Basic Skills - Module

Financial Reports

Time allowed : 15 minutes for reading and planning

3 hours for writing

December 16 – 2025

Do not open this paper until instructed by the supervisor.

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

The Accountancy & Audit Profession Org. Council - Sudan

Paper F7

AAPOC

Financial reports (F7)

This exam is divided into three sections:

Section A

- **15 objective (OT) questions: each worth 2 marks.**
- **30 marks in total.**

Section B

- **Three OT cases. each containing a scenario which relates to five OT questions; each worth 2 marks.**
- **30 marks in total,**

Section C

- **Two constructed response questions, each containing a scenario which relates to one or more requirements.**
- **Each constructed response question is worth 20 marks in total.**
- **40 marks in total**

F7 Financial Reporting

Section A

This section of the exam contains 15 objective test (OT) questions.

Each question is worth 2 marks and is compulsory.

This exam section is worth 30 marks in total.

1. **Which of the following CANNOT be recognised as an intangible non-current asset in GHK's consolidated statement of financial position at 30 September 20X1?**
   - A. GHK spent $132,000 developing a new type of product. In June 20X1 management worried that it would be too expensive to fund. The finances to complete the project came from a cash injection from a benefactor received in November 20X1.
   - B. GHK purchased a subsidiary during the year. During the fair value exercise, it was found that the subsidiary had a brand name with an estimated value of $50,000, but had not been recognised by the subsidiary as it was internally generated.
   - C. GHK purchased a brand name from a competitor on 1 November 20X0, for $65,000.
   - D. GHK spent $21,000 during the year on the development of a new product, after management concluded it would be viable in November 20X0. The product is being launched on the market on 1 December 20X1 and is expected to be profitable.

2. **BN has an asset that was classified as held for sale at 31 March 20X2. The asset had a carrying amount of $900 and a fair value of $800. The cost of disposal was estimated to be $50. According to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which value should be used for the asset as at 31 March 20X2?**
   - A. $750
   - B. $800
   - C. $850
   - D. $900

3. **Which description defines information that is relevant to users of financial information?**
   - A. Information that is free from error, bias and is a faithful representation of events
   - B. Information that has been prudently prepared
   - C. Information that is comparable from one period to the next D
   - D. Information that influences the decisions of users

4. **Which of the following statements regarding IFRS 13 Fair Value Measurement is not true?**
   - A. Level 1 inputs are likely to be used without adjustment.
   - B. Level 3 inputs are based on the best information available to market participants and are therefore regarded as providing the most reliable evidence of fair value.
   - C. Level 2 inputs may include quoted prices for similar (but not identical) assets and liabilities in active markets.
   - D. DLevel 1 inputs comprise quoted prices in active markets for identical assets and liabilities at the reporting date.

5. Magna owned cattle recorded in the financial statements at $10,500 on 1 January 20X4.At 31 December 20X4 the cattle have a fair value of $13,000. If Magna sold the cattle, commission of 2% would be payable.

What is the correct accounting treatment for the cattle at 31 December 20X4 according to IAS 41 Agriculture?

A. Hold at cost of $10,500
B. Revalue to $13,000, taking gain of $2,500 to the statement of profit or loss
C. Revalue to $13,000, taking gain of $2,500 to the revaluation surplus
D. Revalue to $12,740, taking gain of $2,240 to the statement of profit or loss

6. On 1 July 20X7, an entity purchased a five-year loan note investment with a par value of $7m. The investment was purchased at a 12% discount. The loan note has a coupon rate of 5% and an effective interest rate of 7%. Interest is receivable annually in arrears. The entity has the intention of holding the loan note to receive the contractual cash flows.

How much finance income should be reported in the statement of profit or loss of the entity for the year ended 30 June 20X9 (to the nearest $000)?

$..........................,000

7. CN started a three-year contract to build a new university campus on 1 April 20X4. The contract had a fixed price of $90 million. CN will satisfy the performance obligation over time. CN incurred costs to 31 March 20X5 of $77 million and estimated that a further $33 million would need to be spent to complete the contract.

CN measures the progress of contracts using work completed compared to contract price. At 31 March 20X5, a surveyor valued the work completed to date at $63 million.

Select the correct amounts to be shown in revenue and cost of sales in the statement of profit or loss for the year ended 31 March 20X5?

Revenue	Cost of Sales
$63 million	$77 million
$57 million	$83 million

8. Garfish had profits after tax of $3 million in the year ended 31 December 20X7. On 1 January 20X7, Garfish had 2.4 million ordinary shares in issue. On 1 April 20X7 Garfish made a one for two rights issue at a price of $1.40 when the market price of Garfish's shares was $2.00.

What is the basic earnings per share (to one decimal place) for the year ended 31 December 20X7, according to IAS 33 Earnings Per Share?

....cents.

9. On 1 October 20X3, Xplorer commenced drilling for oil in an undersea oilfield. The extraction of oil causes damage to the seabed which has a restorative cost (ignore discounting) of $10,000 per million barrels of oil extracted. Xplorer extracted 250 million barrels of oil in the year ended 30 September 20X4.

   Xplorer is also required to dismantle the drilling equipment at the end of its five-year licence. This has an estimated cost of $30 million on 30 September 20X8. Xplorer's cost of capital is 8% per annum and $1 has a present value of 68 cents in five years' time.

   What is the total provision (extraction plus dismantling) which Xplorer would report in its statement of financial position as at 30 September 20X4 in respect of its oil operations?

   A. $34,900,000
   B. $24,532,000
   C. $22,900,000
   D. $4,132,000

10. Which TWO of the following situations are unlikely to represent control over an investee?

   A. Owning 55% and being able to elect 4 of the 7 directors
   B. Owning 51%, but the constitution requires that decisions need the unanimous consent of shareholders
   C. Having currently exercisable options which would take the shareholding in the investee to 55%
   D. Owning 40% of the shares but having majority of voting rights within the investee
   E. Owning 35% of the ordinary shares and 80% of the preference shares of the investee

11. Identify which concept each of the following transactions is applying

	Single entity concept	Going concern concept
Removing unrealised profits on group sales		
Removing intra-group balances		

12. Identify whether the following statements are true or false:

	True	False
The profit made by a parent on the sale of goods to a subsidiary is only realised when the subsidiary sells the goods to a third party		
Eliminating intra-group unrealised profits never affects non-controlling interests		
The profit element of goods supplied by the parent to an associate and held in year-end inventory must be eliminated in full		

13. The following extracts of the financial statements of Wiggo have been obtained:

	20X5
Inventories	$130,000
Receivables	$80,000
Cash	$10,000
Loan repayable 20X8	$90,000
Deferred tax	$14,000
Payables	$70,000
Overdraft	$34,000

What is the quick ratio of Wiggo?

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14. The following information has been taken or calculated from Fowler's financial statements for the year ended 30 September 20X4.

Fowler's cash cycle at 30 September 20X4 is 70 days. Its inventory turnover is six times.

Year-end trade payables are $230,000.

Purchases on credit for the year were $2 million.

Cost of sales for the year was $1.8 million.

What is Fowler's trade receivables collection period as at 30 September 20X4?

$...................................Days.

15. At 1 January 20X0 Casey had property, plant and equipment with a carrying amount of $180,000. In the year ended 31 December 20X0 Casey disposed of assets with a carrying amount of $60,000 for $50,000. Casey revalued a building from $75,000 to $100,000 and charged depreciation for the year of $20,000. At the end of the year, the carrying amount of property, plant and equipment was $250,000.

How much will be reported in the statement of cash flows for the year ended 31 December 20X0 under the heading 'cash flows from investing activities'?

A. $75,000 outflow
B. $125,000 outflow
C. $135,000 outflow
D. $50,000 inflow

Section B

This section of the exam contains three OT cases.

Each OT case contains a scenario which relates to five OT questions.

Each question is worth 2 marks and is compulsory.

This exam section is worth 30 marks in total.

Question 1:

The following issues relating to Chestnut Co's non-current assets are outstanding for the year ended 31 December 20X7:

Factory

At 1 January 20X7, Chestnut Co's factory had a carrying amount of $5m. It has a remaining useful life of ten years at that date. On 31 December 20X7 there was an impairment review of the factor and the recoverable amount was deemed to be $2.5m. Chestnut Co's factory had previously beer revalued upwards and the revaluation surplus has a credit balance of $1m relating to this factory.

Head Office

Chestnut Co's head office cost $12m on 1 January 20X1 and is being depreciated over a 40-year life.

On 31 December 20X4, there was an impairment review of the head office and the recoverable amount was deemed to be $9m. A more recent valuation, at 31 December 20X7, has estimated that the recoverable amount of the head office is $11m.

Machinery

On 1 April 20X7, Chestnut Co received a grant of $2.6m towards new production machinery. The machinery cost $4m and is expected to have a useful life of five years. Depreciation is charged on a straight-line proportionate basis. Chestnut Co uses the cost model when accounting for its head office, and the deferred income method in relation to government grants.

1. **Which of the following assets belonging to Chestnut Co require an annual impairment review?**
   - A. **The head office only**
   - B. **The machinery only**
   - C. **Both the head office and the machinery**
   - D. **Neither the head office nor the machinery**

2. **In accordance with IAS 36 Impairment of Assets, what is the correct journal entry to reflect the depreciation and the impairment of Chestnut Co's factory for the year ended**

31 December 20X7?

- A. **Dr Statement of profit or loss $1.5m, Dr Revaluation surplus $1m, Cr Non-current assets $2.5m**
- B. **Dr Statement of profit or loss $2.5m, Cr Non-current assets $2.5m**
- C. **Dr. Non-Current assets $2.5m, Cr Statement of profit or loss 1. 5m, Cr Non-current assets $1m.**
- D. **Dr Non-current assets $2.5m, Cr Statement of profit or loss $2.5m**

3- What is the carrying amount of Chestnut Co's head office in the statement of financia position as at 31 December 20X7?

A. $8.25m
B. $9.9m
C. $10.8m
D. $11m

4- Which of the following statements relating to government grants is correct?

A. The deferred income method should always be used for grants related to assets
B. Grants related to income must be disclosed separately in the statement of profit or loss as other income
C. The deferred income method should only be used if the grant is repayable
D. Grants related to assets can be accounted for using either the deferred income method or by deducting from the asset's carrying amount

5- What is the carrying amount of the non-current liability in respect of the government gran in Chestnut Co's statement of financial position as at 31 December 20X7

A. $2.08m
B. $1.69m
C. $2.21m
D. $1.56m

Question 2:

Schrute owns a herd of cattle, which produce milk. Schrute then turns this into cheese. On 1 April 20X5, Shrute purchased a flock of sheep for $100,000, which included transaction costs of $5,000. At 31 March 20X6, the flock was valued at $120,000. Every time animals are sold there is a 5% commission fee payable to the national farming agency.
Shrute uses the historical cost model and charges all depreciation as an operating expense.
In addition to this, Schrute uses a number of items of specialised farm machinery. This machinery cost Schrute $200,000 on 1 April 20X2 and has a 10-year useful life. At 31 March 20X6, there is only one supplier who still sells this machinery and the current price of new machinery is $300,000.

1- **Which of the following items held by Schrute will be accounted for under the provisions of IAS 41 Agriculture?**

(i) Herd of cattle

(ii)Milk

(iii) Cheese

- A. **Only (i)**
- B. **(i) and (iii) only**
- C. **(i) and (ii) only**
- D. **All three items**

2- **What gain should be taken to Shrute's statement of profit or loss for the year ended 31 March 20X6 in respect of the flock of sheep?**

$_...................................

3- **Using current cost accounting, what is the value of the machinery at 31 March 20X6?**

- A. **$120,000**
- B. **$180,000**
- C. **$200,000**
- D. **$300,000**

4- **At 31 March 20X6, a valuations expert informed the directors of Schrute that the property owned and used by Shrute for farming had significantly increased in value. This had been**

"s farm with no adjustments necessary.

Which of the following inputs within IFRS 13 Fair Value Measurement describes the method used to value the farm?

- A. **Level 1 input**
- B. **Level 2 input**
- C. **Level 3 input**
- D. **Level 4 input**

5- If Schrute chooses to value the farm at the market value, which TWO of the following ratios will NOT be affected?

- **A. Current ratio**
- **B. Return on capital employed**
- **C. Gross profit margin**
- **D. Gearing**
- **E. Net profit (before tax) margin**

Question 3:

Promoil's financial statements for the year ended 30 September 20X8 were authorised for issue by its directors on 6 November 20X8 and the Annual General Meeting will be held on 6 December 20X8.

On 1 October 20X7, Promoil acquired an oil platform at a cost of $30 million. The estimated cost of removing the platform at the end of the asset's life on 30 September 20Y7 will be $15 million. The present value of $1 in 10 years using Promoil's cost of capital of 8% is $0.46.

On 12 October 20X8 a fire destroyed Promoil's largest warehouse. The carrying amount of the warehouse was $10 million. Promoil expects to be able to recover $9 million from its insurers and its going concern is not in doubt.

A single class of inventory held at another warehouse was valued at its cost of $460,000 and sold for $280,000 on 10 October 20X8.

1- **There is no legal obligation for Promoil to remove the oil platform, but Promoil has published environmental policy which it has a history of honouring**

Which of the following is correct regarding Promoil' proposed accounting treatment?

- A. **No provision should be recorded as there is no legal obligation**
- B. **Promoil should recognise a provision as there is a constructive obligation**
- C. **No provision should be made but a contingent liability should be recorded**
- D. **If Promoil make a provision, the present value of the cost will be expensed in the statement of profit or loss for the year end to 30 September 20X8**

2- **If Promoil makes the provision, what liability (to the nearest thousand) will be shown in it statement of financial position as at 30 September 20X8**

$..,000

3- **Select the correct category for the events listed below in relation to IAS 10 (Events After the Reporting Period) .**

	Adjusting	Non-adjusting
Fire in the warehouse		
Sale of inventory		

4- **On 18 November 20X8 the government announced tax changes which have the effect of increasing Promoil's deferred tax liability by $650,000 as at 30 September 20X8.**

Which of the following is correct in respect of IAS 10 Events After the Reporting Perio egarding the tax changes?

- A. **This is a non-adjusting event and no disclosure is required**
- B. **This is an adjusting event**
- C. **This is neither an adjusting or non-adjusting event**
- D. **This is an adjusting event and the financial statements should be reissued**

5- **Promoil owns the whole of the equity share capital of its subsidiary Hamlet. Hamlet's statement of financial position includes a loan of $25 million that is repayable in five years' time. $15 million of this loan is secured on Hamlet's property and the remaining $10 million is guaranteed by Promoil in the event of a default by Hamlet. It is possible that Hamlet will be unable to repay the loan, but not likely.**

How should this be treated in the financial statements of Promoil?

A. **A contingent liability**

B. **A provision**

C. **Not included in Promoil's financial statements**

D. **A reduction to property, plant and equipment**

Section C

This section of the exam contains two constructed response questions.
Each question contains a scenario which relates to one or more requirement(s) which may be split over multiple question screens.
Each question is worth 20 marks and is compulsory.
This exam section is worth 40 marks in total.

Question 1:

On 1 October 20X3, Penketh acquired 90 million of Sphere's 150 million $0.50 equity shares. Penketh willpay $1.54 cash on 30 September 20X4 for each share acquired. Penketh's finance cost is 10% per annum. Sphere's share price as at 1 October 20X3 was $1.25. The statemen f profit or loss and other comprehensive income for the year ended 31 March 20X4 are

	Penketh	Sphere
	$000	$000
Revenue	620,000	310,000
Cost of sales	(400,000)	(150,000)
Gross profit	220,000	160,000
Distribution costs	(40,000)	(20,000)
Administrative expenses	(36,000)	(25,000)
Investment income	5,000	1,600
Finance costs	(2,000)	(5,600)
Profit before tax	147,000	111,000
Income tax expense	(45,000)	(31,000)
Profit for the year	102,000	80,000
Other comprehensive income		
Gain/(loss) on revaluation of land (note (2))	(2,200)	1,000
Total comprehensive income for the year	99,800	81,000

The following information is relevant:

1. **A fair value exercise on 1 October 20X3 concluded that the carrying amounts o phere's net assets were equal to their fair values with the following exceptions:**
   - **Plant with a remaining life of two years had a fair value of $6 million in excess of its carrying amount. Plant depreciation is charged to cost of sales.**

- **Penketh placed a value of $5 million on Sphere's good relationships with its customers. Penketh expected, on average, a customer relationship to last for a further five years. Amortisation is charged to administrative expenses.**

2. **Sphere's land, valued using the revaluation model, increased by $1 million since the acquisition.**
3. **After the acquisition Penketh sold goods to Sphere for $20 million at a 25% mark-up. Sphere had one fifth of these goods still in inventory at 31 March 20X4.**
4. **All items accrue evenly over the year unless otherwise indicated. Sphere had retained earnings of $70 million at 1 April 20X3. There were no other components of equity at this date.**
5. **Penketh measures the non-controlling interest at fair value at the date of acquisition. To calculate fair value, the share price of Sphere should be used.**

Required:

(a) **Calculate goodwill arising on the acquisition of Sphere as at 1 October 20X3.**

(5 marks)

(b) **Prepare the consolidated statement of profit or loss and other comprehensive income of Penketh for the year ended 31 March 20X4.**

(15 marks)

(Total: 20 marks)

Question 2:

Extracts from the financial statements of the Parul Group and Parul Co for the years ended 1 December 20X8 and 20X7 are shown below:

Statement of profit or loss (extracts):

	Parul Group 20X8 $000	Parul Co (single entity) 20X7 $000
Revenue	267,920	254,680
Cost of sales	(165,840)	(157,360)
Gross profit	102,080	97,320
Net operating expenses	(44,920)	(41,240)
Profit from operations	57,160	56,080

Statement of financial position (extracts):

	Parul Group 20X8 $000	Parul Co (single entity) 20X7 $000
Inventories	151,920	121,800
Cash and cash equivalents	15,120	19,160
Long-term borrowings	798,400	675,600

On 1 September 20X8, Parul Co acquired a subsidiary, Saachi Co, purchasing 100% of the equity shares. This acquisition has been correctly accounted for. Summary financial information of Saachi Co for the year ended 31 December 20X8 is as follows:

Statement of profit or loss:

	$000
Revenue	87,600
Cost of sales	(30,780)
Gross profit	56,820
Net operating expenses	(8,020)
Operating profit	48,800

Extracts from statement of financial position:

	$000
Inventories	4,240
Cash and cash equivalents	14,680

For several years, Saachi Co has provided a consultancy service to Parul Co, for which it invoices $400,000 per month. Parul Co includes this as an operating expense and pays Saachi as soon as it receives the invoice.

Parul Co is being considered as a possible acquisition target. The following ratios have been calculated based on the 20X8 Parul Co consolidated financial statements:

Gross profit margin	**38.1%**
Operating profit margin	**21.3%**
Inventory turnover period	**334 days**

There is concern that the acquisition of Saachi Co may make it difficult to assess the underlying performance of Parul Co in 20X8 compared to 20X7.

Required

(a) Restate the following items for the Parul Group for 20X8 as though the acquisition of Saachi Co had not taken place:

- **the consolidated statement of profit or loss**
- **inventories**
- **cash and cash equivalents**

(6 marks)

(b) The scenario provides three ratios calculated for 20X8. Calculate equivalent ratios for Parul Co for 20X7 and, using the adjusted 20X8 figures calculated in part (a), restate the 20X8 ratios.

(3 marks)

(c) Comment on Parul Co's performance and on its liquidity position in respect of inventory and cash.

Note: Your answer should refer to the impact that the acquisition of Saachi Co might have on your analysis.

(11 marks)

(Total: 20 marks)