BPP LEARNING MEDIA

# ACCA ERRATA SHEET

## Financial Reporting 2021-22

**01/2022**

## Workbook (page references are to ebook version)

## Page 45, Chapter 3 Activity 3

Note (1) should be extended to state that the machine was purchased on 1 October 20X4.

## Page 50, Chapter 3 Activity 5

There is a date error in the question. The question should read:

The building had an original cost on 1 January 20X0 of $250,000 and was being depreciated over 50 years. At 30 June 20X9, its fair value was judged to be $350,000.

## Page 116, Chapter 6 Activity 5

The opening sentence should be amended to read ' A company entered into a three-year contract to build a sports stadium, the customer takes control of the stadium as construction takes place.'

## Page 222, Chapter 9 Disposal of a subsidiary

The exam focus point should be extended to read:

You will not be expected to prepare a consolidated statement of profit of loss containing the disposal of a subsidiary in Section C of the ACCA Financial Reporting exam. The calculation of the gain or loss on disposal of a subsidiary may however be required in Section C or as an objective test question in Section A or B.

This change is to make it clearer that whilst you will not need to prepare consolidated accounts after the effects of a subsidiary, you do still need to know how to calculate the gain or loss.

## Page 224, Chapter 9 Activity 3: Disposal of a subsidiary

The first paragraph of Activity 3 should be revised as follows:

Pelmer Co acquired 80% of Symta Co's 100,000 $1 shares on 1 January 20X2 for $600,000 when the net assets of Symta Co were $510,000. In addition to its net assets, Symta Co's brand name was deemed to have a value $50,000 at the date of acquisition. It is group policy to measure non-controlling interests at fair value at acquisition. The fair value of the non-controlling interests in Symta Co at acquisition was $150,000. No impairment has been necessary.

This impacts on the solution as follows:

The correct answer is $780,000
The profit or loss on disposal is calculated as:

| | $000 |
|---|---|
| Sales proceeds | 1,500 |
| Less: | |
| Carrying amount of goodwill (W1) | (190) |
| Net assets at disposal (660 + 50) | (710) |
| NCI (W2) | 180 |
| Gain on disposal | 780 |

| W1 Goodwill | $000 |
|---|---|
| Consideration | 600 |

| | |
|---|---|
| NCI at fair value | 150 |
| Fair value of net assets (510 + 50) | (560) |
| Goodwill | 190 |

| | |
|---|---|
| W2 NCI | $000 |
| NCI at acquisition | 150 |
| Add: NCI share of post-acquisition reserves | 30 |
| 20% × (660 - 510) | |
| | 180 |

## Page 275, Chapter 11 Activity 2

The requirement should read:

Explain how Freddo should account for the debt factoring arrangement as at 30 June 20X2.

## Page 283, Chapter 11 summary diagram

The measurement of all other financial assets should read:

All other financial assets

- Initial: FV (TCs expenses in P/L)

- Subsequent: FV through P/L

## Page 286, Chapter 11 Answer to Activity 2

The answer does not adequately address the requirement. The answer should be replaced with the following:

This arrangement is a secured loan as the risk of non-payment is borne by Freddo Co, and the lender (the factor) charges interest on amounts advanced.

The receivables should remain in Freddo Co's books and a liability equal to the $270,000 received from the factor should be recognised. Interest of $6,750 ($270,000 × 5% × 6/12m) is accrued on the $270,000 for the six months to 31 December 20X1 and should be added to the loan balance. The $150,000 collected by the factor will reduce receivables and reduce the loan payable. Interest of $3,000 ($120,000 × 5% × 6/12m) is accrued on the outstanding balance of $120,000 for the six months to 30 June 20X2 and should be added to the loan balance.

The outstanding loan balance must be repaid by Freddo Co on 1 July 20X2.

## Page 318, Chapter 13 Activity 1

There is a date error in Requirement 2. The requirement should read:

Calculate the provision required for the year ended 31 December 20X5.

## Page 333, Chapter 13 Activity 1 answer

The increase in the provision is $310,000 and not $310,500 as stated (please note that the $310,500 is not incorrect as it is arrived at by applying the 10% interest rate to the opening provision. Because the discount rate is rounded to 3 decimal places, the $500 inconsistency is created)

## Page 417, Chapter 17 Activity 3 answer

Please disregard the second set of numbers included in the statement of profit or loss and other comprehensive income

MILLIGAN CO STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X1

| | *20X1* |
|---|---|
| | $'000 |
| **Revenue** (3,000 – 320)~~/(2,200 – 400)~~ | 2,680 |
| Cost of sales (1,000 – 150)~~/(700 – 190)~~ | (850) |
| Gross profit | 1,830 |
| Distribution costs (400 – 120)~~/(300 – 130)~~ | (280) |
| Administrative expenses (900 – 100)~~/(800 – 90)~~ | (800) |
| **Profit before tax** | 750 |
| Income tax expense (210 + 15)~~/(120 + 3)~~ | (225) |
| **Profit for the year from continuing operations** | 525 |
| Loss for the year from discontinued operations | (35) |
| **PROFIT FOR THE YEAR** | 490 |
| **Other comprehensive income for the year, net of tax** | 40 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 530 |

## Page 483, Chapter 19, Activity 6

The requirement should be amended to:

(2) For the year ended 31 March 20X5, excluding the profit on the sale of the division. You should ignore the effects of taxation on the profit on the sale.

## Page 483, Chapter 19, Activity 6 answer

The following ratios for 20X5 as reported require adjusting to take account of the profit on disposal:

| | | |
|---|---|---|
| Operating profit margin | ~~13.1%~~ | 10.3% |
| Return on capital employed (ROCE) | ~~27.6%~~ | 23.1% |

Workings:

Operating profit margin = (4,300 + 400 - 1,000)/36,000

ROCE = (4,300 + 400 - 1,000) / (13,000 + 4,000 - 1,000)

## Page 486, Chapter 19, Activity 8 answer

There is an error in the operating expenses brought forward in the question which has an impact on the profit or loss extracts and the ratios calculated.

Adjusted P/L extracts:

| | $'000 |
|---|---|
| Revenue (24,280 – 5,500 (8,250 x 8/12) + 640 (intra-group)) | 19,420 |
| Cost of sales (13,740 – 2,500 (3,750 x 8/12)) [see Note] | (11,240) |
| Gross profit | 8,180 |
| Operating expenses (3,100 – 2,000 (3,000 x 8/12) + 1,260 profit on disposal) | (2,360) |
| Profit from operations | 5,820 |
| Finance costs (890 – 440 (660 x 8/12)) | (450) |
| Profit before tax | 5,370 |

Ratios of Advent Co, eliminating impact of Elf Co and the disposal during the year

| | *20X4 recalculated* | *Working (see P/L above)* | *20X4 original* | *20X3* |
|---|---|---|---|---|
| Gross profit margin | 42.1% | 8,180/19,420 | 43.4% | 40.7% |
| Operating margin | 30.0% | 5,820/19,420 | 30.6% | 10.5 |
| Interest cover | 12.9 times | 5,820/450 | 8.4 times | 2.6 times |

## Page 577, Essential Reading Chapter 8, Activity 8

The opening line of Activity 8 should read as follows:

On 1 January 20X5, Sutherland Co acquired 100% of the 80,000 $1 shares in Underhill Co at $4.50 per share.

The following line should be deleted:

~~It is group policy to recognise NCI at full (fair) value.~~

## Further question practice

**Solution to Q11**

The ACCA examining team has advised that a simplified approach will be taken to accounting for trading between a group and its associate in the exam. Regardless of whether the associate or another group company is the seller, the adjustment required will always be assumed as
Dr P/L Share of profit of associate; Cr SFP Investment in associate.

As such, the revised solution to Q11 in accordance with ACCA's simplified approach is as follows:
The correct answer is $889,000

| | $ |
|---|---|
| Cost of investment | 700,000 |
| Share of post acquisition retained earnings | 195,000 |
| Unrealised profit (200,000 × 25/125 × 50% × 30%) | (6,000) |
| Investment in associate | 889,000 |

**Q12 and solution to Q12**

None of the answer options presented are correct. The correct answers are (1), (2) and (4) in accordance with IAS 2, *Inventories*.

**Q19**

There is insufficient information to answer this question. The following information is required:

> On 1 April 20X5 Thames Co acquired 80% of Avon Co's 100,000 $1 ordinary shares. Goodwill acquired in the business combination was $50,000, of which 40% had been written off by 31 March 20X7. NCI was measured at full fair value. At the disposal date, NCI was measured at $58,000.