


ACCA
Financial Reporting

Train the Trainer – Marking Insights Exercise
September/December 2017 – Question 32

Marked Answers

Please note that each tick  on the answer indicates that 0.5 of a mark has been awarded.

“OFR” means *own figure rule*, used to show that a marker has followed through the candidate’s workings and is giving credit for the correct following through of an incorrect figure.

“PAG” means *point already given* – used to show where a marker has already given the marks for a particular aspect of the answer.

Marking Practice Script 1

Marker awarded a total of 13 marks for this answer

Workings

(1) Goodwill

Cost of investment		120,000	✓
NCI		15,000	✓
Net assets acquired:			
Share capital	60,000		✓
Retained earnings	34,000		✓
Revaluation surplus	<u>4,000</u>		✓
		<u>(98,000)</u>	
		36,400	

Consolidated statement of financial position

		\$'000	
Non-current assets			
Property plant & equipment (392,000 + 84,000)		476,000	✓
Goodwill			(PAG)
Current assets (94,700 + 44,650 – 2,000 (W))		36,400	✓
Equity:			
Share capital		190,000	✓
Retained earnings (W)		210,400	(W3)
Revaluation surplus		41,400	✓
Non-controlling interest		15,500	0
Current liabilities (137,300 + 28,150)			✓
Non-current liabilities			
Deferred consideration		28,000	0

(2) PURP \$8m x 25% = 2 0

(3) Retained earnings

	<u>Party</u>		<u>Streamer</u>	
<u>At 30.9.20X5</u>		210,000		<u>36,500</u> ✓
<u>PURP (W2)</u>		(2,000)		✓ (OFR)
<u>At acquisition</u>				<u>(34,000)</u>
				<u>2,500</u>
<u>Share of Streamer post acq'n (80% x 500)</u>		<u>400</u>		✓ (OFR)
		<u>210,400</u>		

(b)

The consolidated FS will not show the results of Streamer Co separately. ✓ The results of all group companies will be added together with adjustments which include estimates. Subsidiaries are included at fair value which is an estimate. Goodwill is included and may have to be written down if it is impaired.

The individual financial statements of Streamer will be more useful as these will show its individual profits, assets and liabilities, letting the purchaser analyse the company's performance. ✓ ✓

Marking Practice Script 2

Marker awarded a total of 12 marks for this answer

Consolidated statement of financial position at 30 September 20X5

\$'000

Non-current assets

Property plant & equipment	(392,000 + 84,000)	476,000	✓
Goodwill	(W1)	32,400	(W1)

Current assets	(96,700 + 44,650 – 200 (W3))	<u>141,150</u>	✓ ✓
----------------	---------------------------------	----------------	-----

Total assets		<u>649,550</u>	
--------------	--	----------------	--

Equity:

Share capital		109,000	✓
Retained earnings	(W3)	212,232	(W3)
Non-controlling interest	(W4)		

Non-current liabilities

Deferred consideration		24,000	✓ ✓
Current liabilities	(137,300 + 28,150)	<u>165,450</u>	✓

Total equity and liabilities

Workings

(1) Goodwill

Consideration		\$'000	
Cash		92,000	
Deferred	<u>(28m x 0.857)</u>	<u>24,000</u>	✓ ✓
		116,000	
NCI		15,000	✓
Less: net assets acquired			
Share capital	60,000		✓
Retained earnings	34,000		✓
Revaluation surplus	4,000		✓
Fair value adj	<u>600</u>		✓
		<u>(98,600)</u>	
		<u>32,400</u>	

(2) Fair value adjustments

	<u>At acquisition</u>	<u>Balance – to ret</u>	<u>30 Sept 20X5</u>	
Inventory	<u>600</u>	<u>590</u>	<u>60</u> <u>(10% x 600)</u>	PAG

(3) Retained earnings

At 31 Sept 20X5	Party	Streamer	
	210,000	36,500	✓
Fair Value adj (W2)		540	0
PURP (1m x 25/125)	(200)		✓ ✓ (OFR)
At acquisition		<u>(34,000)</u>	
Share of Streamer post-acq (80% x 3,040)	<u>2,432</u>	<u>3,040</u>	✓ ✓
	<u>212,232</u>		

(4) Non-controlling interest

Two methods – fair

Part (b)

To make decisions about whether it is worth purchasing the company Streamer Co, the information in the consolidated financial statements of Party Co Group would not be useful. Any analysis that you did using the consolidated figures, on profitability, returns etc might not reflect the performance of Streamer Co, rather of the group as a whole and Streamer's individual performance may be better or worse than that of the group as a whole. ✓✓

It would seem that the individual financial statements of Streamer would be more useful, and would certainly let more analysis be done on that company in isolation but there may be distortions arising from its transactions with Party Co. ✓✓

For example, in the current year \$8million of goods were purchased by Streamer at a reduced margin, saving Streamer purchase costs of \$1.6 million. ✓✓