# <u>First section</u>

## <u>QUESTION (1) Compulsory:</u>

**THE FOLLOWING ARE SUN GROUP STATEMENT OF FINANCIAL POSITION AS AT 31/12/2016**

| | **SUN CO.**<br>**SDG 000** | **MOON CO.**<br>**SDG 000** | **STAR CO.**<br>**SDG 000** |
|---|---|---|---|
| **NON – CURRENT ASSETS :-** | | | |
| TANGIBLE ASSETS | 3.820 | 4.425 | 500 |
| DEVELOPMENT EXPENDITURE | 0 | 200 | 0 |
| INVESTMENTS | <u>1.600</u> | <u>0</u> | <u>0</u> |
| | 5.420 | 4.625 | 500 |
| **CURRENT ASSETS :-** | | | |
| INVENTORY | 2.740 | 1.280 | 250 |
| RECEIVABLES | 1.960 | 980 | 164 |
| CASH AT BANK | <u>1.260</u> | <u>0</u> | <u>86</u> |
| | 5.960 | 2.260 | 500 |
| | | | |
| **TOTAL ASSETS** | **11.380** | **6.885** | **1.000** |
| | | | |
| **CAPITAL AND RESERVES :-** | | | |
| ORDINARY SHARES OF 25 PIASTER EACH | 4.000 | 500 | 200 |
| RESERVES :- | | | |
| SHARE PREMIUM | 800 | 125 | 0 |
| RETAINED EARNINGS AT 31/12/2015 | 2.300 | 380 | 450 |
| PROFIT FOR THE YEAR | <u>1.760</u> | <u>400</u> | <u>150</u> |
| | 8.860 | 1.405 | 800 |
| | | | |
| **CURRENT LIABILITIES :-** | | | |
| TRADE PAYABLES | 2.120 | 3.070 | 142 |
| BANK OVERDRAFT | 0 | 2.260 | 0 |
| TAXATION | <u>400</u> | <u>150</u> | <u>58</u> |
| | 2.520 | 5.480 | 200 |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | **11.380** | **6.885** | **1.000** |

THE FOLLOWING INFORMATION IS RELEVANT FOR THE PREPARATION OF THE FINANCIAL STATEMENTS: -

(1) **INVESTMENTS:**
SUN CO. ACQUIRED 80% OF SHARE CAPITAL OF MOON CO. ON 1/1/2016 AND PAID SDG 1.200.000 . ON 30/6/2015 SUN CO. ACQUIRED 40% OF THE SHARE CAPITAL OF STAR CO.FOR SDG 400.000.

(2) **GROUP ACCOUNTING POLICIES:**
THE DEVELOPMENT EXPENDITURE IN THE STATEMENT OF FINANCIAL POSITION OF MOON CO. DOES NOT MEET THE RECOGNITION CRITERIA FOR INTANGIBLE ASSETS AS PRESCRIBED BY IAS (38). IT RELATES TO A PROJECT THAT WAS COMMENCED ON 1/4/2014. AT THE DATE OF ACQUISTION THE VALUE OF CAPITALISED EXPENDITURE WAS SDG 80.000. NO DEVELOPMENT EXPENDITURE OF MOON CO. HAS YET BEEN AMORTIGED.

(3) **GOODWILL:**
NON-CONTROLLING INTEREST IS VALUED AT ITS PROPORTIONATE SHARE OF THE IDENTIFIABLE NET ASSETS ACQUIRED. ITS NOT CERDITED WITH ITS SHARE OF GOODWILL. THE GOODWILL WAS TESTED FOR IMPAIRMRNT AT THE YEAR END AND IT WAS FOUND THAT THE GOODWILL IN RESPECT OF MOON CO. WAS IMPAIRED BY SDG 92.000.
AS THE CARRYING VALUE OF THE INVESTMENT IN STAR CO. IS LESS THAN ITS RECOVERABLE AMOUNT THERE IS NO IMPAIRMENT TO RECOGNISE IN THE CONSOLIDATED ACCOUNTS.

(4) **INTRA – GROUP TRADING:**
THE INVENTORY OF SUN CO. INCLUDES GOODS AT A TRANSFER PRICE OF SDG 200.000 PURCHASED FROM MOON CO. AFTER THE ACQUISTION. THE INVENTORY OF STAR CO. INCLUDE GOODS AT A TRANSFER PRICE OF SDG 125.000 PURCHASED FROM SUN CO. ALL TRANSFERS WERE AT COST PLUS 25%.
THE RECEIVABLES OF SUN CO. INCLUDE AN AMOUNT OWING FROM MOON CO. OF SDG 250.000. THIS DOES NOT AGREE WITH THE CORRESPONDING AMOUNT IN THE BOOKS OF MOON CO. DUE TO A CASH PAYMENT OF SDG 50.000 MADE ON 30/12/2016 WHICH HAD NOT BEEN RECEIVED BY SUN CO. AT THE YEAR END.

(5) **SHARE PREMIUM:**
THE SHARE PREMIUM ACCOUNT OF MOON CO. AROSE PRIOR TO THE ACQUISTION BY SUN CO.

**REQUIRED**

PREPARE A CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF SUN GROUP AS AT 31/12/2016?

**(35) MARKS**

**(B)** ON 1/1/2016 HOPE CO ACQUIRED 25% OF SHAREHOLDINGS OF LIGHTS CO. FOR $ 80 MILLION, THEN ACQUIRED AN ADDITIONAL 40% OF THE EQUITY OF LIGHTS CO.FOR $160 MILLION ON 30/6/2016, AT THIS DATE IT WAS ESTIMATED THAT THE FAIR VALUE OF THE ORIGINAL 25% SHAREHOLDINGS IN LIGHTS CO. WAS $95 MILLION.
DURING THE YEAR LIGHTS CO. DID NOT ISSUE ANY NEW SHARES OR MAKE ANY DISTRIBUTION TO ITS SHAREHOLDERS.
THE CARRYING VALUE OF THE NET ASSETS OF LIGHTS CO. WERE AS FOLLOWS: -

| | |
|---|---|
| On 1/1/2016 | $260 MILLION |
| 30/6/2016 | $ 300 MILLION |

HOPE CO. DECIDES TO USE THE FAIR VALUE METHOD TO MEASURE THE NON-CONTROLLING INTEREST, AND ESTIMATES THAT THE VALUE OF GOODWILL IN LIGHTS CO. ATTRIBUTABLE TO NON-CONTROLLING INTEREST AT 30/6/2016 WAS $ 15 MILLION.

**REQUIRED:**

(1) THE GAIN OR PROFIT ATTRIBUTABLE TO THE INVESTMET IN LIGHTS CO FOR THE YEAR END DECEMBER 2016?

**(5) MARKS**

(2) THE AMOUNT OF GOODWILL ARISING WITH THE ACQUISTION?

**(5) MARKS**

(3) THE VALUE OF THE NON-CONTROLLING INTEREST IN LIGHTS CO.?

**(5) MARKS**

**<u>Q (2)</u>:**

**(A)**

**(1) EXPLAIN WHY THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) REPLACE IAS 18 REVENUE RECOGNITION BY IFRS (15) REVENUE FROM CONTRACTS WITH CUSTOMERS?**

(3) MARKS

**(2) IDENTIFY AND EXPLAIN THE FIVE – STEP MODEL OF IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS?**

(4) MARKS

**(B)**

**(1)** GALAXY CO. IS A REAL ESTATE DEVELOPER, ENTERS INTO A CONTRACT WITH A CUSTOMER FOR THE SALE OF A BUILDING FOR $1 MILLION. THE CUSTOMER INTENDS TO OPEN A RESTAURANT IN THE BUILDING. THE BUILDING IS LOCATED IN AN AREA WHERE NEW RESTAURANTS FACE HIGH LEVELS OF COMPETITION AND THE CUSTOMER HAS LITTLE EXPERIENCE IN THE RESTAURANT INDUSTRY.
THE CUSTOMER PAYS NON-REFUNDABLE DEPOSIT OF $50.000 AT INCEPTION OF THE CONTRACT, AND ENTERS INTO A LONG-TERM FINANCING AGREEMENT WITH THE ENTITY FOR THE REMAINING 95% OF THE PROMISED CONSIDERATION. THE FINANCING ARRANGEMENT IS PROVIDED ON A NON-RECOURSE BASIS, WHICH MEANS THAT IF THE CUSTOMER DEFAULTS, THE ENTITY CAN REPOSSES THE BUILDING, BUT CANNOT SEEK FURTHER COMPENSATION FROM THE CUSTOMER, EVEN IF THE COLLATERAL DOES NOT COVER THE FULL VALUE OF THE AMOUNT OWED, THE ENTITY COST OF THE BUILDING IS $600.000., THE CUSTMER OBTAINS CONTROL OF THE BUILDING AT CONTRACT INCEPTION.

**<u>REQUIRED:</u>**

**IDENTIFY HOW GALAXY CO. TREAT THE ABOVE SITUATION IN ACCORDANCE WITH IFRS (15) REVENUE FROM CONTRACTS WITH CUSTOMERS?**

(5) MARKS

(2) GALAXY CO. MANUFACTURES AND SELLS PLASTIC CARD PRINTING MACHINES WITH LAMINATORS. A MACHINE-SPECIFIC CARD PRINTING SOFTWARE IS PROVIDED AS A MUST PART OF THE PRINTING MACHINE. GALAXY CO. ALSO SELLS PLASTIC CARDS IMPORTED FROM GERMANY. GALAXY AGREED TO SUPPLY THE FOLLOWING TO, ALTAMADON PRINTING CO. A COUNTRY-WIDE PRINTING NETW0RK

| DESCRPTION | UNITS |
|---|---|
| CARD PRINTING MACHINES (AVAILABLE IN READY STOCK) | 15 |
| LAMINATORS ( REQUIRE 30 DAYS TO DELIVER ) | 8 |
| PLASTIC CARDS ( AVAILABLE IN READY STOCK ) | 100.000 |

A LUMP SUM PRICE OF **$.9.2** MILLION FOR THE TOTAL CONTRACT HAS BEEN AGREED BETWEEN GALAXY CO AND ALTAMADON PRINTING CO. COST AND LIST PRICES OF THE GOODS ARE:

| DESCRIPTION | ITEM PRICE | COST |
|---|---|---|
| CARD PRINTING MACHINE | $ 800.000 | $ 400.000 |
| LAMINATORS | $ 400.000 | |
| PLASTIC CARDS | $ 125 | |

GALAXY CO. DOES NOT SELL PRINTING MACHINE WITHOUT LAMINATOR. HOWEVER, IN ORDER TO GET THIS ORDER GALAXY CO. WENT AGAINST ITS POLICY. THERE IS ANOTHER SUPPLIER OF IMPORTED CARD PRINTING MACHINE OF ALMOST SIMILAR SPECIFICATION. THIS SUPPLIER SELLS THE MACHINE AT $. 750,000. IN MOST RECENT CUSTOMERS' SURVEYS PRINTING MACHINE OFGALAXY CO. HAS BEEN GIVEN 7 OUT OF 10 POINTS AS AGAINST 9 OUT OF 10 GIVEN TO COMPETITORS' IMPORTED MACHINE. THERE IS NO SUPPLIER OF LAMINATOR IN THE MARKET.

## REQUIRED:

**IDENTIFY PERFORMANCE OBLIGATIONS AND ALLOCATE THE TRANSACTION PRICE TO THE IDENTIFIED PERFORMANCE OBLIGATIONS IN ACCORDANCE WITH IFRS (15)**?

(6) MARKS

**(3)**

**GALAXY CO HAS 6 CONSTRUCTION CONTRACTS**.

| DESCRPTION | 1 MILLION | 2 MILLION | 3 MILLION | 4 MILLION | 5 MILLION | 6 MILLION |
|---|---|---|---|---|---|---|
| CONTRACT PRICE | 300 | 375 | 280 | 400 | 270 | 1.200 |
| BILLING UP TO 30/6/2016 | 200 | 110 | 280 | 235 | 205 | 1.200 |
| CONTACT COST INCURRED UP TO 30/6/2016 | 248 | 68 | 186 | 246 | 185 | 1.175 |
| ESTIMATED COST TO COMPLETE CONTRACT | 67 | 221 | 0 | 164 | 15 | 0 |

THE FOLLOWING ADDITIONAL INFORMATION IS AVAILABLE:

(I) AS PER TERMS OF CONTRACT (4), THE COMPANY WILL RECEIVE AN ADDITIONAL $. 40 MILLION IF THE CONSTRUCTION IS COMPLETED WITHIN A PERIOD OF TWELVE MONTHS FROM THE COMMENCEMENT OF THE CONTRACT. THE MANAGEMENT FEELS THAT THERE IS A 90% PROBABILITY THAT IT WILL BE ABLE TO MEET THE TARGET.

(II) AN AMOUNT OF $16 MILLION WAS INCURRED ON CONTRACT (2) ON ACCOUNT OF A CHANGE IN DESIGN. THE COMPANY HAS DISCUSSED IT WITH THE CUSTOMER WHO HAS INFORMED GALAXY CO. THAT THE AMOUNT IS ON THE HIGHER SIDE AND NEEDS TO BE REVISED.

## REQUIRED:

**(A) MAKE RELEVANT CALCULATIONS AND PREPARE APPROPRIATE EXTRACTS TO BE REFLECTED IN THE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF PROFIT OR LOSS IN ACCORDANCE WITH IFRS (15) FOR THE YEAR ENDED JUNE 30, 2016.?**

(5) MARKS

**(B) JUSTIFY YOUR ACCOUNTING TREATMENT IN RESPECT OF THE ADDITIONAL INFORMATION PROVIDED ABOVE?**

(2) MARKS

**Q (3)**

**(1)**

**PETROGAS**, A PUBLIC LIMITED COMPANY, OPERATES IN THE ENERGY SECTOR. THE COMPANY HAS GROWN SIGNIFICANTLY OVER THE LAST FEW YEARS AND IS CURRENTLY PREPARING ITS FINANCIAL STATEMENTS FOR THE YEAR ENDED **30 JUNE 2006**.

PETROGAS BUYS AND SELLS OIL AND CURRENTLY HAS A NUMBER OF OIL TRADING CONTRACTS. THE CONTRACTS TO PURCHASE OIL ARE TREATED AS NON-CURRENT ASSETS AND AMORTISED OVER THE CONTRACTS' DURATIONS. ON ACCEPTANCE OF A CONTRACT TO SELL OIL, **50%** OF THE CONTRACT PRICE IS RECOGNISED IMMEDIATELY WITH THE BALANCE BEING RECOGNISED OVER THE REMAINING LIFE OF THE CONTRACT. THE CONTRACTS ALWAYS RESULT IN THE DELIVERY OF THE COMMODITY.

**(4 MARKS)**

**(2)**

**PETROGAS CO.** HAS RECENTLY CONSTRUCTED AN ECOLOGICALLY EFFICIENT POWER STATION. A CONDITION OF BEING GRANTED THE OPERATING LICENCE BY THE GOVERNMENT IS THAT THE POWER STATION BE DISMANTLED AT THE END OF ITS LIFE WHICH IS ESTIMATED TO BE **20 YEARS**. THE POWER STATION COST **$100M** AND BEGAN PRODUCTION **ON 1 JULY 2005**. DEPRECIATIONIS CHARGED ON THE POWER STATION USING THE STRAIGHT LINE METHOD. **PETROGAS CO**. HAS ESTIMATED AT **30 JUNE 2006**, IT WILLCOST **$15M** (NET PRESENT VALUE) TO RESTORE THE SITE TO ITS ORIGINAL CONDITION USING A DISCOUNT RATE OF **5%**.

**95%** PER CENT OF THESE COSTS RELATE TO THE REMOVAL OF THE POWER STATION AND **5%** RELATES TO THE DAMAGE CAUSED THROUGH GENERATING ENERGY.

**(7 MARKS)**

**(3)**

**PETROGAS CO**. HAS LEASED ANOTHER POWER STATION WHICH WAS RELATIVELY INEFFICIENT, TO A RIVAL COMPANY ON **30 JUNE 2006.**THE BENEFICIAL AND LEGAL OWNERSHIP REMAINS WITH PETROGAS CO. AND IN THE EVENT OF ONE OF PETROGAS'S POWER STATIONS BEING UNABLE TO PRODUCE ENERGY, PETROGAS CAN TERMINATE THE AGREEMENT. THE LEASED POWER STATION IS BEING TREATED AS AN OPERATING LEASE WITH THE NET PRESENT VALUE OF THE INCOME OF **$40M** BEING RECOGNISED IN PROFIT OR LOSS. THE FAIR VALUE OF THE POWER STATION IS **$70M** AT 30 JUNE 2006. A DEPOSIT OF **$10M** WAS RECEIVED ON **30 JUNE 2006** AND IT IS INCLUDED IN THE NET PRESENT VALUE CALCULATION.

**(5 MARKS)**

**(4)**

THE COMPANY HAS A GOOD RELATIONSHIP WITH ITS SHAREHOLDERS AND EMPLOYEES. IT HAS ADOPTED A STRATEGY OF GRADUALLY INCREASING ITS DIVIDEND PAYMENTS OVER THE YEARS. ON **1 AUGUST 2006**, THE BOARD PROPOSED A DIVIDEND OF **5C** PER SHARE FOR THE YEAR ENDED **30 JUNE 2006**. THE SHAREHOLDERS WILL APPROVE THE DIVIDEND ALONG WITH THEFINANCIAL STATEMENTS AT THE GENERAL MEETING ON **1 SEPTEMBER 2006** AND THE DIVIDEND WILL BE PAID ON **14SEPTEMBER 2006**. THE DIRECTORS FEEL THAT THE DIVIDEND

SHOULD BE ACCRUED IN THE FINANCIAL STATEMENTS FOR THEYEAR ENDED 30 JUNE 2006 AS A "**VALID EXPECTATION"** HAS BEEN CREATED.

**(3 MARKS)**

**(5)**

THE COMPANY GRANTED SHARE OPTIONS TO ITS EMPLOYEES ON 1 JULY 2005. THE FAIR VALUE OF THE OPTIONS AT THAT DATE WAS $3M. THE OPTIONS VEST ON 30 JUNE 2008. THE EMPLOYEES HAVE TO BE EMPLOYED AT THE END OF THE THREE YEAR PERIOD FOR THE OPTIONS TO VEST AND THE FOLLOWING ESTIMATES HAVE BEEN MADE:

**ESTIMATED PERCENTAGE OF EMPLOYEES LEAVING DURING VESTING PERIOD AT:**

| | | |
|---|---|---|
| GRANT DATE 1 JULY 2005 | 5% | **(4 MARKS)** |
| 30JUNE 2006 | 6% | **(2 MARKS)** |

EFFECTIVE COMMUNICATION TO THE DIRECTORS

**<u>REQUIRED:</u>**

**DRAFT A REPORT SUITABLE FOR PRESENTATION TO THE DIRECTORS OF PETROGAS WHICH DISCUSSES THEACCOUNTING TREATMENT OF THE ABOVE TRANSACTIONS IN THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006, INCLUDING RELEVANT CALCULATIONS?**

**<u>(Q) 4</u>**

(1) RELATED PARTY RELATIONSHIPS ARE A COMMON FEATURE OF COMMERCIAL LIFE. THE OBJECTIVE OF IAS 24 *RELATED PARTY DISCLOSURES* IS TO ENSURE THAT FINANCIAL STATEMENTS CONTAIN THE NECESSARY DISCLOSURES TO MAKE USERS AWARE OF THE POSSIBILITY THAT FINANCIAL STATEMENTS MAY HAVE BEEN AFFECTED BY THE EXISTENCE OF RELATED PARTIES

**<u>REQUIRED:</u>**

**(B) DESCRIBE THE MAIN CIRCUMSTANCES THAT GIVE RISE TO RELATED PARTIES AND EXPLAIN WHY THE DISCLOSURE OF RELATED PARTY RELATIONSHIPS AND TRANSACTIONS IS IMPORTANT.**

(12 MARKS)

(2) HORIZON CO. HELD A PORTFOLIO OF TRADE RECEIVABLES WITH A CARRYING AMOUNT OF $4 MILLION AT 31 MAY 2016. AT THAT DATE, THE ENTITY ENTERED INTO A FACTORING AGREEMENT WITH A BANK, WHEREBY IT TRANSFERS THE RECEIVABLES IN EXCHANGE FOR $3.6 MILLION IN CASH. HORIZON CO. HAS AGREED TO REIMBURSE THE FACTOR FOR ANY SHORTFALL BETWEEN THE AMOUNT COLLECTED AND $3.6 MILLION. ONCE THE RECEIVABLES HAVE BEEN COLLECTED, ANY AMOUNTS ABOVE $3.6 MILLION, LESS INTEREST ON THIS AMOUNT, WILL BE REPAID TO HORIZON CO. HORIZON CO. HAS DERECOGNISED THE RECEIVABLES AND CHARGED $0.4 MILLION AS A LOSS TO PROFIT OR LOSS.

**<u>REQUIRED:</u>**

**DESCRIBE THE RULES OF IFRS 9 *FINANCIAL INSTRUMENTS* RELATING TO THE DERECOGNITION OF A FINANCIAL ASSET AND HOW THESE RULES AFFECT THE TREATMENT OF THE PORTFOLIO OF TRADE RECEIVABLES IN HORIZON'S FINANCIAL STATEMENTS.**

(13) MARKS

**END OF QUESTIONS**