Drafting and interpreting financial statements: Summary of corrections to course materials

These changes affect version V001 of the materials.

Course Notes & Questions

<table>
<tr><td>Pg 36
Current value</td><td>There is a new definition of “fair value” as follows:

Fair value is 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.

This has also been updated at the bottom of page 157.</td></tr>
<tr><td>Pg 77
Lecture example 3 solution</td><td>In the trade and other payables working box, trade payables has been incorrectly labelled as trade receivables.</td></tr>
<tr><td>Pg 126
Illustration</td><td>Question should say:
How much cash has been received <u>from</u> customers?</td></tr>
<tr><td>Pg 226
Lecture example 2 solution</td><td>The solution to this question was missing from the materials:

What are the accounting entries required on 1 January 20X1 in relation to this lease?

Journal for the present value of future lease payments:

DR Right of use asset £86,780

CR Lease liability £86,780

Journal for the first instalment on 1 January 20X1:

DR Right of use asset £50,000

CR Cash £50,000

What are the amounts of the finance cost, interest accrual, lease liability (current & non-current) and right of use asset for each year of the lease?

<table>
<tr><th></th><th>Capital</th><th>Interest</th><th>Cash</th></tr>
<tr><td>At 1/1/X1 – present value of future lease payments</td><td>86,780</td><td></td><td></td></tr>
<tr><td>Interest @ 31/12/X1 (86,780 x 10%)</td><td></td><td>8,678</td><td></td></tr>
<tr><td>31/12/X1</td><td>86,780</td><td></td><td></td></tr>
<tr><td>Repayment 2 @ 1/1/X2</td><td>(41,322)</td><td>(8,678)</td><td>50,000</td></tr>
<tr><td>Sub-total</td><td>45,458</td><td></td><td></td></tr>
<tr><td>Interest @ 31/12/X2 (45,458 x 10%)</td><td></td><td>4,546</td><td></td></tr>
<tr><td>31/12/X2</td><td>45,458</td><td></td><td></td></tr>
<tr><td>Repayment 3 @ 1/1/X3</td><td>(45,454)</td><td>(4,546)</td><td>50,000</td></tr>
<tr><td>31/12/X3</td><td>4</td><td></td><td></td></tr>
</table>
Rounding diff – would be adjusted through interest to bring liability to Nil</td></tr>
</table>

Extracts from the financial statements

Statement of financial position

	20X1 £	20X2 £	20X3 £
PPE (right of use asset)			
Cost **(86,780 + 50,000)**	136,780	136,780	136,780
Accumulated depreciation	(45,593)	(91,186)	(136,780)
Carrying amount	91,187	45,594	0
Current liabilities			
Lease liability	41,322	45,454	0
Interest accrual	8,678	4,546	0
Non current liabilities			
Lease liability	45,458	0	0

Statement of profit or loss

	20X1 £	20X2 £	20X3 £
Depreciation (136,780 / 3 years)	45,593	45,593	45,594
Finance charge	8,678	4,542	0

Task Bank & Mocks

Mock 1 Task 5 Solution

The cost of sales working had been added up incorrectly. The corrected solution is as follows:

Boards Group

Statement of profit or loss for the year ended 31 March 20X2

	Boards Group £'000
Revenue	3,056
Cost of sales	-871
Gross profit	2,185
Distribution costs 412 + 43	-455
Administrative expenses 102 + 88	-190
Operating profit	1,540
Finance costs 67 + 18	-85
Profit before tax	1,455
Tax 306 + 132	-438
Profit for the period from continuing operations	1,017

Attributable to:

	£'000
Owners of the parent (balancing figure)	925
Non controlling interests 313-8 (PUP) x 30%	92
	1,017

Revenue (W1)	£'000
Boards Ltd	2,456
Boots Ltd	712
Intercompany sales	-112
Group revenue	3,056

Cost of sales (W2)	£'000
Boards Ltd	857
Boots Ltd	118
Intercompany sales	-112
Intercompany inventory adjustment (W3)	8
Cost of sales	871

Inventory adjustment (W3)	£'000
Sales 140%	112
Cost of sales 100%	80
Profit 40%	32
Profit in inventory (PUP) x ¼	8

Other

Please see additional handout about the input / output method of recognising revenue.

AAT LEVEL 4

Drafting and interpreting financial statements (DAIF)

Extra notes on the input / output method of recognising revenue

first intuition
where people count

Chapter 9 – Further accounting standards

These notes provide extra detail to "Step 5" of the revenue recognition process.

IFRS 15 Revenue Recognition – Additional example

IFRS15 adopts a 5-step process in recognising revenue, step 5 is to allocate the transaction price as each performance obligation is satisfied. If control passes over time the company should use a method that reflects the entity's performance in transferring control of goods or services e.g.

Look at what % of the contract has been fulfilled and recognise the revenue accordingly. This is sometimes referred to as an input / output basis.

Example 1

Company A has a contract with a customer with a total sales value of £500,000, expected total costs of £400,000 and an expected profit of £100,000. The value of work done at the year end date is £200,000. The company has decided that progress towards completion should be measured according to the percentage of work done (output basis).

Using an output basis we can determine that £200,000 / £500,000 or 40% of work has been completed so we should include 40% of the total results in the SPL as follows:

Sales (value of work done according to example)	£200,000
Cost of Sales (40% x £400,000)	£160,000
Profit (40% x £100,000)	**£40,000**

Example 2

Company B has a contract with a customer with a total sales value of £700,000, expected total costs of £550,000 and an expected profit of £150,000. The company has incurred costs at the year end date of £330,000. The company has decided that progress towards completion should be measured according to the costs incurred so far (input basis).

Using an input basis we can determine that £330,000 / £550,000 or 60% of work has been completed so we should include 60% of the total results in the SPL as follows:

Sales (60% x £700,000)	£420,000
Cost of Sales £330,000 (according to example)	£330,000
Profit (60% x £150,000)	**£90,000**

Summary

Output basis will measure the degree of completion as:

Sales to date / Total contract price e.g. 200 / 500 x 100 = 40%

Input basis will measure the degree of completion as:

Costs to date / Total expected costs e.g. 330 / 550 x 100 = 60%