ACCA Paper F7 – Financial Reporting INT

Mind the Gap

May 2011 Exam

Tutor Contact Details

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Links to other parts of the qualification

Fundamentals Level

Knowledge (3 papers)

F1 Accountant in Business
F2 Management Accounting
F3 Financial Accounting

Skills (6 papers)

F4 Corporate and Business Law
F5 Performance Management
F6 Taxation
F7 Financial Reporting
F8 Audit and Assurance
F9 Financial Management

Professional Level

Essentials (3 papers)

P1 - Professional Accountant
P2 - Corporate Reporting
P3 - Business Analysis

Options module (2 papers out of a choice of 4)

P4 - Advanced Financial Management
P5 - Advanced Performance Management
P6 - Advanced Taxation
P7 - Advanced Audit & Assurance

Slide 3

F3 syllabus content

Structured into 6 main sections:

1. Section A — **Purpose of financial reporting**

Slide 4

F3 syllabus content

2.1 Accounting standards are prepared by

→ A the IASB

B the IASC Foundation

C the IAASB **(1 mark)**

Slide 5

F3 syllabus content

Structured into 6 main sections:

1. Section A
2. Section B

Characteristics of useful financial information

Slide 6

F3 syllabus content

3.1 The Framework for the Preparation and Presentation of Financial Statements identifies two assumptions which are the bedrock of accounting. What are they?

A Consistency and prudence

→B Accruals and going concern

C Materiality and separate entity **(1 mark)**

Slide 7

F3 syllabus content

Structured into 6 main sections:

1. Section A
2. Section B
3. Section C

Double entry book keeping

Slide 8

F3 syllabus content

Structured into 6 main sections:

1. Section A
2. Section B
3. Section C
4. Section D

Recording types of transactions.

Topics covered in more detail

Slide 9

F3 syllabus content

5.1 A credit balance of $3,000 brought down on X Co's account in Y Co's books means that

→ A X Co is owed $3,000 by Y Co

B Y Co is owed $3,000 by X Co

C Y Co has sold $3,000 of goods to X Co **(1 mark)**

Slide 10

F3 syllabus content

10.1 Which of the following statements about research and development are true?

(1) Development expenditure shown on the statement of financial position should be amortised over the periods expected to benefit from the product or service.

(2) Development expenditure must be capitalised if it meets various criteria.

(3) Research expenditure is always written off.

→ A All of the above

B (1) and (2)

C (2) and (3)

D (1) and (3) **(2 marks)**

Slide 11

F3 syllabus content

13.2 How should a contingent liability and a probable contingent asset be accounted for?

→ A Probable contingent assets and contingent liabilities should be disclosed in the financial statements.

B Probable contingent assets must always be accrued and contingent liabilities must always be disclosed in the financial statements.

C Contingent liabilities must always be either accrued or disclosed and probable contingent assets must always be disclosed in the financial statements.

D Contingent liabilities must always be provided for and probable contingent assets must be disclosed in the financial statements.

(2 marks)

Slide 12

F3 syllabus content

Structured into 6 main sections:

1. Section A
2. Section B
3. Section C
4. Section D
5. Section E

Checks and reconciliations

Slide 13

F3 syllabus content

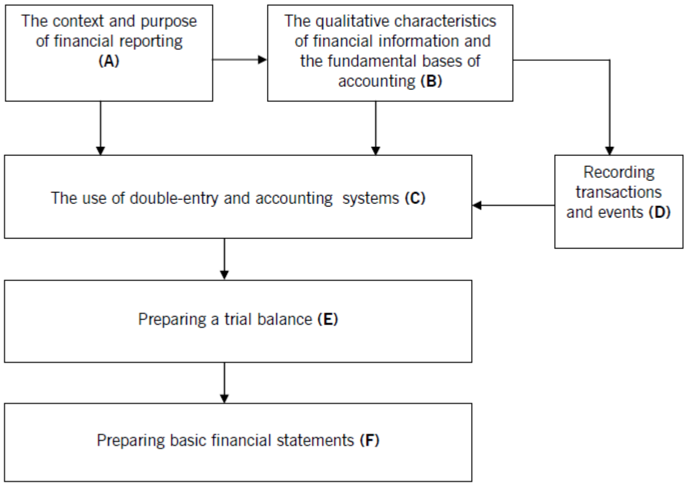
Structured into 6 main sections:

1. Section A
2. Section B
3. Section C
4. Section D
5. Section E
6. Section F

Basic financial statements

Slide 14

F3 syllabus content



Slide 15

F7 syllabus content

Structured into 5 main sections:

1. Section A

Conceptual framework for financial reporting

Slide 16

F7 syllabus content

Structured into 5 main sections:

1. Section A
2. Section B

Regulatory framework

Slide 17

F7 syllabus content

Structured into 5 main sections:

1. Section A
2. Section B
3. Section C

Preparation and presentation of financial statements

Slide 18

F7 syllabus content

Structured into 5 main sections:

1. Section A
2. Section B
3. Section C
4. Section D

Accounting for business combinations

Slide 19

F7 syllabus content

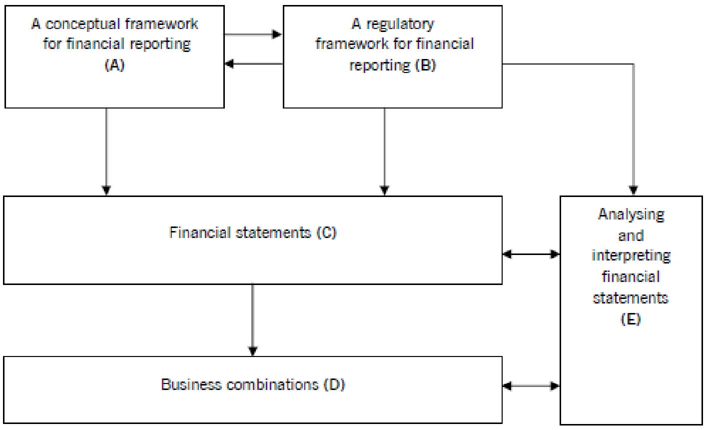
Structured into 5 main sections:

1. Section A
2. Section B
3. Section C
4. Section D
5. Section E

Analysing and interpreting financial statements

Slide 20

F7 syllabus content



Slide 21

F3 and F7 syllabus content compared

	Title	F3	F7
	International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)		
IAS 1	Presentation of Financial Statements	✔	✔
IAS 2	Inventories	✔	✔
IAS 7	Statement of Cash Flows	✔	✔
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✔	✔
IAS 10	Events after the Reporting Period	✔	✔
IAS 11	Construction Contracts		✔
IAS 12	Income Taxes		✔
IAS 16	Property, Plant and Equipment	✔	✔
IAS 17	Leases		✔
IAS 18	Revenue	✔	✔
IAS 19	Employee Benefits		
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance		✔
IAS 21	The Effects of Changes in Foreign Exchange Rates		

Slide 22

F3 and F7 syllabus content compared

	Title	F3	F7
	International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)		
IAS 23	Borrowing Costs		✔
IAS 24	Related Party Disclosures		
IAS 27	Consolidated and Separate Financial Statements		✔
IAS 28	Investments in Associates		✔
IAS 31	Interests in Joint Ventures		
IAS 32	Financial Instruments: Presentation		✔
IAS 33	Earnings per Share		✔
IAS 34	Interim Financial Reporting		
IAS 36	Impairment of Assets		✔
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	✔	✔
IAS 38	Intangible Assets	✔	✔
IAS 39	Financial Instruments: Recognition and Measurement		✔

Slide 23

F3 and F7 syllabus content compared

	Title	F3	F7
	International Accounting Standards (IASs)/ International Financial Reporting Standards (IFRSs)		
IAS 40	Investment Property		✔
IFRS 1	First-time Adoption of International Financial Reporting Standards		
IFRS 2	Share-based Payment		
IFRS 3 (rev	Business Combinations		✔
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations		✔
IFRS 7	Financial Instruments: Disclosures		✔
IFRS 8	Operating Segments		
IFRS 9	Financial Instruments		✔
IFRS for SI	IFRS for small and medium sized entities		
	Other Statements		
	Framework for the Preparation and Presentation of Financial Statements	✔	✔

Slide 24

F3 Exam Structure

- Completion time for exam is **2 hours.**
- **Short questions**: **multiple choice**

Slide 25

F7 Exam Structure

- Completion time for exam is **3 hours.**
- **5 compulsory questions**

Slide 26

F7 Exam Structure

Question 1

- 25-mark question: **business combinations.**

Slide 27

F7 Exam Structure

1 On 1 June 2010, Premier acquired 80% of the equity share capital of Sanford. The consideration consisted of two elements: a share exchange of three shares in Premier for every five acquired shares in Sanford and the issue of a $100 6% loan note for every 500 shares acquired in Sanford. The share issue has not yet been recorded by Premier, but the issue of the loan notes has been recorded. At the date of acquisition shares in Premier had a market value of $5 each and the shares of Sanford had a stock market price of $3·50 each. Below are the summarised draft financial statements of both companies.

Statements of comprehensive income for the year ended 30 September 2010

	Premier	Sanford
	$'000	$'000
Revenue	92,500	45,000
Cost of sales	(70,500)	(36,000)
Gross profit	22,000	9,000
Distribution costs	(2,500)	(1,200)
Administrative expenses	(5,500)	(2,400)
Finance costs	(100)	nil
Profit before tax	13,900	5,400
Income tax expense	(3,900)	(1,500)
Profit for the year	10,000	3,900
Other comprehensive income:		
Gain on revaluation of land (note (i))	500	nil
Total comprehensive income	10,500	3,900

Slide 28

F7 Exam Structure

Question 2

- 25-mark question: **preparation (or restatement) of a single entity's financial statements.**

Slide 29

F7 Exam Structure

The following notes are relevant:

(i) Cavern has accounted for a fully subscribed rights issue of equity shares made on 1 April 2010 of one new share for every four in issue at 42 cents each. The company paid ordinary dividends of 3 cents per share on 30 November 2009 and 5 cents per share on 31 May 2010. The dividend payments are included in administrative expenses in the trial balance.

(ii) The 8% loan note was issued on 1 October 2008 at its nominal (face) value of $30 million. The loan note will be redeemed on 30 September 2012 at a premium which gives the loan note an effective finance cost of 10% per annum.

(iii) Non-current assets:
Cavern revalues its land and building at the end of each accounting year. At 30 September 2010 the relevant value to be incorporated into the financial statements is $41·8 million. The building's remaining life at the beginning of the current year (1 October 2009) was 18 years. Cavern does not make an annual transfer from the revaluation reserve to retained earnings in respect of the realisation of the revaluation surplus. Ignore deferred tax on the revaluation surplus.

Plant and equipment includes an item of plant bought for $10 million on 1 October 2009 that will have a 10-year life (using straight-line depreciation with no residual value). Production using this plant involves toxic chemicals which will cause decontamination costs to be incurred at the end of its life. The present value of these costs using a discount rate of 10% at 1 October 2009 was $4 million. Cavern has not provided any amount for this future decontamination cost. All other plant and equipment is depreciated at 12·5% per annum using the reducing balance method.

Slide 30

F7 Exam Structure

Question 3

- 25-mark question: **analysis and interpretation of financial statements.**

Slide 31

F7 Exam Structure

(iii) The 10% loan note is due for repayment on 30 June 2010. Deltoid is in negotiations with the loan provider to refinance the same amount for another five years.

(iv) The finance costs are made up of:

For year ended:

	31 March 2010	31 March 2009
	$'000	$'000
Finance lease charges	300	100
Overdraft interest	200	nil
Loan note interest	500	500
	1,000	600

Required:

(i) Prepare a statement of cash flows for Deltoid for the year ended 31 March 2010 in accordance with IAS 7 *Statement of cash flows*, using the indirect method;

(ii) Based on the information available, advise the loan provider on the matters you would take into consideration when deciding whether to grant Deltoid a renewal of its maturing loan note.

Slide 32

F7 Exam Structure

Questions 4 and 5

- Questions 4 (15 marks) and 5 (10 marks): **remainder of the syllabus.**

Slide 33

F7 Exam Structure

4 (a) An important aspect of the International Accounting Standards Board's *Framework for the preparation and presentation of financial statements* is that transactions should be recorded on the basis of their substance over their form.

Required:

Explain why it is important that financial statements should reflect the substance of the underlying transactions and describe the features that may indicate that the substance of a transaction may be different from its legal form. (5 marks)

(b) Wardle's activities include the production of maturing products which take a long time before they are ready to retail. Details of one such product are that on 1 April 2009 it had a cost of $5 million and a fair value of $7 million. The product would not be ready for retail sale until 31 March 2012.

On 1 April 2009 Wardle entered into an agreement to sell the product to Easyfinance for $6 million. The agreement gave Wardle the right to repurchase the product at any time up to 31 March 2012 at a fixed price of $7,986,000, at which date Wardle expected the product to retail for $10 million. The compound interest Wardle would have to pay on a three-year loan of $6 million would be:

	$
Year 1	600,000
Year 2	660,000
Year 3	726,000

This interest is equivalent to the return required by Easyfinance.

Slide 34

F7 Exam Structure

5 **(a)** Apex is a publicly listed supermarket chain. During the current year it started the building of a new store. The directors are aware that in accordance with IAS 23 *Borrowing costs* certain borrowing costs have to be capitalised.

Required:

Explain the circumstances when, and the amount at which, borrowing costs should be capitalised in accordance with IAS 23. (5 marks)

(b) Details relating to construction of Apex's new store:

Apex issued a $10 million unsecured loan with a coupon (nominal) interest rate of 6% on 1 April 2009. The loan is redeemable at a premium which means the loan has an effective finance cost of 7·5% per annum. The loan was specifically issued to finance the building of the new store which meets the definition of a qualifying asset in IAS 23. Construction of the store commenced on 1 May 2009 and it was completed and ready for use on 28 February 2010, but did not open for trading until 1 April 2010. During the year trading at Apex's other stores was below expectations so Apex suspended the construction of the new store for a two-month period during July and August 2009. The proceeds of the loan were temporarily invested for the month of April 2009 and earned interest of $40,000.

Required:

Calculate the net borrowing cost that should be capitalised as part of the cost of the new store and the finance cost that should be reported in the income statement for the year ended 31 March 2010. (5 marks)

(10 marks)

Slide 35