000
MONO	2,000	1,200
TRIO	1,000	Nil

Required:

Prepare the consolidated income statement and summarised consolidated statement of changes in equity for ABC for the year ended 30 September 2006. Ignore deferred tax. (20 %)

(a) ALPHA – Consolidated Income Statement for the Year Ended 30 September 2006
[all numbers in $'000 unless otherwise stated]

Revenue (125,000 + 100,000 + 8/12 x 90,000 – 13,000)	272,000	
Cost of sales (balancing figure)		(153,560)
Gross profit (working 1)		118,440
Other operating expenses (20,000 + 15,000 + 8/12 x 15,000)		(45,000)
Income from investments (working 2)		11,933
Finance costs (working 3)		(22,933)
Profit before tax		62,440
Income tax expense (9,000 + 6,000 + 8/12 x 5,400)	(18,600)	
Profit for the year		43,840

Attributable to:

Equity shareholders of Alpha	38,540
Minority interest (working 4)	5,300
	43,840

Working 1 – Gross Profit:

Alpha + Beta + 8/12 x Gamma	121,000
Provision for unrealised profit:	
– Beta 25/125 [2,000 – 1,200]	(160)
– Gamma 25/125 x 1,000	(200)
Extra depreciation:	
– Beta plant [1/4 x [16,000 – 12,000]]	(1,000)
– Gamma brand [1/15 x 27,000 x 8/12]	(1,200)
	118,440

Working 2 – Income from investments

Alpha + Beta + 8/12 x Gamma		17,000
Dividend from Beta to Alpha (80% x 5,000)	(4,000)	

Interest from Beta to Alpha (20,000 x 8/12 x 8%)	(1,067)	
		11,933

Working 3 – Finance costs

Alpha + Beta + 8/12 x Gamma	24,000
Interest from Beta to Alpha (working 2)	(1,067)
	22,933

Working 4 – Minority Interest

– Beta 20% x (16,000 – 1,000)		3,000
– Gamma 25% x ((15,600 x 8/12) – 1,200)	2,300	
		5,300

ALPHA – Summarised Consolidated Statement of Changes in Equity for the Year Ended 30 September 2006 [all numbers in $'000 unless otherwise stated]

	Group	Minority Shareholders	Total
Balance at 1 October 2005 (W1 & W2)	138,560	14,200	152,760
Profit for the year	38,540	5,300	43,840
Dividends paid	(14,000)	(1,000)	(15,000)
Increase due to acquisition (W3)		22,050	22,050
Balance at 30 September 2006	163,100	40,550	203,650

Working 1 – Group equity at 1 October 2005

Alpha – per financial statements		110,000
Beta:		
– group share of post-acquisition movement per financial statements (80% (60,000 – 35,000))	20,000	
– group share of fair value adjustment on land (80% (35,000 – 25,000))	8,000	
– group share of net fair value adjustment on plant (80% (16,000 – 12,000) x 1/4)		800
Opening PURP (25/125 x 1,200)		(240)
		138,560

Working 2 – MI in equity at 1 October 2005

As per financial statements (20% x 60,000)	12,000	
In fair value adjustment on land (20% (35,000 – 25,000)	2,000	
In net fair value adjustment on plant		200

(20% (16,000 – 12,000) x 1/4)		14,200

Working 3 – MI in equity of Gamma at 1 February 2006

Equity of Gamma per financial statements at 1 October 2005		56,000
Increase per financial statements to 31 January 2006 (15,600 x 4/12)	5,200	
Fair value adjustment		27,000
		88,200
25% thereof		22,050