Professional- Module

Facility Reports

Time allowed : 15 minutes for reading and planning

3 hours for writing

December 17 – 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 P2

AAPOC

Facility Reports (P2)

Section (A)

Question (1):

ReadSea Co has equity in several companies including Omdurman Co. The directors of Red Sea Co have prepared an incorrect spreadsheet of the consolidated statement of financial position at 1 April 20X6 (exhibit 4). All goodwill other than that relating to Omdurman Co has been impaired. The financial year end is 31 March each year.

The following exhibits , available below , provide information relevant to the question:

1. Initial acquisition of Omdurman Co-initial purchase of 30% of Omdurman Co on 1 April 20X4.
2. Subsequent acquisition of Omdurman Co-subsequent 18% purchase of Omdurman Co and the purchase of share options on 1 April 20X6.
3. Fair value of net assets of Omdurman Co-at 1 April 20X6.
4. Draft consolidated SOFP-Draft consolidated statement of financial position (SOFP) at 1 April 20X6.

This information should be used to answer the question requirements within your chosen response option(s)

1- Initial acquisition of Omdurman Co

On 1 April 20X4 Read Sea Co acquired 30% of the equity shares of Omdurman Co. The consideration consisted of $100 million cash. The carrying amount of the net assets of Omdurman Co on 1 April 20X4 was $286 million which was the same as the fair value. Since then, Omdurman Co has been stated at cost in the consolidated financial statements of Read Sea Co.

The remaining 70% of the equity of Omdurman Co at 1 April 20X4 was owned by a few other investors, none of which owned more than 10% of the equity of Omdurman Co. Analysis shows that all shareholders have voted independently in the past. There has been no clear past voting pattern suggesting that Read Sea Co is unable to directly influence the economic decisions of the other investors. Read Sea Co and Omdurman Co share some key management personnel.

The carrying amount of the net assets of Omdurman Co on 31 March 20X6 was $348 million. The increase in the net assets of Omdurman Co since acquisition was solely due to profits. Omdurman Co has paid no dividends since 1 April 20X4.

2- Subsequent acquisition of Omdurman Co

Read Sea Co acquired a further 18% of Omdurman Co's equity on 1 April 20X6.

The remaining 52% of the equity of Omdurman Co at 1 April 20X6 is owned by a few other investors, none of which own more than 10% of the equity of Omdurman Co.

On 1 April 20X6Read Sea Co also acquired some share options in Omdurman Co exercisable any time until 31 March 20X7. The exercise price of the options at 1 April 20X6 was just above the market price of Omdurman Co's shares. Omdurman Co has been profitable for a number of years and the share price has been on an upwards trend which is expected to continue. ReadSea Co would increase its ownership to 60% should it exercise its rights. It is believed that there would be additional cost savings should the additional shares be acquired as decisions at board level could be more efficiently.

3- Fair value of net assets of Omdurman Co

The directors of ReadSeaCo have prepared a spreadsheet of the consolidated statement of financial position (SOFP) as at 1 April 20X6 (Exhibit 4). The investments in Omdurman Co have been stated at cost ($100 million and $66 million) and the net assets of Omdurman Co have been included at their carrying amounts. The equity of Omdurman Co has also been included as a balancing figure. Goodwill has not been calculated.

The consideration for the further 18% of the equity shares of Omdurman Co on 1 April 20X6 is included in the SOFP at the cash amount of $66 million. The fair value of the original 30% equity interest was $127 million at 1 April 20X6.

The carrying amounts of the net assets of Omdurman Co on 1 April 20X6 were as follows:

	$m
Non-current assets	355
Current assets	214
Deferred tax liability	(16)
Current liabilities	(205)
Total	348

❖ Included within the non-current assets some land. The carrying amount of this land at 1 April 20X6 is $50 million but its fair value is assessed to be $60 million at this date. Current assets include finished goods with a cost of $84 million. The fair value of these goods is $131 million.

On 1 April 20X6, the directors of Read Sea Co also identified that Omdurman Co had an internally generated database of customers who were likely to be interested in purchasing their products. Although there were no contractual or legal rights associated with this database, a professional expert has estimated that competitors of Omdurman Co would be prepared to pay $5 million for this database. Omdurman Co has not recognised the database as an asset within the individual financial statements.

The current rate of tax is 20%. This rate should be applied to any fair value adjustments deemed necessary.

ReadSea Co measures the non-controlling interest as a proportionate share of the net assets at the date of acquisition.

4- Draft consolidated SOFP

	$m
Assets	
Non-current assets	
Property, plant and equipment	2,021
Investment in associate	100
Further investment in associate	66
Goodwill	0
Other non-current assets	186
	2,373
Current assets	542
Total assets	2,915
Equity	
Equity attributable to equity holders of the company	
Share capital	150
Other components of equity	370
Retained earnings	1,157
	1,677
Non-controlling interest	0
Grin's equity	348
Total equity	2,025
Liabilities	
Non-current liabilities	
Deferred income tax liabilities	314
	314
Current liabilities	576
Total liabilities	890
Total equity and liabilities	2,915

Required :

i. **Using exhibit 1 only , discuss why Omdurman Co should be classified as an associate , and not a subsidiary , on 1 April 20X4. (4 marks)**

ii. **Using exhibit 1 only , explain how Omdurman Co should be accounted for as an associate using the equity method in the consolidated statement of financial position of ReadSea Co at 31 March 20X6. (3 marks)**

Using exhibit 2 , explain briefly why the classification of ReadSea Co's investment in OmdurmanCo should change on 1 April 20X6 to that of a subsidiary. (3 marks)

i. **Using exhibit 2 , explain briefly how the additional purchase of the 18% equity in Omdurman Co should be accounted for in the consolidated financial statements of ReadSea Co. (2 marks)**

ii. **Using exhibit 3 , explain how the fair value of the non-current and current assets of Omdurman Co at 1 April 20X6 (including any deferred tax adjustments) should be calculated . (6 marks)**

iii. **Using the pre-populated spreadsheet response option with exhibit 3 and your previous answers, adjust the spreadsheet prepared by the directors of ReadSea Co in order to prepare a corrected consolidated statement of financial position at 1 April 20X6. The spreadsheet should take into account the following:**

- **accounting for the associate using the equity method**
- **the change in classification from associate to subsidiary**
- **the fair value adjustments on acquisition, and**
- **goodwill using the proportionate share of net assets method to calculate the non-controlling interest. (12marks)**

(Total: 30 marks)

Question (2):

Balsam Co is a pharmaceutical company. The financial year end of Balsam Co is 31 December 20X7.

The following exhibits, available below, provide information relevant to the question:

1. Ethical considerations-describes the ethical issues surrounding Balsam Co.
2. Operating segments-describes the potential operating segments in Balsam Co.

This information should be used to answer the question **requirements** within the **response option** provided.

1- Ethical considerations

The finance director (FD) of Balsam Co is not a permanent employee but is paid on a consultancy basis. He is currently on a six-month contract. The chief executive officer (CEO) is a personal friend of the FD and she recommended him to the board of Balsam Co. The FD and the CEO are both ACCA members.

Balsam Co currently has a cash flow problem, and the CEO has asked the FD if he is prepared to reduce his current fee by 50%. The FD's contract is due for renewal in the next month. The CEO has recently spoken to the FD and stated that his contract is more likely to be renewed if he is prepared to take a fee reduction. She has also said that if he needs support, then as a friend, she will help him.

The FD is upset by the fee request as no other director has taken a cut in their salary. He is currently undertaking a going concern review of Balsam Co, but has decided not to complete his report until he has considered his position with Balsam Co.

The FD's findings will also form part of a submission to the government for funding and will be shared with the external auditors. He knows that the current cash flow position would indicate that the company is not a going concern and that if he submitted his report, there would be no government funding. There is also the possibility that the financial statements would receive a qualified audit report. He is considering overstating future potential returns on investments.

In addition, many of the accounting staff are remote employees, meaning that they are now working at home rather than working in the office. The FD is worried about the possibility of data theft. Unfortunately, he does not have the skills, nor does Balsam Co have the capacity, to undertake a widespread investigation into the issue. Given the current request to reduce his fee and the cash flow situation, he also does not have the incentive to deal with the potential data theft or inform the board to enable them to address any potential problem. However, he has asked the information technology department to add productivity monitoring software to all remote employees ' computers without their permissions of knowledge and any employee who spends time on non-business websites will be immediately disciplined

2- Operating segments

Balsam Co has four divisions (A, B, C and D). Divisions A and B produce and sell to third parties. Division A produces, generating 60% of Balsam Co's total revenue. Division B produces allergy testing kits and sells them to pharmacy wholesalers, generating 20% of Balsam Co's total revenue.

Division B's long-term average gross profit margin is significantly higher than division A's. Divisions C and D undertake research and development. Division C does not provide any research and development services to third parties and only conducts activities for divisions A and B. Division C does not generate revenue from any internal or external source. It is purely a cost centre operating from division D's premises.

Division D performs contract investigation activities from other laboratories and pharmaceutical companies. The external revenues of this division represent 20% of Balsam Co's total revenues.

The operating results for divisions A, B, and D are regularly reviewed by the CEO. These results include separate divisional operating profit or loss statements, from which operational decisions are made. The costings and budgets for division C are also reviewed by the CEO.

There are four divisional heads who are directly accountable to the CEO and these heads regularly discuss the operating activities including the research and development activities, financial results, forecasts and plans for their division.

The CEO is the chief operating decision maker.

<u>Required:</u>

(a) Using exhibit 1, discuss the ethical issues caused by the current business situation.

(10 marks)

(b) Explain, in accordance with the principles of IFRS 8 Operating segments, whether divisions A, B, C and D should be treated as separate reportable segments. Your explanation should cover:

- **The definition of an operating segment**
- **The aggregation of operating segments, and**
- **The identification of reportable segments.** **(10marks)**

(Total: 20 marks)

Section (B)

Answer Tow question

Question (1) :

(A)

Manama has identified an impairment loss of S4 1m for one of its cash, generating units, the carrying amount of the unit`s net assets was $150m, whereas the unit`s recoverable amount was only$109m. The draft values of the net assets of the unit are as follows:

	$m
Goodwill	13
Property	20
Machinery	49
Vehicles	35
Patents	14
Net monetary assets	19
	150

The net selling price of the unit`s assets were insignificant except for the property, which had a market value of $35m. The net monetary assets will be realized in full.

Required:

- **How is the impairment loss allocated to the assets within the cash-generating unit?**

(15 marks)

(B)

On 31 march20x1, caw entered into a contract to construct a specialized factory for a customer. The customer paid an upfront deposit which is only refundable if caw fails to complete construction in line with the contract. The remainder of the price is payable when the customer takes possession of the factory. If the customer defaults on the contract before completion of the factory, caw only has the right to retain the deposit.

Required:

- **Should Craw recognize revenue from the above transaction Over time or at appoint in time?**

(10 marks)

(Total: 25 marks)

Question (2) :

(A)

On 1 january 20x1, Future Company entered into a four-year lease of property with annual lease payments of $1 million, payable at the beginning of each year. according to the contract, lease payments will increase every year on the basis of the increase in the consumer price index for the preceding 12 months , the consumer price index at the commencement date is 125. the interest rate implicit in the lease is not readily determinable. Future Company `s incremental borrowing rate is 5 per cent per year.

At the beginning of the second year of the lease the consumer price index is 140.

Required:

Discuss how the lease will be accounted for:

- **During the first year of the contract**
- **On the first day of the second year of the contract.**

(15 marks)

(B)

An entity sells a building for $2 million and retains the right to buy it back for $3 million in five years` time. At the date of sale, the building had affair value of $7 million. Property prices are expected to rise.

Required:

- **Should the building be removed from the financial statements or Not ?**

(10marks)

(Total: 25 marks)

Question (3) :

(A)

On 1 January 20X4, an entity grants rights to 20 employees. If still employed on 31 December 20X6, the employees can elect to receive either 800 options or cash to the value, on that date, of 700 shares. The fair value of the options is $19 at the grant date. The reporting date is 31 December.

The following information is available:

	Share price $	Expected vesters
1 January 20X4	**21**	**20**
31 December20X4	**27**	**20**
31 December20X5	**33**	**18**
31 December20X6	**42**	**17**

Required:

- **Calculate and explain the impact of the share-based payment on The financial statements for each of the three years.**

(15 marks)

(B)

During the year ended 31 December 20X1, ALmaza Co spent $2 million on researching and developing a new product. The entity has recognized all $2 million as an intangible asset.

A breakdown of the expenditure is provided below:

	$m
Research into materials	**0.5**
Market research	**0.4**
Employee training	**0.2**
Development activities	**0.9**

The expenditure on development activities was incurred evenly over the year. It was not until 1 may 20X1 that market research indicated that the product was likely to be profitable. At the reporting date, the product development was not yet complete.

Required:

- **Discuss the correct accounting treatment of the research and development expenditure in the year ended 31 Deceber20X1.** **(10 marks)**

(Total: 25 marks)