

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

These changes affect version V002 of the materials.

### Course Notes & Questions

- **Chapter 2 – page 36 – Current value**

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.

- **Chapter 8 – Lecture Example 2 – Lease payments in advance**

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?

	Capital	Interest	Cash
At 1/1/X1 – present value of future lease payments	86,780		
Interest @ 31/12/X1 (86,780 x 10%)		8,678	
31/12/X1	86,780		
Repayment 2 @ 1/1/X2	(41,322)	(8,678)	50,000
Sub-total	45,458		
Interest @ 31/12/X2 (45,458 x 10%)		4,546	
31/12/X2	45,458		
Repayment 3 @ 1/1/X3	(45,454)	(4,546)	50,000
31/12/X3	4		

Rounding diff – would be adjusted through interest to bring liability to Nil

### Extracts from the financial statements

#### Statement of financial position

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

#### Statement of profit or loss

	20X1 £	20X2 £	20X3 £
<b>Depreciation (136,780 / 3 years)</b>	45,593	45,593	45,594
<b>Finance charge</b>	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	
<b>Revenue</b>	3,056
Cost of sales	-871
Gross profit	2,185
Distribution costs 412 + 43	-455
Administrative expenses 102 + 88	-190
<b>Operating profit</b>	1,540
Finance costs 67 + 18	-85
<b>Profit before tax</b>	1,455
Tax 306 + 132	-438
<b>Profit for the period from continuing operations</b>	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