Sample Study Hub Content from Financial Reporting 2022-23

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ACCA Think Ahead

Financial Reporting (FR): Valid for exams Sep 2022-Jun 2023

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Study Text

Chapter 1: International Financial Reporting Standards

Sample content: Chapter 1 Section 1.2

1.1.2 Sources of GAAP

1.2 Sources of GAAP

Key Point

Accounting standards on their own are not a complete regulatory framework.

1.2.1 Regulatory Framework

The main source of GAAP is the regulatory framework which includes:

- The body of rules and regulations, from whatever source, which an entity must follow when preparing accounts in a particular country for a particular purpose, for example:
  - Statute (e.g. Companies Acts)
  - Accounting standards.
- Statements issued by professional accounting bodies which lay down rules on accounting for different issues, for example:
  - International Financial Reporting Standards (IFRS Standards)
  - Financial Reporting Standards (UK FRSs)
  - Financial Accounting Standards (US FASs).

1.2.2 Other Sources

Other sources of GAAP include:

- Best practice, that is, methods of accounting developed by companies in the absence of rules in a specific area.
- Industry groups, such as:
  - The Oil Industry Accounting Committee (OIAC);
  - British Bankers' Association (BBA).

Rate Your Confidence

High

Medium

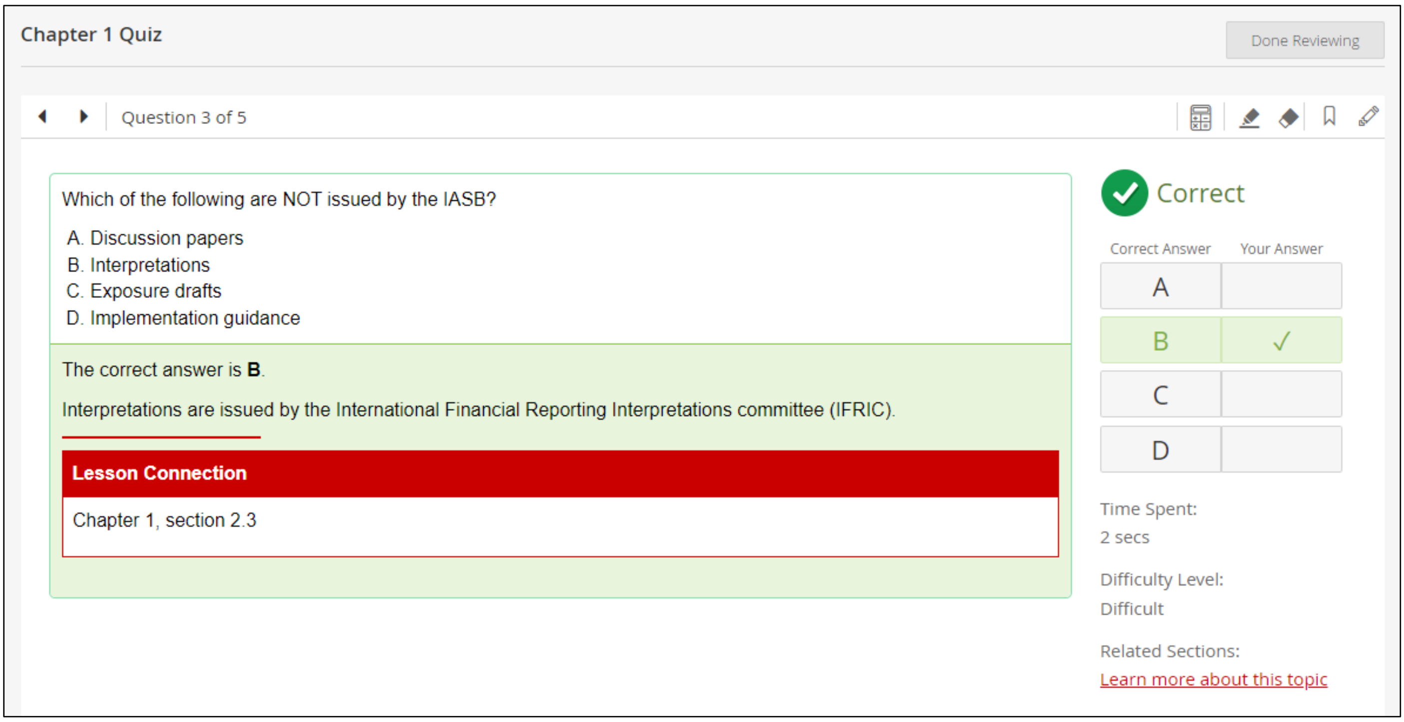
Low

Continue »

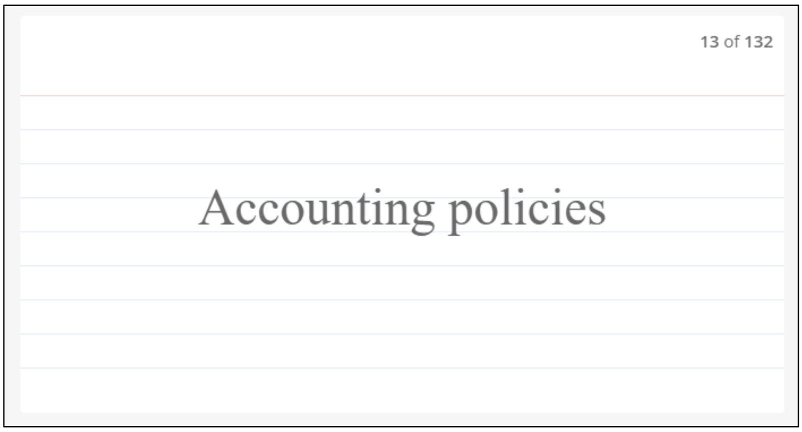
Category

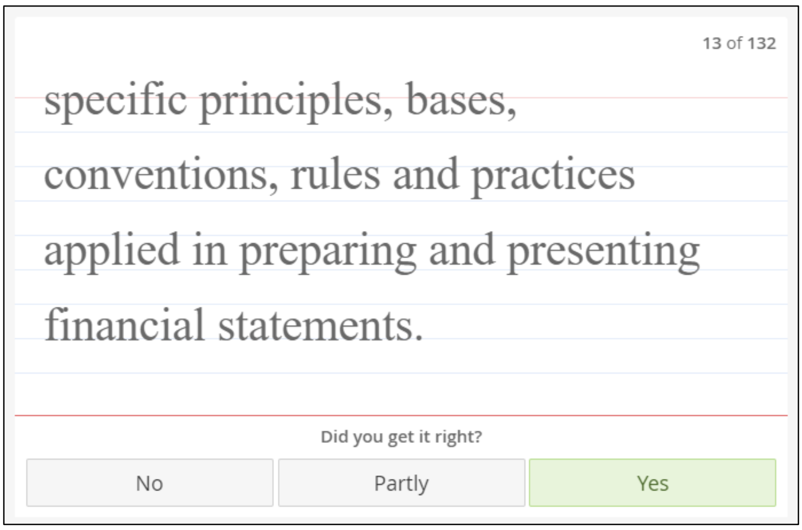
1.1 Accounting Principles

Sample content: Chapter 1 quiz question 3

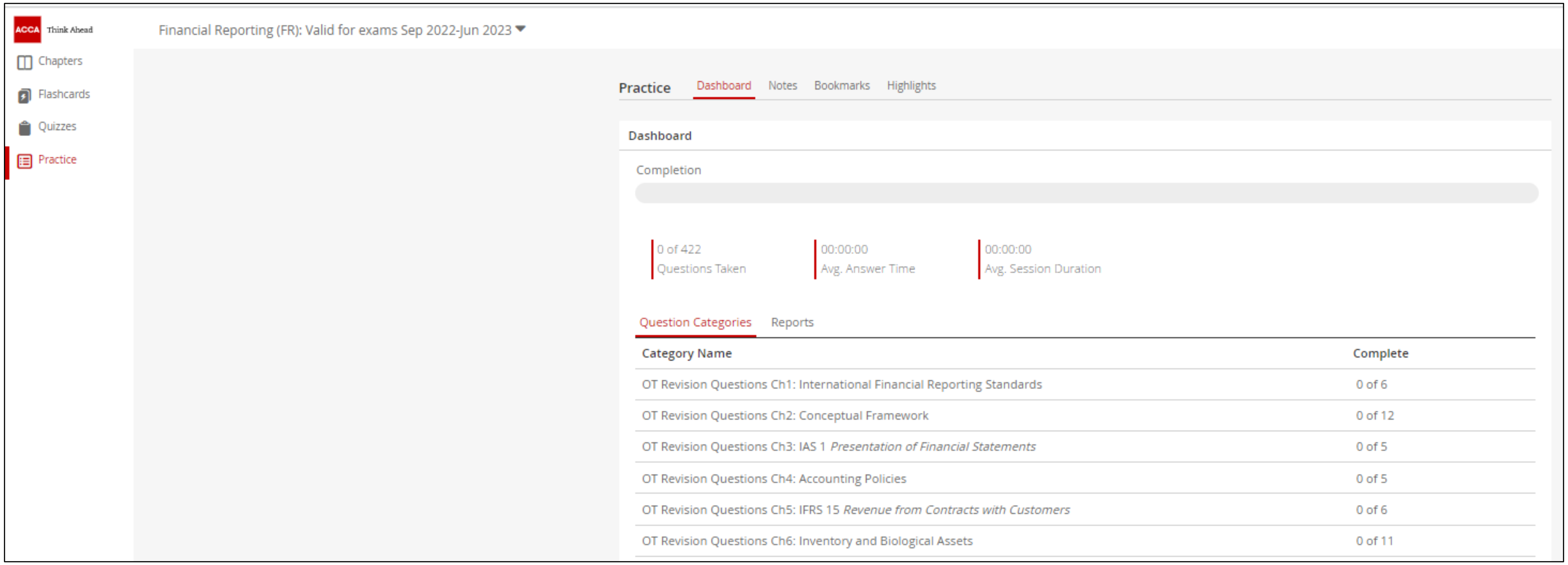


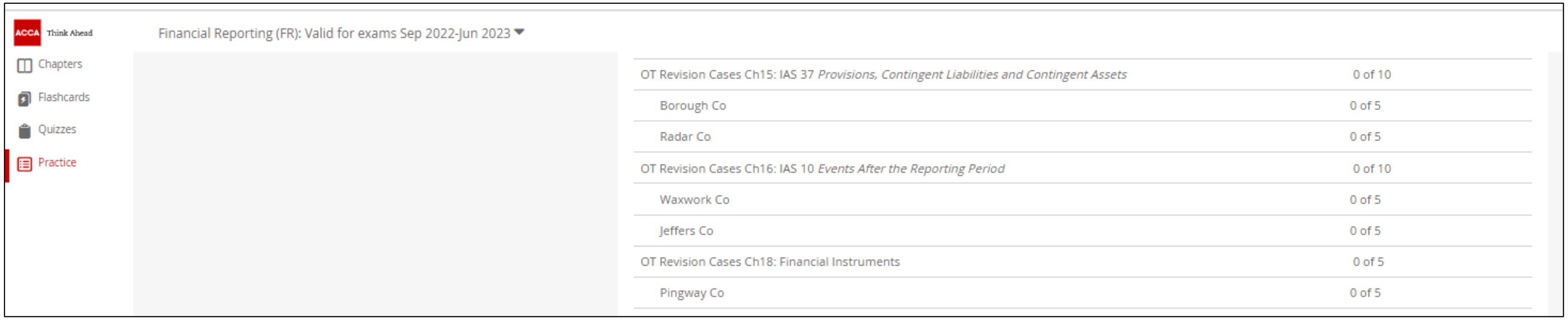
Sample content: Flashcard





Practice: Dashboard showing question sets (only a sample visible below)





Practice: Example Constructed Response Question

PLANK CO

This scenario relates to two requirements.

Plank Co has owned 35% of Arch Co since 1 June 20X7 and it acquired 85% of Strip Co on 1 April 20X8. The statements of profit or loss and other comprehensive income for the year ended 31 December 20X8 are.

	Plank Co	*Strip Co*	*Arch Co*
	$000	$000	$000
Revenue	705,000	218,000	256,000
Cost of sales	(320,000)	(81,000)	(83,500)
Gross profit	**385,000**	**137,000**	**172,500**
Distribution costs	(58,000)	(16,000)	(18,500)
Administrative expenses	(92,000)	(28,000)	(29,000)
Investment income	46,000	2,000	
Finance costs	(12,000)	(14,000)	(11,000)
Profit before tax	**269,000**	**81,000**	**114,000**
Income tax expense	(51,500)	(15,000)	(21,430)
Profit for the year	**217,500**	**66,000**	**92,570**
Other comprehensive income			
Gain on revaluation of land	2,800	3,000	–
Total comprehensive income for the year	**220,300**	**69,000**	**92,570**

Plan answer

Confirm

Skip

The following information is relevant

i. A fair value exercise conducted on 1 April 20X8 concluded that the carrying amounts of Strip Co's net assets were equal to their fair values with the exception of an item of machinery which had a fair value of $8m in excess of its carrying amount. At 1 April 20X8, the machinery had a remaining life of three years. Depreciation is charged to cost of sales.
ii. Since acquisition, Plank Co has sold goods to Strip Co totalling $39m Strip Co had one quarter of these goods in inventory at 31 December 20X8. During the year, Plank Co also sold goods to Arch Co for $26m all of which Arch Co held in inventory at 31 December 20X8. All of these goods had a mark-up on cost of 30%.
iii. The investment income of Plank Co for the year ended 31 December 20X8 includes dividends from Strip Co and Arch Co (see note (iv)) It also includes $5m interest receivable on a loan made to Strip Co on 1 April 20X8
iv. Strip Co paid a dividend to shareholders of $18m on 31 December 20X8 Arch Co paid a dividend on 31 December 20X8 of $35m
v. In Plank Co's consolidated statement of financial position at 31 December 20X7 the carrying amount of Plank Co's investment in Arch Co was $145,000. This was calculated using equity accounting.
vi. All other comprehensive income occurred after 1 April 20X8. Unless otherwise indicated all other items in the above statements of profit or loss and other comprehensive income are deemed to accrue evenly over the year.

Required:

(a) Prepare the consolidated statement of profit or loss and other comprehensive income of Plank Co for the year ended 31 December 20X8. (18 marks)

(b) Calculate the carrying amount of the investment in Arch Co in the consolidated statement of financial position of Plank Co as at 31 December 20X8. (2 marks)

(20 marks)

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Area for student response

Expands as text is entered

Suggested solution included

complete

Continue

(a) Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 20X8

		$000
Revenue	705,000 + (9/12 × 218,000) − 39,000	829,500
Cost of sales	(W1)	(346,000)
Gross profit		483,500
Distribution costs	58,000 + (9/12 × 16,000)	(70,000)
Administrative expenses	92,000 + (9/12 × 28,000)	(113,000)
Investment income		
Share of profit of associate (W2)		30,300
Other income	46,000 + (9/12 × 2,000) − 5,000 − 12,250 − 15,300	14,950
Finance costs	12,000 + (9/12 × 14,000) − 5,000	(17,500)
Profit before tax		328,250
Income tax expense	51,500 + (9/12 × 15,000)	(62,750)
Profit for the year		265,500
Other comprehensive income:		
Gain on revaluation of land	2,800 + 3,000	5,800
Total comprehensive income for the year		271,300
Profit attributable to owners of the parent		258,375
Profit attributable to NCI		7,125
		265,500
Total comprehensive income attributable to owners of the parent		263,725
Total comprehensive income attributable to NCI		7,575
		271,300

WORKINGS

(1) Cost of sales

Plank Co			320,000
Strip Co	81,000 × 9/12		60,750
Intercompany purchases			(39,000)
Additional depreciation on plant		$8m/3 years × 9/12	2,000
Unrealised profit adjustment			
Plank to Strip	$39m × 1/4 × 30/130		2,250
			346,000

(2) Income from associate

Share of profit after tax	$92.57m × 35%	32,400
Unrealised profit		
Plank to Arch	$26m × 35% × 30/130	(2,100)
		30,300

(3) Share of profit/total comprehensive income to parent and NCI

Strip post-acquisition profit	9/12 × 66,000	49,500
Less: Additional depreciation on machinery		(2,000)
		47,500
NCI's share of profit 15%		7,125