February Exam 2019 - Key

MULTIPLE CHOICE QUESTIONS (40%)

1	A
2	A
3	C
4	D
5	B
6	B
7	C
8	B
9	B
10	B

11	D
12	C
13	A
14	B
15	B
16	A
17	B
18	C
19	B
20	C

Exercise I (20%)

Leonard

Profit or loss for the year ended 30 June 2018

	2018	2017 as restated
	$000	**$000**
Sales	101,260	97,250
Cost of sales (W1)	(55,740)	(60,580)
Gross profit	45,520	36,670
Administrative expenses	(37,397)	(31,260)
Profit before taxation	8,123	5,410
Tax on profit	(3,141)	(2,260)
Profit for the year	4,982	3,150

Statement of changes in equity - extract

	Retained earnings
At 30 June 2017	**$000**
As previously stated	23,950
Prior year adjustment (W2)	(450)
As restated	23,500
Retained profit for the year	4,982
Dividend	(2,500)
At 30 June 2018 (26,162-180 (W3))	25,982

Workings

(1) Cost of sales

	2018	2017
	$000	**$000**
As previously	56,010	60,530
Less Amortisation	(870)	(450)
Add Expenditure in year	600	500
As restated	55,740	60,580

(2) Prior year adjustment (in statement of financial position at 30 June 2017)

Adjustment is the elimination of the $450,000 asset. This gives the figure for the prior year adjustment in the statement of changes in equity (i.e., adjustment in opening balances for the current year).

(3) Statement of financial position at 30 June 2018

Adjustment is $180,000 asset to be eliminated.

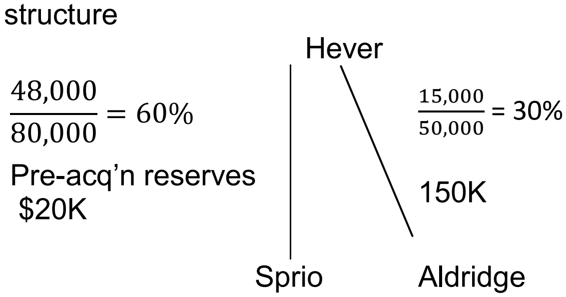
Exercise II (25%)

Consolidated Statement of Financial Position as at 31 December 20X4

	$000
Non-current Asset	
Property plant and equipment (370+190+(W7) 45)	605
Goodwill (W2)	8
Investment in associate (W3)	165
	778
Current Assets	
Inventories (160+100-(W6) 1.5)	258.5
Trade receivables (170+90)	260
Cash (80+40)	90
	608.5
	1,386.5
Equity attributable to owners to the parent	
Share capital	200
Share premium	100
Retained earnings (W4)	758.5
	1,058.5
Non-controlling interests (W5)	168
	1,226.5
Current liabilities	
Trade payables (100+60)	160
	1386.5

Workings:

1. Group structure



In the absence of information to the contrary, Spiro is a subsidiary, and Aldridge an associate of Hever.

2. Goodwill on consolidation – Spiro

	$000	**$000**
Consideration transferred		128
Non-controlling interests (at 'full' fair value)		90
Net assets at acquisition:		
Share capital	80	
Retained earnings	20	
Share premium	80	
Fair value adjustments (W7)	30	
		(210)
Goodwill arising on consolidation		8

3. Investment in associate

	$000
Cost of associate	90
Share of post-acquisition retained reserves (W4)	75
	165

4. Retained earnings

	Hever $000	Spiro $000	Aldridge $000
Per question	568	200	400
PUB (W6)	(1.5)	--	--
Fair value movement (W7)		15	
Pre-acquisition retained earnings		(20)	(150)
		195	250
Group share of post-acquisition retained earnings:			
Spiro (195 x 60%)	117		
Aldridge (250 x 30%)	75		
Less: group share of impairment losses to date	(0)		
Less: impairment losses on associate to date	(0)		
	758.5		

5. Non-controlling interests

	$000
NCI at acquisition (W2)	90
NCI share of post-acquisition retained earnings ((W4) 195 x 40%)	78
	168

6. Unrealised profit on inventories
   Mark-up: $16,000-$10,000 = $6,000
   $6,000 x $\frac{1}{4}$ =$1,500

7. Fair values – adjustment to net assets

	At Acquisition	Movement	At year end
Property, plant and equipment	50	(5)	45
Inventories	(20)	20	0
	30	15	45

Exercise III (15%)

a) *Statement of financial position*
   Closing net defined liability (1,450 – 1,130) 320

b) *Statement of profit or loss and other comprehensive income*

Service cost	70
Net interest (W1)	7
Profit or loss	77
Other comprehensive income: Remeasurements (W2)	98
Total comprehensive income	175

Workings:

(1) 3% x 245 opening net defined benefit liability (i.e. 1,270 – 1,025)

(2) Remeasurements:

Actuarial gain or loss on defined benefit liability:

Opening liability	1,270
Current service cost	70
Interest on opening liability (1,270 x 30%)	38
Actuarial loss to balance	72
Closing liability	1,450

Actual return on plan assets:

Opening asset	1,025
Cash contribution	100
Actual return to balance	5
Closing asset	1,130

Net interest on opening plan assets is 31 (1,025 x 3%), so decrease due to remeasurement is 26 (5-31). Net remeasurement is 98 (72 loss on liability + 26 loss on return).

c) Journal entries
d)

Dr	Profit or loss	77	
Dr	Other comprehensive income	98	
Cr	Cash (contribution)		100
Cr	Net defined benefit liability (W)		75

Working

Opening net liability (1,270-1,025)	245
Closing net liability (as (a))	320
Increase in liability	75