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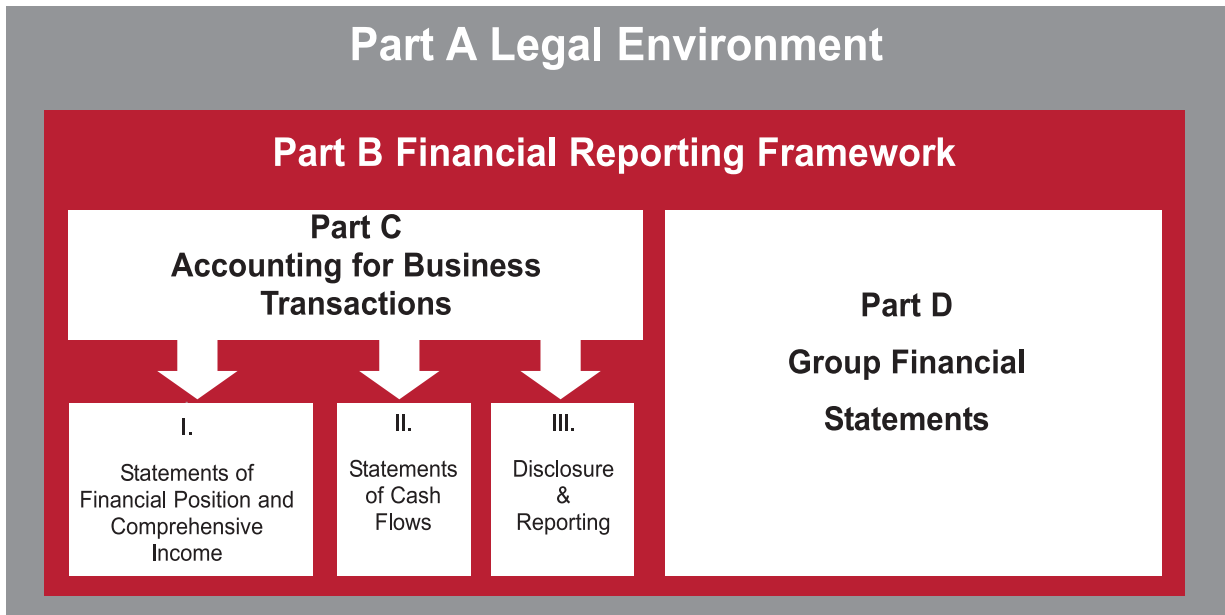
Introduction

Module Aim and Structure

This module will enable you to exercise judgment in selecting and applying accounting policies to prepare financial statements (both at individual company and group levels) in compliance with the relevant Hong Kong Financial Reporting Framework and Hong Kong Accounting Standards ('HKFRS').

The module is structured in such a way that it can achieve the module aim. The structure provides the framework for grouping related topics together in a systematic way to facilitate your understanding of the relationship between different topics. This module structure also applies to both the Learning Pack and the module workshops to ensure a linkage between the module study materials and the workshop materials.

Overall Structure of Module A (Financial Reporting)



Workshop Structure and Format

In line with the module aim, the workshops are structured in a three-step approach as listed below in the same way as accounting standards are generally structured.

- Recognition / derecognition of the item;
- The measurement of the item under review; and
- Reporting or disclosure requirement.

You will be working case exercises during the workshops. Through group work and discussion, you will look at how the accounting standards are applied to an individual company and then how they are applied in group accounts.

Workshop Objectives

The workshops aim to enable you to understand:

- how to recognise / de-recognise the transactions in accordance with HKFRS by understanding the criteria in determining the nature of the transactions;
- how to measure the value of the transactions;
- how to record and disclose the transactions in accordance with relevant HKFRS;
- how to recognise an accounting issue, evaluate its financial impact, identify an appropriate solution, draw a conclusion, report and disclose;
- the responsibilities in leading a team;
- how to lead the group in achieving tasks;
- the key elements of effective teamwork; and
- how to be a good team member and team player.

Development Indicators for Generic and Technical Competencies

The focus of the workshops is on formative development of skills, i.e. to train students to become future CPAs. A set of development indicators have been designed to encourage students to participate in the workshops and demonstrate the development of the intended learning objectives.

The purpose of the development indicators is to encourage you to:

- prepare for the workshops;
- actively participate and be engaged in the workshops; and
- achieve the learning objectives by developing the technical and generic competencies.

It also allows the workshop facilitators to monitor the development of the students so that appropriate actions or counselling can be done.

As the learning objectives of each module are different, there will be different development indicators or criteria for different modules. There are core criteria, i.e. criteria that are common to all four modules, as well as some criteria which are specific to an individual module.

You are expected to demonstrate the following core criteria at each workshop:

- be well prepared for the workshop by demonstrating a reasonable level of knowledge of technical content (i.e. contribute to discussion by offering relevant facts or information);
- be punctual (i.e. arrive at the workshop on time and do not leave early except with the approval of the Institute or workshop facilitators);
- work well with team members and workshop facilitators (i.e. interact with them in a constructive manner);
- proactive participation (i.e. show willingness to take up roles in group discussion and raise questions or express ideas / opinions appropriately); and
- adhere to an ethical mindset and professional behaviour.

You are also expected to demonstrate the development of the following specific criteria for Module A:

- reasonable understanding and ability to apply the relevant accounting standards;
- ability to communicate own thoughts in a structured manner and to listen attentively;
- ability to identify and resolve accounting issues; and
- ability to lead a small team in group discussion.

Passing Criteria for Workshops

A two-scale system of performance comprising 'yes for demonstrated' (i.e. 'green light') and 'no for not demonstrated' (i.e. 'red light') is set up for each development indicator. Students must achieve at least 70% of the available indicators obtaining 'green light' for satisfactory completion of workshops. In quantitative terms, a student will need to retake the two full-day workshops of a module if more than 4 out of the 16 development indicators for two workshops have been marked as 'no for not demonstrated' i.e. 'red light'.

Satisfactory completion of workshops is a prerequisite to sitting the module examination i.e. students who fail to complete the workshop satisfactorily are not allowed to take the relevant module examination. In order to complete the workshop satisfactorily, you are required to attend the two full-day workshops and demonstrate your successful accomplishment of the workshop objectives, via active participation.

Your Role and Responsibilities as a Workshop Student

You are expected to:

- follow your study plan, study the Learning Pack chapters (and other reference materials where appropriate) in accordance with the workshop coverage and prepare well for the workshops;
- read the case materials and complete the pre-workshop exercises, if any, prior to attending the workshops;
- be proactive in discussion and participation in group activities during the workshops;
- develop your technical and generic skills through active participation in group discussion and activities; and
- observe relevant rules of the workshops (e.g. be punctual for workshops and follow the instructions of workshop facilitators).

Workshop Materials for Students

Prior to the workshops, you will be given:

- this introduction booklet, providing general information on the workshops in particular the topic coverage and the corresponding chapter list in the Learning Pack, which are listed under *Workshop Outline and Learning Methodologies* below;
- pre-workshop materials including the case background and exercises (if any); and
- the module Learning Pack.

During the workshops, you will be given:

- additional case information; and
- handouts (i.e. questions) for class work, which will be collected back at the end of each workshop.

Workshop Outline and Learning Methodologies

| Session | Methodologies | Chapters covered | Relevant Accounting Standards |
|--------------------------------|--|--------------------|---|
| Workshop 1 | | | |
| 1. Introduction | <ul style="list-style-type: none"> • Presentation • Group discussion | | |
| 2. Property related standards | <ul style="list-style-type: none"> • Case study • Group discussion | Ch. 5, 6, 10, 12 | HKAS 2, 11, 16, 40 HKFRS 13 |
| 3. Resolving accounting issues | <ul style="list-style-type: none"> • Case study • Group discussion | Ch. 11, 14, 21 | HKAS 18, 24, 37 HK (IFRIC) Int - 13 |
| 4. Wrap up | <ul style="list-style-type: none"> • Presentation • Group discussion | | |
| Workshop 2 | | | |
| 5. Reboot | <ul style="list-style-type: none"> • Presentation • Group discussion | | |
| 6. Financial instruments | <ul style="list-style-type: none"> • Case study • Group discussion | Ch. 18 | HKAS 32 and 39, HKFRS 7 and 9 |
| 7. Consolidation | <ul style="list-style-type: none"> • Case study • Group discussion | Ch. 15, 27, 28, 30 | HKAS 12 and 38 HKFRS 3 (Revised), 10 |
| 8. Leading a team and teamwork | <ul style="list-style-type: none"> • Group discussion | | |
| 9. Conclusion | <ul style="list-style-type: none"> • Presentation • Group discussion | | |

You are expected to have studied the relevant accounting standards, chapters of the Learning Pack and completed the pre-workshop materials thoroughly prior to attending the workshops. It is important for you to become familiar with the workshop materials as they will be raised for discussion throughout the workshops.

You are advised to bring the relevant accounting standards to the workshops for reference use.

Pre-Workshop Materials

Workshop 1 Session 2

Property-related standards

Required:

Research annual reports issued by listed companies in Hong Kong with the year ended on or before 31 December 2012 which include the disclosures required by HKAS 11 Construction Contracts.

You should bring copies of the relevant disclosure notes to Workshop 1, and be prepared to share them with your workshop group.

Note: You may visit www.hkex.com.hk to search for the required listing documents. Select the quick link 'For Issuers and Listed Companies'; you will be able to search the annual reports issued by listed companies in Hong Kong.

Workshop 2 Session 7

Case Study (Consolidation)

The Wheatley Holding Company Ltd ('Wheatley') manufactures food and beverages, selling their products to grocery retailers and operators within the leisure industry.

Wheatley acquired 90% of the ordinary shares in a smaller competitor, the Fleece Company ('Fleece'), on 30 September 2010 in order to expand its product base. The remaining 10% shares are owned by Farsyde, an unrelated company. On the acquisition date, the previous directors of Fleece resigned and Wheatley appointed two directors to run the company on its behalf.

Purchase consideration amounted to HK\$35 million in cash and 5 million ordinary shares in Wheatley, each with a market value of HK\$7. At the acquisition date, Fleece had retained earnings amounting to HK\$39 million.

At 31 March 2012, the statements of financial position of the two companies were as follows:

| | Wheatley | Fleece |
|--------------------------------|-----------------|-----------------|
| | HK\$'000 | HK\$'000 |
| Non-current assets | | |
| Property, plant and equipment | 195,000 | 65,000 |
| Intangible assets | 30,500 | - |
| Investment in Fleece | 70,000 | - |
| | <u>295,500</u> | <u>65,000</u> |
| Current assets | | |
| Inventories | 41,500 | 14,600 |
| Trade receivables | 32,000 | 10,150 |
| Cash | - | 2,250 |
| | <u>73,500</u> | <u>27,000</u> |
| | <u>369,000</u> | <u>92,000</u> |
| Equity | | |
| HK\$1 ordinary share capital | 50,000 | 25,000 |
| Revaluation reserve | 38,000 | - |
| Retained earnings | 125,000 | 45,000 |
| | <u>213,000</u> | <u>70,000</u> |
| Non-current liabilities | | |
| Deferred tax liability | 21,500 | 7,600 |
| Bank loan | 82,000 | - |
| | <u>103,500</u> | <u>7,600</u> |
| Current liabilities | | |
| Trade payables | 28,500 | 11,400 |
| Income tax payable | 3,250 | 2,000 |
| Accrual | 8,750 | 1,000 |
| Overdraft | 12,000 | - |
| | <u>52,500</u> | <u>14,400</u> |
| | <u>369,000</u> | <u>92,000</u> |

Further information:

1. In accordance with HKFRS 3 (Revised), Wheatley chose to measure the non-controlling interest in Fleece as a proportion of the fair value of the net assets of the acquiree on the date of acquisition.
2. On the date of acquisition, HK\$10 million of the purchase consideration was allocated to the brand name 'Perfectpizza' which Fleece had protected by trademark. The brand is not recognised in Fleece's individual financial statements and has a tax base of nil.
3. During the year ended 31 March 2012, Fleece sold goods to Wheatley for HK\$4 million, recording a mark-up of 25% on these sales. At the year end, items costing Wheatley HK\$1.5 million remained in stock, and a balance of HK\$900,000 remained unpaid.
4. There has been no impairment of goodwill since the acquisition of Fleece.
5. Wheatley Group policy is to pay dividends only out of profits arising in the financial period to which the dividend relates.
6. The Wheatley Group amortises acquired brand names over 10 years.
7. Both companies lie within the same tax jurisdiction and each has the right to offset its tax assets and liabilities. The applicable tax rate is 15%.

Required:

Prepare the consolidated statement of financial position for the Wheatley Group at 31 March 2012.

You may consider using the proforma consolidation working schedule for the statement of financial position, including the balances of Wheatley and Fleece as at 31 March 2012, which is included in the appendix.

You should work to the nearest HK\$'000 and consider the deferred tax effect of any consolidation adjustments.

Note: You are expected to prepare the detailed working schedule and journal entries to support your calculations. You should be prepared to share your answers with the workshop group and the rationale behind each adjustment made.

Consolidated statement of financial position at 31 March 2012

| | Wheatley HK\$'000 | Fleece HK\$'000 | Total HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | Consolidated HK\$'000 |
|-------------------------------|----------------------|--------------------|-------------------|----------|----------|----------|----------|----------|----------|--------------------------|
| Property, plant and equipment | 195,000 | 65,000 | - | - | - | - | - | - | - | - |
| Intangible assets | 30,500 | - | - | - | - | - | - | - | - | - |
| Investment in Fleece | 70,000 | - | - | - | - | - | - | - | - | - |
| | <u>295,500</u> | <u>65,000</u> | | | | | | | | |
| Inventories | 41,500 | 14,600 | | | | | | | | |
| Trade receivables | 32,000 | 10,150 | | | | | | | | |
| Cash | - | 2,250 | | | | | | | | |
| | <u>73,500</u> | <u>27,000</u> | | | | | | | | |
| | <u>369,000</u> | <u>92,000</u> | | | | | | | | |
| Ordinary share capital | 50,000 | 25,000 | | | | | | | | |
| Revaluation reserve | 38,000 | - | | | | | | | | |
| Retained earnings | 125,000 | 45,000 | | | | | | | | |
| | <u>213,000</u> | <u>70,000</u> | | | | | | | | |
| Deferred tax liability | 21,500 | 7,600 | | | | | | | | |
| Bank loan | 82,000 | - | | | | | | | | |
| | <u>103,500</u> | <u>7,600</u> | | | | | | | | |
| Trade payables | 28,500 | 11,400 | | | | | | | | |
| Income tax payable | 3,250 | 2,000 | | | | | | | | |
| Accrual | 8,750 | 1,000 | | | | | | | | |
| Overdraft | 12,000 | - | | | | | | | | |
| | <u>52,500</u> | <u>14,400</u> | | | | | | | | |
| | <u>369,000</u> | <u>92,000</u> | | | | | | | | |

