



Date: 26-04-2025

Dept. No.

Max. : 100 Marks

Time: 01:00 PM - 04:00 PM

SECTION A

ANSWER ALL THE QUESTIONS

(2*20 mark= 40 marks)

1. Greyhound Inc. holds non-current assets of the following description as on 31.12.20X4.
- a. A blast furnace system acquired on 15.03.20X4 with an expected useful life of 5 years, at the end of which there will be no residual value but will require an expenditure of \$ 0.80 million to dismantle on vacating the property. The costs on acquisition included the following:

Particulars	\$ 000
Purchase price	100,000
Installation costs	25,000
Stamp duty	5,000
Site preparation and clearance	14,000
Materials and labour	125,000
Inspection and pre operative expenses	10,000
General overheads allocated	15,000

The material and labour costs involved an excessive amount of \$ 17 million due to bad design and execution of construction. The furnace was ready for use on 1st November 20X4 and came into active use on 1st December 20X4. An implicit interest rate of 8% suits the asset. **(10 marks)**

- b. A building held by it is proposed to be recognised at revalued amounts. On 31.12.20X3, it had a cost of \$ 2.40 million on which depreciation had accumulated of \$ 0.288. On 31.12.20X4, it was revalued to \$ 2.80 million and its useful life was determined as 20 years on that date. **(10 marks)**

Required: Determine the amounts at which the above assets are to be disclosed in the statement of financial position and workings for the same.

2. Ballistic is a company engaged in infrastructure works, manufacturing consumer goods and rendering services to clients under contracts with them. It provides you with the following details for revenue recognition for the reporting date 31.12.20X4:

- a. On 1st January 20X4, a factory was sold to a finance company for \$ 600,000. However, despite the sale, the company continued to use the factory and was responsible for maintenance expenditure on it including repairs and insurance. Under the agreement, the company retained the right to repurchase the factory building for \$ 735,025 on 1st January 20X7, which is the representation of a 7% growth in value each year. As on 1st January 20X4, the factory building had a fair value of \$ 950,000 which is expected to increase at least to the repurchase price as on 1st January 20X7.

(10 marks)

- b. On 31st December 20X4, the company sold an air conditioner and its optional components to Spencer's for \$ 420,000. The sale price was split up as \$ 400,000 for the air conditioner and \$ 20,000 for the components. The air conditioner was delivered on 31st December 20X4, whereas the components were requested to be held back by the company until Spencer's felt the necessity for them to be used with the air conditioner which was estimated to be for a period of not more than about 18 to 24 months. The components are to be held by the company separately in the warehouse without the right either to use them or sell them, such that they are available for immediate delivery to Spencer's when requested. The holding costs of the components for the company was expected to be highly insignificant. **(10 marks)**

Required: Explain and determine the amount of revenue to be recognized for the year ended 31.12.20X4, in respect of the above transactions.

SECTION B

ANSWER ALL THE QUESTIONS

(3*10 marks- 30 marks)

3. Explain the following terms in relation to the relevant accounting standards: a) Materiality b) Substance over form c) Discontinued operations d) Going concern e) Bundled sales **(5*2 marks= 10 marks)**
4. The following information is from the consolidated financial statements of Z:

Extract from consolidated statement of profit or loss for year ended 31 December 20X1

	\$ 000
Profit from operations	900
Share of profit of associate	15
Profit before tax	915
Tax	(200)
Profit for the year	715

Extracts from consolidated statement of financial position as at 31 December 20X1 (with comparatives)

	20X1 (\$ 000)	20X0 (\$ 000)
Non-current assets - Investment in associate	600	580

During the year, Z received dividends from associates of \$5,000.

Required: Based on the above information, prepare extracts showing relevant figures to be included in the group statement of cash flows for the year ended 31 December 20X1. **(10 marks)**

5. Entities are investing more time and money in implementing sustainable development practices. A key sustainable development goal set by many entities is to minimize the impact of business operations on the environment. Many entities now disclose considerable information about this in annual reports.

Required: Discuss the potential benefits that might arise when an entity discloses its impact on the environment to its stakeholders. **(10 marks)**

SECTION C

ANSWER THE FOLLOWING

1*30 = 30 marks

6. Background

Sterling Co is currently preparing its individual and consolidated financial statements for the year ended 31 March 20X9 in accordance with International Financial Reporting Standards.

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

- 1 Acquisition of Berthold Co – describes the purchase of 40% of Berthold Co on 1 January 20X7 and the further acquisition of 35% on 1 December 20X8.
- 2 Investment in Malting Co – describes the purchase of 30% of Malting Co on 1 July 20X8.
- 3 Batch Co: discontinued operation – describes the acquisition of Batch Co that Sterling Co decides to sell on 1 January 20X9.

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

1 – Acquisition of Berthold Co

Sterling Co paid \$25 million for 40% of Berthold Co's 10 million \$1 ordinary shares on 1 January 20X7 when Berthold Co's retained earnings were \$18 million. Berthold Co has no other reserves. Sterling Co exercised significant influence over Berthold Co's financial and operating policy decisions. A further 35% stake in Berthold Co was acquired on 1 December 20X8 for \$41 million, when the fair value of Berthold Co's identifiable assets and liabilities was \$55.3 million, and Berthold Co's retained earnings were \$42.3 million. The difference between the fair value of the identifiable assets and liabilities of Berthold Co and their carrying amounts related to non-depreciable land. The market price of Berthold Co's shares immediately prior to 1 December 20X8 was \$9.20 per share. Sterling Co measures non-controlling interest at fair value at the date of acquisition. Goodwill at 31 March 20X9 is not impaired. Berthold Co reported a profit for the year ended 31 March 20X9 of \$11.1 million.

2 – Investment in Malting Co

On 1 July 20X8, Sterling Co paid cash of \$2.5 million and issued loan notes with a nominal value of \$1.1 million and a fair value of \$1.3 million, to acquire 30% of the equity interest of Malting Co. The remaining 70% of the equity in Malting Co is owned equally between two unrelated companies. All key operating decisions require unanimous consent of all three investing parties. Each of the three investing parties has the right to its share of the net assets of Malting Co via a contractual agreement. Malting Co reported a loss of \$0.8m for the year ending 31 March 20X9 and a dividend was neither paid nor proposed. All three investing parties provided separate guarantees to Malting Co's bank because of Malting Co's poor performance in the year.

3 – Batch Co: discontinued operation

On 1 January 20X9, Sterling Co announced a plan to dispose of Batch Co, which operates in a significantly different business sector to the rest of the group.

Sterling Co first acquired 70% of the equity shares in Batch Co on 1 January 20X7, for consideration of \$3.1 million, when the fair value of the identifiable net assets acquired was \$3.6 million. The ordinary share capital and retained earnings of Batch Co were \$0.5 million and \$2.1 million respectively. The excess of the fair value of the identifiable net assets was due to a building with an estimated useful life of 10 years at the acquisition date. The fair value of the non-controlling interest (NCI) in Batch Co was \$0.9 million on 1 January 20X7. Sterling Co uses fair values to measure NCI. On 1 January 20X9, Batch Co reported retained earnings of \$2.9 million, with no change in ordinary share capital, or impairment of goodwill, since acquisition. Sterling Co decided to treat Batch Co as a disposal group held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Assets and liabilities of Batch Co require no remeasurement to meet applicable IFRS standards prior to restating as a disposal group, and the total fair value less costs to sell of the disposal group at 1 January 20X9 was estimated to be \$4.4 million.

Required:

(a) Using exhibit 1:

- (i) explain how Berthold Co will be accounted for, including calculations, in Sterling Co's consolidated statement of profit or loss for the year ended 31 March 20X9, and **(8 marks)**
- (ii) explain and show how the goodwill in Berthold Co would be calculated at 1 December 20X8. **(6 marks)**

- (b) Using exhibit 2, advise the directors of Sterling Co, with illustrative calculations, how the 30% investment in Malting Co should be accounted for in Sterling Co's individual and consolidated financial statements. **(7 marks)**

- (c) Using exhibit 3, explain to the directors of Sterling Co how to account for Batch Co as a discontinued operation at 1 January 20X9 in Sterling Co's consolidated financial statements. Your answer should include:
- a calculation of the goodwill at 1 January 20X7, and
 - a calculation of how the investment in Batch Co should be measured prior to disposal. **(9 marks)**
