Professional - Module

Facility reports

Time allowed : 15 minutes for reading and planning

3 hours for writing

July 1 – 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

AAPOC

Paper P2

Strategic Business Reporting (S B R)
Reports P2
Section (A)

Background:

Khartoum Company is the parent Company of a Group whose financial year ending is December 31, 2005. The following exhibits provide information is relevant to the question.

1. Acquisition of Omdurman Company. provide information regarding the acquisition of Omdurman Company and other information relevant to complete the consolidated statement of cash flows.
2. Financial Instruments contains information about a number of financial instruments held by Khartoum group.
3. Consolidated Statements. this include draft extracts for the consolidated statement of cash flow together with extracts from the finalized consolidated statement of financial position for the year ended December 31, 2005 including comparative figures.

   This information should be used to answer the question requirements with flow response options.

1. Acquisition of Omdurman Company:

Khartoum Company acquired 80 % of the 100,000 equity shares of the Omdurman Company on June 30, 2005. The consideration consisted of a cash payment of 5 per share acquired and the issue of 1 equity share for every four shares acquired in the Omdurman Company. The Khartoum Company's policy is to value non-controlling interests at fair value at the date of acquisition. The fair value of Khartoum company’s and Omdurman company share on June 30, 2005, was 13$ and 8$ respectively.

The carrying amount of net assets reported by Omdurman Company on June 30, 2005, were as follows:

	$
- Property Plant and equipment	421,000
- Inventories	256,800
- Trade receivables	220,300
- Cash and cash equivalents	24,900
- Trade payables	(175,400)
	747,600

The only fair value adjustment on acquisition related to plant which had a fair value, of 50,000 $ above its carrying amount.

The group pays tax at 30% , and deferred taxes was correctly accounted for with in consolidated statement of financial position. The taxation figures in the statement of profit or loss for the year ended December 31, 2005, is 385,600 $, and this figure has been included as taxation paid with in the draft statement of cash flows.

The financial controller has a accurately completed the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income but the consolidated statement of cash flows is in draft. The financial controller has not yet considered the impact of the acquisition of Omdurman Company on the consolidated statement of cash flow.

The statement of cash flow figures for movement in inventories, trade receivables, trade payable and property, plant, and equipment, have been calculated by considering simply the differences in the year-end balance in the consolidated statements of financial position form December 31, 2004, and December 31, 2005.

Goodwill of Omdurman Company was impaired during the year; there are no other goodwill impairment with the group.

- The depreciation charge of the group for the year ended December 31, 2005, was 625,060 $. There were no disposals of non-current assets by the group during the year, although there were some additions paid for by cash.

2. Financial Instruments:

The Khartoum Group has a number of financial instruments presented with in it consolidated statements of financial position. Some group entities which had surplus cash resources, had acquired debentures in other group entities to increase returns. Other group entities had raised finance by issuing bonds. Khartoum Company financed the acquisition of Omdurman by acquiring a bank loan. Khartoum Company also, had an overdrawn bank as at December 31, 2005, the overdrawn bank balance, fluctuates regularly from an in funds balance.

3. **Consolidated Statements:**

The extract below would have been replicated in the pre-populated spreadsheet response option.

Draft extracts from consolidated statements of cash flows for the Khartoum group for the year ended December 31, 2005.

Cash Flow from Operating Activities	**$**
Profit before Taxation	1,318,100
Depreciation	625,060
Increase in Inventories	(658,100)
Increase in Trade and other Receivables	(211,500)
Increase in Trade and other payables	93,900
Cash Generated from Operations	1,167,460
Taxation Paid	(385,600)
Cash Flow from Operating Activities	781,860
Cash Flow from Investment Activities	
Acquisition of Property, plant and Equipment	(543,600)
Consideration Paid for Acquisition of Omdurman Company	(Not Yet Calculated)
Cash Flow from Investment Activities	(543,600)

Extract from consolidated statements of financial position of Khartoum Company.

	December 31, 2005 (USD)	**December 31, 2004 (USD)**
Property Plant and equipment	**3,668,900**	**3,125,300**
Goodwill	**447,400**	**441,100**
Deferred Tax liabilities	**130,000**	**250,000**
Current Tax liabilities	**364,300**	**256,900**

Required:

(a) Using Exhibit (1)

(i) Adjust the prepopulated spreadsheet to prepare revised extracts for the operating and investing activities of the consolidated statement of cash flow for the Khartoum group for the year ended December 31, 2005.

(14 marks)

(ii) Explain the adjustments required to correct the operating and investing activities of the consolidated statement of cash flows for Khartoum group for the year ended December 31, 2005.

(10 marks)

(b) Using Exhibit (2)

advise the financial controller as to how the various financial instruments including the overdraft, should be presented in the consolidated statement of cash flows. **(6 marks)**

(Total : 30 marks)

Question 2:

Background information:

Altakmol is a successful division with in a multi - national Company Alshifa Co. The financial year and of Alshifa Co is December 31, 2008.

The Following exhibit, available provides information relevant to the question.

1- New system - describes the purchase of an unauthorized procurement system by the Altakmol. division on August 1, 2008 and the implications of that decision.

- This information should be used to answer the question requirements with in the response option provided.

New system :

New procurement system.

In 2008 Alshifa Co upgraded its computerized system and . centerlised its procurement (purchasing) processes - AU divisions of Alshifa Co were required to use the same procurement system. However, on August 1, 2008 the divisional head . of Altakmot division is (Mr. Mustafa) purchased a procurement system with out authority which is in compatible with the other system in Alshifa.Co. the new system is specific to Altakmol division and can not be used by other divisions in Alshifa Co . Mr. Mustafa . has stated that the Altakmol division will be, use, this new system to make purchases in the future . rather than Company's centerlised system . As a result of using the new system . the Altakmol division has developed , a poor purchasing strategy which has resulted in unfavorable pricing desion - Even enough the Altakmol division has made purchases with the new system . It is not fully operational because it is in compatible with the Company's centerlised system .

2- Accountant and internal auditor

The accountant of Alshifa Co. (Mr Zain) is considering the impact of the poor purchasing decision and how to improve the Financial control over the Altakmal division . However , he dose not wish to introduce Control which Mr Mustafa . may feel are excessive because - Mr Mustafa is dominant individual who often puts pressure on him . Mr Mustafa , is on the management Committe of Alshifa Co, to whom the internal auditor (Mr. ALi) reports . Mr. Zain has reported his Concern to internal auditor who is qualified member of ACCA and known to be a personal friend of Mrs. Mustafa .

3- Purchase Costs :

Al-Shifa Company policy is normally to upgrade system every four years. The cost of ALtakmol division's new system was 5 $ million. There were additional development costs incurred by the Altakmol division of 100,000 $ which related to payroll. All of these cost (to tallying 5.1 $ million) have been written off in statement of profit or loss of Al-Shifa Company in the year ended December 31, 2008. At the year end Altakmol division's new the system is still not yet fully operational because of the incompatibilities with the centerlised systems . there are also doubts about the security of the system and potential short term technological obsolescence .

Required:

(a) Discuss how the advancement of information technology impact on the ethical responsibilities of an accountant.

Note : There is not requirement to refer to any exhibit when answering Part (a)

(4 marks)

(b) Discuss the ethical issues faced by the accountant Mr. Zain and the internal auditor Mr. Ali in Al-Shifa Company and any actions they should take to address these issues. **(6 marks) .**

(c) Explain the possible effect of IAS (38) Intangible Assets and IAS (36) Impairment of Assets, on accounting treatment of the purchase of Altakmol division's procurement system department costs in financial statements for the year ending December 31, 2008.

(10 marks)

(Total 20 marks)

Section (B)

Answer two out of three question

Question (1):

(a) On January 1, 2001, a farmer had a herd of 100 cows. all of which were 2 years old , At this date, the fair value less point of sales costs of the herd was 10,000 $. On July 1, 2001, the farmer purchased 20 cows (each two and a half years old) for 60 $ each. As at December 31, 2001, three year old cows sell at market for 90 $ each.

Market auctioneers have charged a sales levy of of 2% for many years .

Required:

Discuss the accounting treatment of the above in the financial statements for the year ended December 31, 2001**.** **(10 marks)**

(b) AFG enters into a contract with Zain Co. The supplier to use a specified ship for a five-year period . zain has no substitution rights. during the contract period. AFG decide what cargo will be cargo will be transported. When the ship will sail and to which ports it will sail. However, there are some restriction specified in the contract, those restrictions prevent AFG from carrying hazardous materials as cargo or from sailing the ships in to waters pricey is a risk .

Zain operates and maintains the ship and is responsible for the safe passage of the cargo on board the ship. Zain is prohibited from hiring another operator for the ship , and from operating the ship it self during the term of the contract . **(7 marks)**

Required:

Dose this contract contain lease?

(c) The following material events have occurred after the reporting period and prior to the date of approval of financial statement by the directors.

(i) The insolvency of major credit customer.

(ii) The Uninsured loss of inventory in a fire.

(iii) The Proposed of a final equity dividend .

(iv) A Change in foreign exchange rates.

Required:

State whether the above are adjusting or non-adjusting events (IAS 10).

(8 marks)

(Total 25 marks)

Question (2):

a) Dongla is a company that manufactures and sells cheese . it has recently developed a new range of cheese that at the year end, requires a further 15 months to fully mature . Once matured the cheese will be sold to retailers. The director of Dongla Co. belive that the new cheese should be - classified as an anon . current asset on the statement of Financial position. required Discuss wether the directors of Dongla are correct .

(7 marks)

b) Preparers of financial statements should follow the requirements of IAS (8) Accounting policies , Change in Accounting Estimates and Errors when selecting or changing accounting policies , charging estimation techniques, and Correcting errors .

Required:

Discuss the role of judgement when selecting an entity's accounting policies .

(5 marks)

c) Cap Company bought a building on January 1, 2001. The purchase price was 2.9 $ million. associated legal fees were 0.1 $ million, and general administrative cost allocated to the purchase were 0.2 $ million. Cap also paid sales tax of 0.5 $ million, which was recovered from the tax authorities. The building was attributed a useful life of 50 years. It was revalued to 4.6 $ million on December 31, 2004, and was sold for 5 $ million on December 31, 2005, Cap purchased a machine on January 1, 2003 for 100,000 $ and attributed with a useful life of 10 years on January 1, 2005 cap reduces the estimated remaining useful life to 4 years.

Required:

Explain how the above items of property, plant and equipment would have been accounted for in all relevant reporting period up unite December 31, 2005 (IAS 16).

(13 marks)

(Total 25 marks)

Question (3):

a) Alrida is a design company . In recent years the company has shifted to virtual working environment with all employers now working remotely , typically from their home location. The directors are concerned about the company's most recent financial result , which show a drop in profits compared to the previous 3 year, the Finance director Othman has suggested that the deteriorating performance may be in part due to the shift to remote, working and consequently a drop in productivity .
The directors are considering the use of artificial Intelligence (AI) Software to monitor the Level of activity of its employees and identify area , of the business that may be under resourced or where further training may be required . This software includes the ability to track , the number of emails sent . the number of words by typed and the amount of inactive time in a given period . Othman who is ACCA qualified is keen to introduce the soft as quickly as possible , with a view that it should improve productivity and there fore the results . Othman has no experience with this software , but has assured the other directors that it should be- Stright forward to implement , Alrida , Operate in a country where There are strict data and privacy Laws- which have recently been updated.

Required:

Discus the ethical issues raised by treatment of the warranty Provision.

(15 marks)

b) Crypto Currencies: Crypto Currencies are digital currencies that operate . Independently of central bank . Some business now accept Crypto Currencies in place of traditional Currencies. The market price of cryptocurrencies is highly volatile- Investor Can earn Large returns by buying cryptocurrencies on exchange when the quoted price rises .
cryptocurrencies have proved problematic with regards to Financial reporting because They do not seem to Fall with scope of an issued IFRS or IAS Standard . As such prepares of Financial Statement must use the Conceptual Framework to device and accounting treatment provides useful information to financial statement users .

Require:

(1) using the conceptual frame work, dis cuss how an entity might account for an investment in cryptocurrencies that it holds to trade.

(10 marks)

(Total 25 marks)