



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Qualification Programme

Associate Module 6 Financial Accounting

Pilot Examination Paper

Time Allowed	2 hours 30 minutes	
Examination Assessment Allocation		
Objective Type Questions	63 Marks	All questions are compulsory
Task-based Questions	37 Marks	All questions are compulsory

This pilot examination paper simulates a typical examination paper that assesses candidates' core foundational technical knowledge of the subject matters, and their skills in applying the knowledge to tackle routine professional problems, including computations. Mark(s) for each question is set in accordance with its level of difficulty.

The sample questions in this paper are to help candidates familiarise themselves with the form and style of questions which they may see in the Module 6 examination. The sample questions and answers are for reference only, and the content may not have been updated to reflect any changes in relevant standards or legislation.

You should answer **all questions** in this paper and allocate approximately 1.5 minutes for each mark.

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OBJECTIVE TYPE QUESTIONS (Total: 63 marks)

Answer **ALL** questions in this section. Together they are worth 63% of the total marks for this examination.

1 In 20X4, Bill Limited ("BIL") purchased freehold land for HK\$300,000 that was revalued in 20X5 at HK\$360,000 with the revaluation surplus of HK\$60,000 credited to revaluation reserves. In 20X6, BIL revalued the freehold land again at HK\$330,000.

According to HKAS 16 *Property, Plant and Equipment*, determine the amount to be recognised in BIL's profit or loss for the year ended 20X7 if BIL revalued the freehold land down from HK\$330,000 to HK\$260,000 in 20X7. (1 mark)

- ☐ A. Profit or loss (debit): HK\$70,000.
- ☐ B. Profit or loss (debit): HK\$40,000.
- ☐ C. Profit or loss (debit): HK\$30,000.
- ☐ D. Profit or loss (debit): Nil.

2 Diva Limited is being sued for damages. When preparing its 20X3 financial statements, the lawyers took the view that the likelihood of any payments having to be made to the claimant was remote.

In preparing the 20X4 financial statements, their view was that it was possible that such payments would have to be made. In preparing the 20X5 financial statements, their view was that such payments were probable.

For the 20X6 financial statements, their view was that it was virtual certainty that the payments would have to be made. Such payments were made during the 20X7 accounting period.

In accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, determine that the provision for the payments shall first be recognised in the _____. (1 mark)

- ☐ A. 20X3 financial statements
- ☐ B. 20X4 financial statements
- ☐ C. 20X5 financial statements
- ☐ D. 20X6 financial statements

3 Friend Limited ("FRL") was finalising the draft financial statements for the year ended 31 March 20X7 and expected to be issued on 31 May 20X7.

On 20 April 20X7, a customer who owed FRL HK\$51,600 for the past six months officially went into liquidation, confirming the debt was uncollectible. Subsequent investigation revealed the customer's credit rating had been downgraded due to a severe financial distress during Q3 20X6, though FRL's credit team ignored this information until after the reporting period. No expected credit loss had been made against this debt.

On 17 May 20X7, a manufacturing plant was destroyed by fire resulting in a financial loss of HK\$264,000.

On 24 May 20X7, a dividend of HK\$270,000 was declared and a contractual obligation to a pre-determined employee profit sharing payment of HK\$30,000 as at 31 March 20X7 was settled, both based on the profits for the year ended 31 March 20X7.

According to HKAS 10 *Events after the Reporting Period*, calculate the amount of expense to be recognised in FRL's statement of profit or loss and other comprehensive income for the year ended 31 March 20X7 to reflect adjusting events after the reporting period. (1 mark)

- ☐ A. HK\$270,000.
- ☐ B. HK\$300,000.
- ☐ C. HK\$81,600.
- ☐ D. HK\$294,000.

4 Identify which of the following examples would NOT give rise to a temporary difference under HKAS 12 *Income Taxes*. (1 mark)

- ☐ A. Development costs of HK\$500 is capitalised and amortised to the statement of profit or loss over three years but is deducted in determining taxable profit in the period in which it is paid.
- ☐ B. Inventories with a carrying amount of HK\$500 and is expected to be recovered when it is sold. The cost of the inventory is deductible for tax purpose at the point of sale.
- ☐ C. Accumulated depreciation of an asset in the financial statements is HK\$500 less than the cumulative tax depreciation allowance as of year end.
- ☐ D. Current liabilities include interest income received in advance with a carrying amount of HK\$500. The related interest income will be taxable for tax purposes only when it is received.

5 Identify which of the following is one of the underlying assumptions for the preparation of financial statements as stated in the *HKICPA Conceptual Framework for Financial Reporting*. (1 mark)

- ☐ A. Relevance.
- ☐ B. Financial capital maintenance.
- ☐ C. Going concern.
- ☐ D. Faithful representation.

6 Under HKAS 24 *Related Party Disclosures*, identify which of the following are the related parties of Jovy Limited ("JOL"). (1 mark)

- (1) David Lee, a non-executive director of JOL.
- (2) Edward Chan, an executive director of Rich Limited which controls JOL.
- (3) Victory Limited, which owns 8% of JOL's equity.
- (4) Star Limited is a significant customer of JOL, buying 35% of its annual output.

- ☐ A. (1) and (2).
- ☐ B. (1), (2) and (4).
- ☐ C. (3) and (4).
- ☐ D. All of the above.

7 During the year ended 31 December 20X7, the following events occurred at Felix Limited ("FEL"):

1. It was decided to write off HK\$120,000 from inventory which was obsolete in 20X7.
2. Sales of HK\$90,000 had been omitted from the financial statements for the year ended 31 December 20X6.
3. It changed the estimated useful life of a building to calculate the depreciation based on the straight-line method from 20 years to 25 years remaining as at 1 January 20X7. The net effect of the change amounted to a HK\$30,000 reduction in depreciation.

According to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, calculate the net amount in profit or loss to be accounted for as a prior period error in FEL's financial statements for the year ended 31 December 20X7. (1 mark)

- ☐ A. HK\$90,000 increase.
- ☐ B. HK\$120,000 decrease.
- ☐ C. HK\$210,000 decrease.
- ☐ D. HK\$60,000 decrease.

8 During the year ended 31 December 20X7, Layman Limited ("LML") purchased the following new items for resale:

Purchase date	Number of items	Cost price per item
March 20X7	30	HK\$16.5
June 20X7	30	HK\$19.5

30 items were left unsold on 31 December 20X7. At that date, LML could resell each at HK\$18.0 with insignificant estimated costs of sale. LML determines cost of inventory under the first-in, first-out method.

According to HKAS 2 *Inventories*, calculate the amount of cost of inventory in the statement of financial position as at 31 December 20X7. (1 mark)

- ☐ A. HK\$450.
- ☐ B. HK\$495.
- ☐ C. HK\$540.
- ☐ D. HK\$585.

9 Majesty Limited is a British company with a presentation currency of pound sterling (£) and its subsidiary, Deutsche Limited ("DEL") is based in Germany. DEL has a significant degree of autonomy from Majesty Limited. The operation of DEL is reselling goods manufactured in Australia to customers in Australia. All operations, trading and finance sourcing are located in Australia and all the transactions are denominated in Australian dollars (\$). DEL presents its financial statements in Euros (€).

Identify the functional currency of DEL in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*. (1 mark)

- ☐ A. Euro(€).
- ☐ B. Australian dollar(\$).
- ☐ C. Pound sterling(£).
- ☐ D. None of the above.

10 On 1 January 20X7, Nate Limited drew a loan of HK\$30 million in order to finance the renovation of a building. The renovation work started on the same date. The loan carried interest at 10% per annum.

The renovation work of the building was substantially completed on 31 October 20X7. The loan was repaid on 31 December 20X7 and investment income of HK\$285,000 was earned during the period from 1 January 20X7 to 31 October 20X7 on those parts of the loan not yet used for the renovation.

Calculate the total amount of borrowing costs to be capitalised in the cost of the building according to HKAS 23 *Borrowing Costs*. (1 mark)

- ☐ A. HK\$2,715,000.
- ☐ B. HK\$2,500,000.
- ☐ C. HK\$2,215,000.
- ☐ D. HK\$3,000,000.

11 Cool Engineering Limited ("CEL") has two cash generating units, A and B. The carrying amounts of the two units are as follows:

Unit	A	B
Plant	HK\$500,000	HK\$400,000
Machinery	HK\$300,000	HK\$220,000
Total	HK\$800,000	HK\$620,000

CEL also has a headquarters building with a carrying amount of HK\$160,000. The headquarters building has always been used equally by both units and therefore can be allocated to each unit on a 50:50 basis. It does not generate independent cash flows for CEL.

The recoverable amounts of the two cash-generating units are:

Unit A	HK\$900,000
Unit B	HK\$665,000

According to HKAS 36 *Impairment of Assets*, calculate the total impairment loss of the two cash-generating units of CEL. (2 marks)

- ☐ A. HK\$35,000.
- ☐ B. HK\$15,000.
- ☐ C. HK\$55,000.
- ☐ D. HK\$0.

12 The *Small and Medium-sized Entity Financial Reporting Framework* ("SME-FRF") sets out the conceptual basis and qualifying criteria for the preparation of financial statements in accordance with the *Small and Medium-sized Entity Financial Reporting Standards* ("SME-FRS").

Determine that which of the following companies qualifies for reporting under the SME-FRF. (2 marks)

- ☐ A. A private company that does not have subsidiaries and is not a subsidiary of another company obtained 75% of shareholders approval to adopt simplified reporting.
- ☐ B. A company carries on any banking business and holds a valid banking license granted under the Banking Ordinance (Cap.155).
- ☐ C. A subsidiary of a group that does not carry on public-interest business has annual revenue of HK\$90 million and total assets of HK\$80 million at each reporting date.
- ☐ D. A company that carries on an insurance business, other than solely acting as an insurance agent.

13 On 1 April 20X5, Sonic Limited ("SOL") issued HK\$10 million zero-coupon bonds at HK\$9,038,400. Issue costs payable to professional advisers were HK\$400,000 on 31 March 20X5. The bonds are to be redeemed at par on 31 March 20X8. The effective interest rate for similar bonds with equivalent risk is 5% per annum.

Calculate the balance of the bonds to be recognised in the statement of financial position of SOL as at 31 March 20X7 in accordance with HKFRS 9 *Financial Instruments* assuming that the bonds are measured at amortised cost. (2 marks)

- ☐ A. HK\$9,070,320.
- ☐ B. HK\$9,523,836.
- ☐ C. HK\$9,910,320.
- ☐ D. HK\$0.

14 Key Limited ("KEL") sells a home sound system to a customer for a total contract price of HK\$62,000 with a warranty guarantee. This warranty lasts for a one-year period with an estimated cost of HK\$2,100 to repair defects so as to guarantee the quality of the system at the point of sale with no significant financing component. In addition, the price of the system includes an extended warranty for two years beyond the one-year period with additional services provided and a free installation service to set up the system. Such an installation service can be obtained from a competitor of KEL and does not significantly modify the system. Without such an installation service provided by KEL, the customer can still install the system by following a step-by-step installation guide stated in the instruction manual.

The stand-alone sales value of the system, two-year extended warranty and installation service are HK\$60,000, HK\$4,000 and HK\$2,000 respectively at the contract inception.

Determine the transaction price allocated to each performance obligation at the contract inception, in accordance with HKFRS 15 *Revenue from Contracts with Customers*. (2 marks)

- ☐ A. Sale of system with all warranties and installation service revenue: HK\$62,000.
- ☐ B. Sale of system with all warranties: HK\$56,364; Installation service revenue: HK\$5,636.
- ☐ C. Sale of system with assurance warranty: HK\$56,364; Service warranty revenue: HK\$3,758; Installation service revenue: HK\$1,878.
- ☐ D. Sale of system: HK\$60,000; Service warranty revenue: HK\$4,000; Installation service revenue: HK\$2,000.

15 Which of the following is a fundamental qualitative characteristics of useful sustainability-related financial information in accordance with HKFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*? (2 marks)

- ☐ A. Qualitative.
- ☐ B. Relevant.
- ☐ C. Informative.
- ☐ D. Objective.

16 An entity with a calendar-year reporting period issued options to acquire its shares on 30 June 20X1 (half-way through its reporting period). Those options had an exercise price that was 60% of the average share price for the reporting period.

Identify how the options were factored into the calculation of diluted EPS in accordance with HKAS 33 *Earnings per Share* for the period ending 31 December 20X1. (1 mark)

- ☐ A. The number of shares that would effectively be issued for no consideration would be wholly included in the denominator.
- ☐ B. The number of shares that would effectively be issued for no consideration would be included in the denominator, weighted by 50% for the period they were outstanding during the reporting period.
- ☐ C. The number of shares that would be issued when the options were converted would be included in the denominator and the numerator would be adjusted for the earnings that would have been generated on the proceeds from the options being exercised.
- ☐ D. The number of shares that would be issued when the options were converted would be included in the denominator, weighted by 50% for the period they were outstanding during the reporting period, and the numerator would be adjusted for the earnings that would have been generated on the proceeds from the options being exercised.

17 Entity H and Entity J are joint operators of a joint operation. The activity of the joint operation was conducted through Xtra Limited ("Xtra"), which was owned equally by Entity H and Entity J (i.e. 50% each).

Entity H provides proprietary technology and industry expertise critical to Xtra's operations. Therefore, under the contractual arrangement relating to the joint operation, the rights and obligations to assets, liabilities, revenues and expenses of the arrangement were shared in a specified proportion that recognised the value of Entity H's expertise to the conduct of the activity of the joint operation:

- Entity H – 60%
- Entity J – 40%

Identify which of the following statements about the arrangement is correct in accordance with HKFRS 11 *Joint Arrangement*. (1 mark)

- ☐ A. Entity H applied the equity method to account for its 50% interest in Xtra.
- ☐ B. Entity H recognised 60% of the assets, liabilities, revenues and expenses of Xtra.
- ☐ C. Entity J recognised 50% of the assets, liabilities, revenues and expenses of Xtra.
- ☐ D. Entity J recognised an investment in Xtra, measured at 50% of the net assets of Xtra.

18 On 1 January 20X5, Calamari Limited ("Calamari") acquired 25% of Scallop Limited's ("Scallop") share capital. At that date, Scallop's equity was HK\$1,000,000 and the fair value of its identifiable net assets was HK\$1,250,000. The difference was due to the fair value of a brand name not recognised by Scallop. The remaining useful life of that brand name was five years from 1 January 20X5.

Scallop's reported net profit for the year to 31 December 20X5 was HK\$200,000.

Calamari equity accounted its investment in Scallop. Calamari was preparing consolidated financial statements for the financial year ending 31 December 20X5.

In accordance with HKAS 28 *Investments in Associates*, identify which one of the following statements is true. (1 mark)

- ☐ A. Calamari increased the carrying amount of its investment in Scallop by HK\$50,000.
- ☐ B. Calamari recognised its share of profit of Scallop of HK\$37,500 in its profit or loss.
- ☐ C. Calamari increased the carrying amount of its investment in Scallop by HK\$150,000.
- ☐ D. Calamari recognised its share of profit of Scallop of HK\$200,000 in its profit or loss.

19 Ace Limited ("Ace") was busy drafting the financial instruments accounting policy note for its 20X8 financial statements. The accounting policy note included an explanation of the different measurement classifications for financial assets under HKFRS 9 *Financial Instruments*.

Identify which of the following was NOT a measurement classification to be discussed in this accounting policy note. (1 mark)

- ☐ A. Amortised cost.
- ☐ B. Historical cost.
- ☐ C. Fair value through profit or loss.
- ☐ D. Fair value through other comprehensive income.

20 According to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which of the following statements is NOT correct in relation to discontinued operations? (1 mark)

- ☐ A. A discontinued operation is a component of an entity with operations and cash flows clearly distinguishable from the rest of the entity.
- ☐ B. A component of an entity is either a cash-generating unit or a group of cash-generating units while being held for use.
- ☐ C. To be a discontinued operation, a component of an entity must already be disposed of.
- ☐ D. To be a discontinued operation, a component of an entity, if yet to be disposed of, must be classified as held for sale.

21 In accordance with HKAS 40 *Investment Property*, identify which of the following statements is NOT correct regarding the measurement implications of a transfer between investment property and another category of property. (1 mark)

- ☐ A. When a property transfers from investment property measured under the fair value model to inventory, fair value gains and losses since initial recognition of the property at cost are reversed to measure the inventory at the lower of cost and net realisable value.
- ☐ B. When an owner-occupied property measured under the cost model in HKAS 16 *Property, Plant and Equipment* transfers to investment property that will be measured under the fair value model, its depreciation and any impairment losses are updated to when that change in use occurs, and it is revalued to fair value when the change in use occurs. The resulting revaluation increase or decrease is recognised in the component of comprehensive income specified by the revaluation rules for property, plant and equipment in HKAS 16.
- ☐ C. When an investment property measured under the fair value model becomes owner-occupied property that will be measured under the cost model in HKAS 16 or HKFRS 16 *Leases*, the property's deemed cost for subsequent accounting in accordance with HKAS 16 or HKFRS 16 is the property's fair value at the date of change in use.
- ☐ D. When an item of inventory is transferred to investment property measured under the fair value model, the item is remeasured to fair value upon the change in use and the resulting change in its carrying amount is recognised in profit or loss.

22 In accordance with HKAS 38 *Intangible Assets*, which of the following intangible assets could an entity choose to use the revaluation model? (1 mark)

- ☐ A. Goodwill (acquired through a business combination).
- ☐ B. Taxi license traded in an active market.
- ☐ C. Patent.
- ☐ D. Brand name (acquired through a business combination).

23 Identify which of the following disclosures is NOT required for intangible assets measured after recognition using the revaluation model under HKAS 38 *Intangible Assets*. (1 mark)

- ☐ A. By class of intangible asset, the carrying amount of revalued intangible assets.
- ☐ B. By class of intangible asset, the effective date of the revaluation.
- ☐ C. The amount of the revaluation surplus that relates to intangible assets at the beginning and end of the period.
- ☐ D. The methods and significant assumptions applied in estimating the assets' fair value.

24 Identify which one of the following statements is false in relation to a sale with a right of return under HKFRS 15 *Revenue from Contracts with Customers*. (1 mark)

- ☐ A. Revenue is not recognised for products expected to be returned.
- ☐ B. An entity does not recognise revenue on transferring goods subject to a right of return until the right expires.
- ☐ C. An entity recognises a refund liability.
- ☐ D. An entity recognises an asset for its right to recover products from a customer on settling the refund liability.

25 Label Limited ("Label", as lessee) enters into a five-year contract with TechSpace Limited ("TechSpace", as lessor) for the lease of a retail store. The contract is signed on 1 July 20X9, and provides Label with the right to occupy the premises from 1 August 20X9. Label then undertakes minor modifications to the retail space, which has its grand opening on 1 September 20X9. Label has the unconditional option to terminate the lease after two years, without penalty. Lease payments are HK\$1,000,000 per annum, which is based on the current market price per square metre of retail space in the local area, plus 25% compounding each year of the lease.

Identify which of the following is the correct lease term under HKFRS 16 *Leases*. (1 mark)

- ☐ A. 1 August 20X9 – 31 July 20Y1.
- ☐ B. 1 September 20X9 – 31 August 20Y1.
- ☐ C. 1 July 20X9 – 30 June 20Y4.
- ☐ D. 1 August 20X9 – 31 July 20Y4.

26 On 1 January 20X9, Clear Communications Limited ("Clear") enters into a lease with Signal Limited ("Signal") for the exclusive use of a mobile phone tower for 15 years. The agreement contains a purchase option, enabling Clear to purchase the tower at the end of the lease term. Clear is reasonably certain it will exercise the purchase option. The useful life of the tower is 25 years with no residual value. Clear expects to consume the economic benefits from the tower evenly over the period of use.

Based on the above and other information, the lease liability is initially measured at HK\$5,000,000, excluding an initial lease payment of HK\$450,000 upon commencement of the lease.

Clear adopts the cost model in relation to its property, plant and equipment. At 31 December 20X9, there is no indication the mobile phone tower is impaired.

Applying HKFRS 16 *Leases*, identify which of the following is the carrying amount of the right-of-use asset at 31 December 20X9. (1 mark)

- ☐ A. HK\$4,666,667.
- ☐ B. HK\$4,800,000.
- ☐ C. HK\$5,086,667.
- ☐ D. HK\$5,232,000.

27 Splash Limited ("Splash") acquired bonds for an amount of HK\$950,000 on 1 April 20X8. Splash paid a brokerage fee of HK\$19,800 to acquire the bonds. The bonds had a face value of HK\$1,000,000, paid 4% interest annually at the end of each year and matured in three years' time. Splash would hold the bonds for the purposes of collecting contractual cashflows and had, therefore, classified the bonds as measured at amortised cost. Splash had a year-end on 31 March.

Calculate the amount at which Splash would initially measure the bonds on 1 April 20X8 according to HKFRS 9 *Financial Instruments*. (1 mark)

- ☐ A. HK\$950,000.
- ☐ B. HK\$1,000,000.
- ☐ C. HK\$930,200.
- ☐ D. HK\$969,800.

28 During the 20X8 financial year, Sugar Limited ("Sugar") acquired bonds issued by Spice Limited ("Spice"). The bonds were measured at amortised cost in the financial statements of Sugar. At initial recognition, Sugar determined the 12-month expected credit losses in respect of the bonds amounted to HK\$5,000 and the lifetime expected credit losses amounted to HK\$15,000. During the 20X9 financial year, Spice had its external credit rating downgraded. Following the rating downgrade, the lifetime expected credit losses were calculated by Sugar as HK\$25,000.

Apply HKFRS 9 *Financial Instruments*, which stage of the expected credit loss model the bonds would be classified within by Sugar for the financial year ended 20X9? (1 mark)

- ☐ A. Stage 1.
- ☐ B. Stage 2.
- ☐ C. Stage 3.
- ☐ D. Stage 4.

29 Identify which of the following statements best defines 'net realisable value' under HKAS 2 *Inventories*. (1 mark)

- ☐ A. The estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
- ☐ B. The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- ☐ C. The estimated selling price in the ordinary course of business less marketing and sales costs.
- ☐ D. The estimated selling price less transportation costs.

30 In accordance with HKAS 36 *Impairment of Assets*, identify which of the following assets do NOT need to be tested for impairment every year. (1 mark)

- ☐ A. A taxi license with an indefinite useful life.
- ☐ B. Software that is under development.
- ☐ C. A 20-year franchise agreement.
- ☐ D. Goodwill acquired in a business combination.

31 The fair value less costs of disposal of an asset is HK\$650,000. The expected future cash flows of the asset are as follows:

End of Year 1	HK\$145,000
End of Year 2	HK\$145,000
End of Year 3	HK\$145,000
End of Year 4	HK\$145,000
End of Year 5	HK\$145,000

The discount rate was determined as 5%. Calculate the recoverable amount of this asset under HKAS 36 *Impairment of Assets*. (1 mark)

- ☐ A. HK\$627,774.
- ☐ B. HK\$650,000.
- ☐ C. HK\$661,113.
- ☐ D. HK\$725,000.

32 Blues Brothers Ltd ("BBL") has recently announced that it plans on closing down its music production division and has met all requirements under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to recognise a provision for restructuring. BBL expects to incur the following costs in relation to the closure:

	HK\$
Employee redundancy costs	250,000
Cost of retraining employees who will be remaining with BBL	65,000
Cost of terminating lease of premises used by music production division	100,000
Cost of modifying accounting systems for remaining business after closure	25,000

Calculate the amount the BBL should recognise as a provision for restructuring. (1 mark)

- ☐ A. HK\$190,000
- ☐ B. HK\$275,000
- ☐ C. HK\$350,000
- ☐ D. HK\$445,000

33 An entity has a piece of land currently developed for industrial use as a site for a factory. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. The value of the land is HK\$3 million if it is developed for industrial use and the value of the land as a vacant site for residential use is HK\$3.6 million, taking into account the costs of demolishing the factory and other costs.

Identify whether the below statement is true in accordance with HKFRS 13 *Fair Value Measurement*. (1 mark)

"The fair value of the land is HK\$3.6 million."

- ☐ A. True
- ☐ B. False

34 On 10 December 20X3, a construction company, Styleesh Homes, enters into an arrangement with an interior design company, Dezigner Homes. Under the arrangement, Styleesh Homes is able to request interior design services at an agreed-upon hourly rate for a period of 24 months.

Styleesh Homes and Dezigner Homes are entitled to cancel the contract at any time without compensating the other party other than in relation to repaying outstanding debts as at the date the contract is cancelled.

As at 31 December 20X3, no service requests had been made by Styleesh Homes.

Identify whether the below statement is true in accordance with HKFRS 15 *Revenue from Contracts with Customers*. (1 mark)

"A contract with a customer exists in accordance with HKFRS 15."

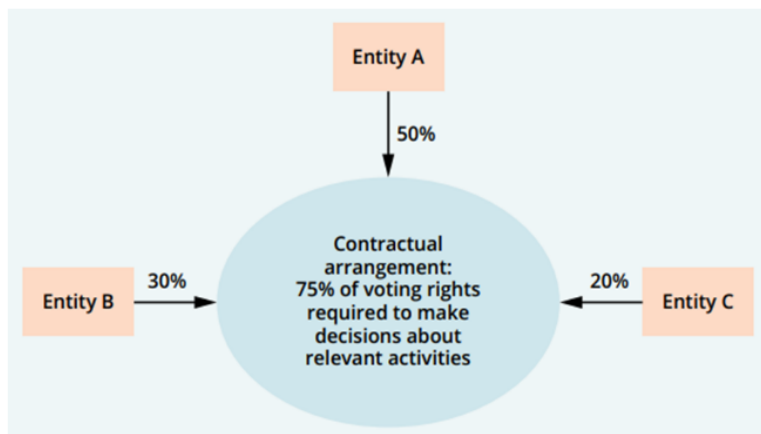
- ☐ A. True
- ☐ B. False

35 Identify whether the below accounting treatment is true in accordance with HKAS 28 *Investments in Associates*. (1 mark)

'When applying the equity method, any goodwill arising on the acquisition of an associate is separately recognised in the investor's consolidated statement of financial position'.

- ☐ A. True
☐ B. False

36 Entity A, Entity B and Entity C establish an arrangement. The terms of the contractual arrangement and the voting rights of each entity in that arrangement are as follows:



Identify whether the below statement is true in accordance with HKFRS 11 *Joint Arrangements*. (1 mark)

"Entity A and Entity B have joint control over the arrangement."

- ☐ A. True
☐ B. False

37 Excel Corporation computed an income before tax of HK\$1,000,000 for the first year of its operations ended 31 March 20X9. The tax rate is 16.5%.

The reported income before tax includes the following items:

- Dividend income of HK\$30,000 that is not taxable under Inland Revenue Ordinance.
- Warranty provision of HK\$18,000 that is recognised as expense in the current period. Warranty cost is tax deductible when it is incurred. Expenditures in relation to this warranty are incurred next year.

In accordance with HKAS 12 *Income Taxes*, identify any temporary differences in relation to the above items. (2 marks)

	Temporary difference	
1. Dividend income	HK\$	
2. Warranty provision	HK\$	

-Please Select-

18,000

0

2,970

38 For the following items, identify the level for the inputs in the fair value hierarchy under HKFRS 13 *Fair Value Measurement* used to measure the fair value of the item:

- (i) Shares in a listed company.
- (ii) Listed bonds with infrequent recent transactions, where the last transaction was two weeks prior to measurement date. The valuation technique uses quoted price adjusted for observable market trends in past two weeks. (1 mark)

(i) Shares in a listed company

(ii) Listed bonds

-Please Select-
 Level 1
 Level 2
 Level 3

39 Mobeteq Limited ("Mobeteq") is a telecommunications company in Singapore. Mobeteq sells a mobile phone with a two-year plan, which includes 50Mbps of data, for HK\$350 per month. The customer receives the mobile phone on entering the contract and the contract is non-cancellable.

Mobeteq offers the mobile phone on a stand-alone basis, with a sales price of HK\$6,000. The company also provides the 50Mbps data plan stand-alone for HK\$150 per month.

In accordance with HKFRS 15 *Revenue from Contracts with Customers*, how should Mobeteq account for revenue recognition related to the Mobile phone and the data plan, assuming the financing component is insignificant? (2 marks)

1. Mobile phone: Mobeteq recognises

2. Data plan: Mobeteq recognises

-Please Select-
 HK\$150 revenue each month
 HK\$131.25 revenue each month
 HK\$3600 at the end of the two-year plan
 HK\$3600 at day one of the contract.

40 Green Clean decided to issue bonds to provide further funding for its manufacturing plant upgrades. Assume that Green Clean made an irrevocable designation on initial recognition for the bonds to be measured at fair value through profit or loss, and the bonds met the requirements to be measured on this basis.

At initial recognition, the bonds had a fair value of HK\$1,000,000. At the end of year 1, the bonds had a fair value of HK\$900,000. Of this movement, HK\$20,000 was attributable to an increase in Green Clean's credit risk.

Prepare the journal entry to account for the change in fair value of the bonds at the end of year 1 under HKFRS 9 *Financial Instruments*. (Drag and drop the correct item shown on the right-hand side into the fields below) (2 marks)

	Dr (HK\$)	Cr (HK\$)
Dr. Bonds payable	100,000	
Cr.		
Cr. Fair value gain (profit or loss)		

Available items:

Changes in own credit risk (OCI)

Changes in own credit risk (profit or loss)

20,000

80,000

100,000

0

- 41 Platinum Properties Limited (Platinum) is a property development and investment company with activities that include developing and redeveloping property for sale as office buildings or residential dwellings.

Classify the following properties of Platinum as investment property, owner-occupied property or inventory. (Drag and drop the correct item shown on the right-hand side into the fields below) (3 marks)

	Properties	Classification
1.	Properties partly or completely developed (or redeveloped) for sale as office buildings or residential dwellings	
2.	Residential properties (e.g. condominiums) owned by Platinum to provide accommodation to expatriate employees	
3.	Undeveloped land held for a purpose yet to be determined	
4.	Undeveloped land acquired for future development and sale as office buildings or residential dwellings	
5.	Properties being rented out as offices or luxury private residences to tenant lessees under operating leases	
6.	Properties being developed for rental as offices or luxury private residences to tenant lessees under operating leases	
7.	Properties being developed for future use as administrative offices	

Available items:

Investment property

Owner-occupied property

Inventory

- 42 Determine which of the following item(s) are regarded as cash and cash equivalents in accordance with HKAS 7 *Cash flow statements*? (Select all that apply) (2 marks)

- ☐ A. Cash in transaction accounts.
- ☐ B. 3-month government bond.
- ☐ C. High-return money market fund.
- ☐ D. Investments in listed entities (shares).
- ☐ E. Cash on hand.

- 43 During the year ended 31 December 20X4, Alpha Limited, a publicly listed logistics company acquired 95% of the share capital of Bravo Limited, which has no subsidiaries of its own, in a business combination transaction. Identify which of the following statements are true under HKFRS10 *Consolidated Financial Statements*. (Select all that apply) (1 mark)

- ☐ A. Bravo Limited is a subsidiary of Alpha Limited.
- ☐ B. Alpha Limited is the 'non-controlling interest' in Bravo Limited.
- ☐ C. Alpha Limited must present consolidated financial statements for the group comprising Alpha Limited and Bravo Limited.
- ☐ D. Bravo Limited presents consolidated financial statements unless it is a qualifying intermediate parent or an investment entity.

- 44 Parent P was preparing its consolidated financial statements for the year ending 31 December 20X5. Identify which of the following disclosures Parent P should make in its consolidated financial statements under HKFRS 10 *Consolidated Financial Statements* and HKFRS 12 *Disclosure of Interests in Other Entities*. (Select all that apply) (2 marks)

- ☐ A. Parent P had to disclose its relationships with its subsidiaries and the extent of its ownership interest in all subsidiaries.
- ☐ B. Parent P had to disclose information about the guarantee its Subsidiary S1 has made to the bank to maintain at least HK\$20 million in S1's bank account.
- ☐ C. Parent P had to disclose the individual financial statements of each of its consolidated subsidiaries as part of the notes to the consolidated financial statements.
- ☐ D. Parent P had to disclose the non-controlling interest's share of the consolidated profit or loss separately on the face of the consolidated statement of profit or loss.

45 On 1 January 20X9, Ahoy Ltd ("Ahoy") leased a cargo ship to TransPacific Ltd ("TransPacific") for 30 years. While the lease is for the exclusive use of a specific cargo ship over the term of the lease, the design of the cargo ship is generic to meet the varying transportation needs of distributors such as TransPacific. For the duration of the lease term, TransPacific is required to make annual lease payments in arrears of HK\$200,000. While ownership does not automatically transfer to TransPacific at the end of the lease term, it has the option to purchase the cargo ship for HK\$500,000. It is estimated the fair value of the cargo ship at the end of the lease term will be HK\$750,000. Using an implicit interest rate of 5% per annum, the present value of the annual fixed payments and the exercise price for the purchase option is HK\$3,190,179. On 1 January 20X9, the fair value of the cargo ship is HK\$3,200,000. The estimated economic life of the cargo ship is 35 years.

Applying HKFRS 16 *Leases*, which of the following factors suggest that the lease should be classified as a finance lease by Ahoy? (Select all that apply) (2 marks)

- ☐ A. TransPacific has an option to purchase the cargo ship at the end of the lease term, and it is reasonably certain this option will be exercised.
- ☐ B. The lease term (30 years) comprises 85.71% of the economic life of the cargo ship, thereby constituting a 'major part' of the ship's economic life.
- ☐ C. The present value of the lease payments amounts to 89.9% of the fair value of the cargo ship at inception date, thereby representing substantially all of the cargo ship's fair value.
- ☐ D. The cargo ship is not custom-designed for TransPacific.
- ☐ E. Ownership does not transfer to TransPacific at the end of the lease term.

46 Toy Palace has determined its larger outlets were a disposal group that was classified as held for sale. As of 2 April 20X6, the fair value less costs to sell of the disposal group was determined to be HK\$8 million. The carrying amount of the assets within the disposal group was HK\$12 million, which consisted of the following assets:

	Carrying amount (HK\$m)
Asset	
Goodwill	1
Other intangibles	2
Property, plant and equipment	6
Cash	2
Trade receivables	1
	<u>12</u>

Calculate the value written down for each asset within the disposal group in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*? (Round to 2 decimal places) (3 marks)

	Carrying amount to be written down (HK\$m)
Goodwill	
Other Intangibles	
Property, plant and equipment	
Cash	
Trade receivables	

47 An intangible asset with an active market and an indefinite life is revalued downwards by HK\$250,000 in 20X5. This is the first time this asset has been revalued. The same asset is then revalued upwards by HK\$300,000 in 20X6.

Calculate the balance of the revaluation surplus after adjusting for the revaluation entry in 20X6 in accordance with HKAS 38 *Intangible Assets*. (1 mark)

Answer:

48 CameraTech Limited ("CameraTech") is a retailer of a range of DSLR cameras. It offers discounts to customers that purchase multiple goods. CameraTech sells a camera, tripod and camera case to a customer for HK\$3,500. The stand-alone selling price of each of the three products is as follows: (1 mark)

Product (Performance obligation)	Stand-alone selling price
Camera	HK\$2,800
Tripod	HK\$700
Camera case	HK\$500
Total	HK\$4,000

CameraTech regularly sells the camera and tripod at a combined price of HK\$3,000 and the camera case separately for HK\$500.

Calculate the discount CameraTech should allocate to the performance obligation, Camera, under HKFRS 15 *Revenue from Contracts with Customers*.

Product (Performance obligation)	Discount
Camera	

SCENARIO-BASED/ TASKED-BASED QUESTIONS (Total: 37 marks)

Answer **ALL** questions in this section. Together they are worth 37% of the total marks for this examination.

49 You are required to complete the following tasks in this question:

- (a) Determine the amount of the net identifiable assets and non-controlling interest at the acquisition date for calculation of goodwill. (4 marks)
- (b) Regarding the factory building of which the fair value exceeded the carrying amount by HK\$3,000,000 at the date of acquisition, identify which consolidated adjustment journal entries is correct. (2 marks)
- (c) Regarding the sale of inventories on 30 March 20X9, identify which of the described financial impact is correct. (2 marks)
- (d) Regarding the dividend of HK\$700,000 paid by PLL on 31 December 20X8, identify which consolidated adjustment journal entries is correct. (2 marks)
- (e) Prepare the consolidated statement of financial position for the Group as at 31 March 20X9. (10 marks)

Case Background:

Supreme Gold Limited ("SGL") acquired 70% of the equity shares of Platinum Limited ("PLL") for HK\$22,400,000 on 1 October 20X6. PLL has become SGL's subsidiary since then. At the acquisition date, PLL reported retained earnings of HK\$7,800,000. SGL recorded its investment in PLL at cost in its separate financial statements. SGL, together with PLL, is collectively known as the SGL Group (the "Group").

	SGL	PLL
	HK\$'000	HK\$'000
Assets		
Non-current assets		
Property, plant and equipment, net	82,500	31,300
Investment in Platinum Limited	22,400	-
Current assets		
Inventories	49,100	21,800
Trade receivables	17,200	11,530
Cash	7,300	3,740
	<u>178,500</u>	<u>68,370</u>
Equity and Liabilities		
Equity		
Share capital (HK\$1 each in issue and fully paid)	(80,000)	(20,000)
Retained earnings, 31 March 20X9	(23,200)	(19,270)
Non-current liabilities	(49,600)	(14,000)
Current liabilities	(25,700)	(15,100)
Total equity and liabilities	<u>(178,500)</u>	<u>(68,370)</u>

Addition information:

- (1) At the date of acquisition, the fair values of PLL's net assets were equal to their carrying amounts, with the exception of its factory building of which the fair value exceeded the carrying amount by HK\$3,000,000. The remaining useful life of the factory building was 30 years.

Both SGL and PLL measure its property, plant and equipment items using the cost model in accordance with HKAS 16 *Property, Plant and Equipment* and adopt straight-line depreciation for their property, plant and equipment items. Depreciation is recorded on a monthly basis.
- (2) SGL chose to measure the non-controlling interest in PLL at its fair value at the date of acquisition. PLL's share price on 1 October 20X6 was HK\$1.6 per share. This was deemed to be representative of the fair value of the shares held by the noncontrolling interest at the date of acquisition.
- (3) On 30 March 20X9, PLL sold goods to SGL with a transfer price of HK\$3,600,000. PLL applied a mark-up on cost of 20% for all goods sold to SGL. SGL has not yet sold any of these inventory items to its customers by 31 March 20X9. SGL settled this amount on the same day.
- (4) PLL's opening retained earnings as at 1 April 20X8 was HK\$14,000,000. PLL paid a dividend of HK\$700,000 on 31 December 20X8. This dividend payment and the net profits earned in the year were the only changes in PLL's retained earnings for the year ended 31 March 20X9.
- (5) PLL has not issued any shares since 1 October 20X6.

*** END OF SCENARIO ***

(a) (b) (c) (d) (e)

Determine the amount of the net identifiable assets and non-controlling interest at the acquisition date for calculation of goodwill. (4 marks)

To determine the goodwill in the acquisition of PLL, the net identifiable assets were measured at

HK\$

and the Non-controlling interest at the acquisition date were measured at

HK\$

(a) (b) (c) (d) (e)

Regarding the factory building of which the fair value exceeded the carrying amount by HK\$3,000,000 at the date of acquisition, identify which of the following consolidated adjustment journal entries is correct for the year ended 31 March 20X9? (2 marks)

- ☐ A.
- | | | |
|------------------------------|-------------|-------------|
| Dr. Depreciation expense | HK\$100,000 | |
| Dr. Retained earnings | HK\$150,000 | |
| Cr. Accumulated depreciation | | HK\$250,000 |
- ☐ B.
- | | | |
|------------------------------|-------------|-------------|
| Dr. Depreciation expense | HK\$100,000 | |
| Dr. Retained earnings | HK\$70,000 | |
| Cr. Accumulated depreciation | | HK\$200,000 |
| Dr. NCI (B/S) | HK\$60,000 | |
| Cr. NCI (P/L) | | HK\$30,000 |
- ☐ C.
- | | | |
|------------------------------|-------------|-------------|
| Dr. Depreciation expense | HK\$100,000 | |
| Dr. Retained earnings | HK\$105,000 | |
| Cr. Accumulated depreciation | | HK\$250,000 |
| Dr. NCI (B/S) | HK\$75,000 | |
| Cr. NCI (P/L) | | HK\$30,000 |
- ☐ D.
- | | | |
|------------------------------|-------------|-------------|
| Dr. Depreciation expense | HK\$250,000 | |
| Cr. Accumulated depreciation | | HK\$250,000 |
| Dr. NCI (B/S) | HK\$75,000 | |
| Cr. NCI (P/L) | | HK\$75,000 |

(a) (b) (c) (d) (e)

In relation to the sale of inventories on 30 March 20X9, identify which of the following is correct? (Select all that apply) (2 marks)

- ☐ A. The balance of Inventory presented on the consolidated statement of financial position would have decreased by HK\$600,000
- ☐ B. There is no impact to the cost of goods sold to the consolidated statement of profit or loss of the Group
- ☐ C. The cost of goods sold in the consolidated statement of profit or loss of the Group would have decreased by HK\$3,000,000
- ☐ D. There is no impact to the NCI balance
- ☐ E. The non-controlling interest balance would have decreased by HK\$180,000

(a) (b) (c) (d) (e)

Regarding the dividend of HK\$700,000 paid by PLL on 31 December 20X8, identify which of the following consolidated adjustment journal entries is correct? (2 marks)

- ☐ A.
- | | | |
|--|-------------|-------------|
| Dr. Dividend income | HK\$490,000 | |
| Dr. NCI (B/S) | HK\$210,000 | |
| Cr. Retained earnings - dividends declared | | HK\$700,000 |
- ☐ B.
- | | | |
|--|-------------|-------------|
| Dr. Account receivable | HK\$700,000 | |
| Cr. Retained earnings - dividends declared | | HK\$700,000 |
- ☐ C.
- | | | |
|--|-------------|-------------|
| Dr. Dividend income | HK\$700,000 | |
| Cr. Retained earnings - dividends declared | | HK\$700,000 |
- ☐ D. There is no impact to the consolidated financial statement as the dividend has already settled during the year.

(a) (b) (c) (d) (e)

Prepare the consolidated statement of financial position for the Group as at 31 March 20X9. (10 marks)

Note:

1. Please input positive number for Dr. side balances and negative number for Cr. side balances.
2. If your answer is a negative figure, please put "-" in front of the figure, e.g. -123

Consolidated statement of financial position as at 31 March 20X9			
	A	B	C
1	Consolidated statement of financial position as at 31 March 20X9		
2			
3			HK\$'000
4			Dr / (Cr)
5	Asset		
6	Non-current assets		
7	Property, plant and equipment, net		
8	Investment in Platinum Limited		
9	Goodwill		
10	Current assets		
11	Inventories		
12	Trade receivables		
13	Cash		
14			
15	Total assets		0
16			
17	Equity and liabilities		
18	Equity		
19	Share capital		
20	Retained earnings		
21	Non-controlling interest		
22	Non-current liabilities		
23	Current liabilities		
24			
25	Total equity and liabilities		0

Consolidated statement

50 You are required to complete the follow tasks in this question:

- (a) Identify which items would have been presented under the cash flows from financing activities. (2 marks)
- (b) Calculate the cashflow of the following items. (6 marks)
 - Purchase of property, plant and equipment
 - Proceeds from sales of property, plant and equipment
 - Proceeds from short-term borrowings
- (c) Prepare the statement of cash flows (extracted), using the indirect method, for BEL for the year ended 30 September 20X7. (9 marks)

Case background:

Bright Electronic Limited ("BEL") is a company incorporated and listed in Hong Kong and is principally engaged in the manufacturing of electronic products. The draft financial statements for the year ended 30 September 20X7 are shown as follows:

Draft statement of profit or loss and other comprehensive income of BEL for the year ended 30 September 20X7 (extract):

	Notes	HK\$
Operating profit	(i)	875,760
Interest expense	(ii)	(145,200)
Interest income	(ii)	29,400
Profit before tax		759,960
Tax expense		(306,000)
Profit for the year		453,960
Other comprehensive income:		
Revaluation surplus on property, plant and equipment	(iii)	159,600
Total comprehensive income for the year		613,560

Draft statement of financial position of BEL as at 30 September 20X7:

	Notes	20X7 HK\$	20X6 HK\$
ASSETS			
<u>Non-current assets</u>			
Property, plant and equipment	(iii)	4,279,800	3,959,280
<u>Current assets</u>			
Inventories		2,016,264	1,426,080
Trade receivable		643,320	660,840
Interest receivable		9,000	7,200
Cash and cash equivalents		206,136	4,140
Total assets		7,154,520	6,057,540
EQUITY AND LIABILITIES			
<u>Equity</u>			
Share capital		(2,292,000)	(1,848,000)
Revaluation reserves		(614,400)	(522,000)
Retained earnings		(2,013,000)	(1,731,840)
Total equity		(4,919,400)	(4,101,840)
<u>Non-current liabilities</u>			
Bank loans		(720,000)	(600,000)
<u>Current liabilities</u>			
Trade payable		(514,920)	(502,740)
Interest payable		(18,000)	(14,400)
Bank loans		(652,200)	(543,360)
Tax payable		(330,000)	(295,200)
Total equity and liabilities		(7,154,520)	(6,057,540)

Draft statement of changes in equity of BEL for the year ended 30 September 20X7:

	Notes	Share capital HK\$	Revaluation reserves HK\$	Retained earnings HK\$	Total HK\$
Balance as at 1 October 20X6		1,848,000	522,000	1,731,840	4,101,840
Total comprehensive income for the year		-	159,600	453,960	613,560
Final dividend paid	(iv)	-	-	(240,000)	(240,000)
New issue of shares		444,000	-	-	444,000
Transfer from revaluation reserves to retained earnings	(iii)	-	(67,200)	67,200	-
Balance as at 30 September 20X7		2,292,000	614,400	2,013,000	4,919,400

Additional Information:

- (i) Operating profit for the year has been arrived at after charging depreciation of HK\$798,720 and crediting a gain on disposal of property, plant and equipment of HK\$30,720.
- (ii) Interest income is classified as a cash flow from investing activities and interest expense is classified as a cash flow from operating activities.
- (iii) An analysis of the movement of the property, plant and equipment during the year showed that the property, plant and equipment with a carrying amount of HK\$692,040 was sold. BEL adopts the revaluation model for all of its property, plant and equipment and opts for a transfer between the revaluation reserves and retained earnings on an annual basis.
- (iv) During the year ended 30 September 20X7, BEL paid a final ordinary dividend of HK\$240,000.
- (v) No significant cash transaction is noted.

*** END OF SCENARIO ***

(a) (b) (c)

Identify which of the following items would have been presented under the cash flows from financing activities in accordance with HKAS 7 *Statement of Cash Flows*? (Select all that apply) (2 marks)

- ☐ A. Repayment of short-term borrowings/ long-term borrowings.
- ☐ B. Proceeds from issue of ordinary share capital.
- ☐ C. Proceeds from short-term borrowings/ long-term borrowings.
- ☐ D. Interest received.
- ☐ E. Dividend paid.

(a) (b) (c)

Calculate the cashflow of the following items. (6 marks)

Note:

1. Please input positive figure for cash inflow and negative figure for cash outflow. You may put "0" if you consider there is no cash flow impact.
2. If your answer is a negative figure, please put "-" in front of the figure, e.g. -123.

				HK\$
Item 1:	Purchase of property, plant and equipment			
Item 2:	Proceeds from sales of property, plant and equipment			
Item 3:	Proceeds from short-term borrowings			

(a) (b) (c)

Prepare the statement of cash flows, using the indirect method, for BEL for the year ended 30 September 20X7, beginning with profit before tax in accordance with HKAS 7 *Statement of Cash Flows*. (9 marks)

Statement of cash flows for the year ended 30 September 20X7 (Extracted)

Note:

1. Please input positive figure for cash inflow and negative figure for cash outflow. You may put "0" if you consider there is no cash flow impact.
2. If your answer is a negative figure, please put "-" in front of the figure, e.g. -123.

A1	✓	✗	✓	fx
	A			B
1				
2				HK\$
3	Cash flows from operating activities			
4	Profit before tax			759,960
5	Adjustments for:			
6	Interest income			
7	Interest expense			
8	Depreciation charge			
9	Gain/loss on disposal of property, plant and equipment			
10				
11	Operating profits/ loss before working capital changes			759,960
12	Movement in inventories			
13	Movement in trade receivable			
14	Movement in trade payable			
15				
16	Cash generated from/ used in operations			759,960
17	Interest paid			
18				
19	Tax paid			
20				
21	Net cash from/ used in operating activities			759,960

Statement of cash flows

* * * END OF EXAMINATION PAPER * * *

Module 6

Financial Accounting

Answers

The purpose of the suggested answers is meant to help candidates in their revision and learning.

OBJECTIVE TYPE QUESTIONS (Total: 63 marks)

Questions	Answer	Marks
1	B	1
2	C	1
3	C	1
4	B	1
5	C	1
6	A	1
7	A	1
8	C	1
9	B	1
10	C	1
11	A	2
12	C	2
13	B	2
14	C	2
15	B	2
16	B	1
17	B	1
18	B	1
19	B	1
20	C	1
21	A	1
22	B	1
23	D	1
24	B	1
25	A	1
26	D	1
27	D	1
28	B	1
29	A	1
30	C	1
31	B	1
32	B	1
33	True	1
34	False	1
35	False	1
36	True	1
37	1. Dividend income: 0 2. Warranty provision: 18,000	2
38	(i) Shares in a listed company: Level 1 (ii) Listed bonds: Level 2	1
39	Mobile phone: Mobeteq recognises HK\$5,250 revenue at day one of the contract. Data plan: Mobeteq recognises HK\$131.25 revenue each month	2
40	Dr. Bonds payable 100,000 Cr. Changes in own credit risk (OCI) 20,000 Cr. Fair value gain (profit or loss) 80,000	2

Questions	Answer	Marks
41	1. Inventory	3
	2. Owner-occupied property	
	3. Investment property	
	4. Inventory	
	5. Investment property	
	6. Investment property	
	7. Owner-occupied property	
42	A,B,E	2
43	A,C	1
44	A,B,D	2
45	A,B	2
46	Goodwill: 1	3
	Other intangibles: 0.75	
	Property, plant and equipment: 2.25	
	Cash: 0	
	Trade receivables: 0	
47	50000	1
48	400	1

TASKED-BASED QUESTIONS (Total: 37 marks)

Questions	Answer	Marks
49 (a)	To determine the goodwill in the acquisition of PLL, the net identifiable assets were measured at HK\$ <u>30800000</u> and the Non-controlling interest at the acquisition date were measured at HK\$ <u>9600000</u>	4
49 (b)	C	2
49 (c)	A,C,E	2
49 (d)	A	2
49 (e)	Consolidated statement of financial position as at 31 March 20X9 HK\$'000 Dr / (Cr) Asset <i>Non-current assets</i> Property, plant and equipment, net 116550 Investment in Platinum Limited 0 Goodwill 1200 <i>Current assets</i> Inventories 70300 Trade receivables 28730 Cash 11040 Total assets <u>227820</u> Equity and liabilities <i>Equity</i> Share capital -80000 Retained earnings -30634 Non-controlling interest -12786 Non-current liabilities -63600 <i>Current liabilities</i> -40800 Total equity and liabilities <u>-227820</u>	10

50 (a)	B,C,E	2
50 (b)	Item 1: -1651680	6
	Item 2: 722760	
	Item 3: 108840	
50 (c)	HK\$ Cash flows from operating activities Profit before tax 759960 <i>Adjustments for:</i> Interest income -29400 Interest expense 145200 Depreciation charge 798720 Gain/loss on disposal of property, plant and equipment -30720 Operating profits/ loss before working capital changes 1643760 Movement in inventories -590184 Movement in trade receivable 17520 Movement in trade payable 12180 Cash generated from/ used in operations 1083276 Interest paid -141600 Tax paid -271200 Net cash from/ used in operating activities 670476	9

* * * END OF EXAMINATION PAPER * * *