
Answers

Marks

1 (a) Consolidated statement of financial position of Alpha at 30 September 2015

Assets	\$'000	
Non-current assets:		
Property, plant and equipment (380,000 + 355,000 + 152,000 + 18,000 (W1) + 30,000 (W2) + 10,000 (re: provision))	945,000	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
Intangible assets (80,000 + 40,000 + 20,000 + 10,000 (W1))	150,000	$\frac{1}{2} + \frac{1}{2}$
Goodwill (W3)	39,500	11 (W3)
Other investments (W8)	10,800	2 (W8)
	<u>1,145,300</u>	
Current assets:		
Inventories (100,000 + 70,000 + 65,000 – 7,200 (unrealised profit))	227,800	$\frac{1}{2} + \frac{1}{2}$
Trade receivables (80,000 + 66,000 + 50,000)	196,000	$\frac{1}{2}$
Cash and cash equivalents (10,000 + 15,000 + 10,000)	35,000	$\frac{1}{2}$
	<u>458,800</u>	
Total assets	<u><u>1,604,100</u></u>	
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital	150,000	$\frac{1}{2}$
Retained earnings (W6)	515,180	11 (W6)
Other components of equity (W7)	295,000	1 (W7)
	<u>960,180</u>	
Non-controlling interest (W4)	185,200	$1\frac{1}{2}$ (W5)
Total equity	<u><u>1,145,380</u></u>	
Non-current liabilities:		
Provision	10,000	$\frac{1}{2}$
Long-term borrowings (60,000 + 50,000 + 45,000 + 2,120 (W6))	157,120	$\frac{1}{2} + \frac{1}{2}$
Deferred tax (W9)	101,600	$1\frac{1}{2}$ (W9)
Total non-current liabilities	<u><u>268,720</u></u>	
Current liabilities:		
Trade and other payables (50,000 + 55,000 + 35,000)	140,000	$\frac{1}{2}$
Short-term borrowings (25,000 + 15,000 + 10,000)	50,000	$\frac{1}{2}$
Total current liabilities	<u><u>190,000</u></u>	36
Total equity and liabilities	<u><u>1,604,100</u></u>	

WORKINGS – DO NOT DOUBLE COUNT MARKS. ALL NUMBERS IN \$'000 UNLESS OTHERWISE STATED.

Working 1 – Net assets table – Beta:

	1 October 2012 \$'000	30 September 2015 \$'000	For W3	For W6
Share capital	200,000	200,000	½	
Retained earnings:				
Per accounts of Beta	125,000	186,000	½	½
Plant fair value adjustment	45,000	45,000	½	
Extra depreciation due to fair value adjustment (45,000 x 3/5)		(27,000)		½
Research project fair value adjustment	20,000	20,000	½	½
Extra amortisation due to fair value adjustment (20,000 x 2/4)		(10,000)		½ + ½
Unrealised profit on intra-group sales (1/5 x 36,000)		(7,200)		½ + ½
Other components of equity	10,000	10,000	½	
Deferred tax on fair value adjustments (20%)	(13,000)	(5,600)	½	½
Net assets for the consolidation	<u>387,000</u>	<u>411,200</u>		
The post-acquisition increase in net assets is 24,200 (411,200 – 387,000).				½
			<u>3</u>	<u>4½</u>
			⇒W3	⇒W6

Working 2 – Net assets table – Gamma:

	1 October 2014 \$'000	30 September 2015 \$'000	For W3	For W6
Share capital	120,000	120,000	½	
Retained earnings:	45,000	60,000	½	½
Land adjustment	30,000	30,000	½	½
Other components of equity	2,000	2,000	½	
Deferred tax on fair value adjustment (20% x 30,000)	(6,000)	(6,000)	½	½
Net assets for the consolidation	<u>191,000</u>	<u>206,000</u>		
The post-acquisition increase in net assets is 15,000 (206,000 – 191,000).				½
			<u>2½</u>	<u>2</u>
			⇒W3	⇒W6

Working 3 – Goodwill on consolidation

	Beta \$'000	Gamma \$'000	
Costs of investment:			
Shares issued to acquire Beta (150,000 x \$2.40)	360,000		1
Cash paid to acquire shares in Gamma		125,000	½
Non-controlling interests at date of acquisition:			
Beta – 25% x 387,000 (W1)	96,750		½ + ½
Gamma – 40% x 191,000 (W2)		76,400	
Net assets at date of acquisition (W1/W2)	<u>(387,000)</u>	<u>(191,000)</u>	3 (W1) + 2½ (W2)
Goodwill before impairment	69,750	10,400	
Impairment of Beta goodwill (W4)	(40,650)	Nil	3 (W4)
	<u>29,100</u>	<u>10,400</u>	<u>11</u>

The total goodwill is 39,500 (29,100 + 10,400).

Marks

Working 4 – Impairment of Beta goodwill

	\$'000	
Net assets of Beta as per the consolidated financial statements (W1)	411,200	½
Grossed up goodwill on acquisition (100/75 x 69,750)	<u>93,000</u>	1
	504,200	
Recoverable amount of Beta as a CGU	(450,000)	½
So gross impairment equals	<u>54,200</u>	½
75% thereof equals	<u>40,650</u>	½
		<u>3 W3</u>

Working 5 – Non-controlling interest (proportion of net assets method)

	Beta	Gamma	
	\$'000	\$'000	
Net assets at 30 September 2015 (W1/2)	<u>411,200</u>	<u>206,000</u>	½
Non-controlling interest (25%/40%)	<u>102,800</u>	<u>82,400</u>	½ + ½
			<u>1½</u>

The total NCI is 185,200 (102,800 + 82,400).

Working 6 – Retained earnings

	\$'000	
Alpha	498,000	½
Adjustment for acquisition costs of Beta	(1,200)	½
Adjustment for decommissioning provision	34,000	½
Adjustment for finance cost on zero-coupon bond (8% x (40,000 – 1,000) – 1,000)	(2,120)	1 + ½
Beta (75% x 24,200 (W1))	18,150	½ + 4½ (W1)
Gamma (60% x 15,000 (W2))	9,000	½ + 2 (W2)
Impairment of Beta goodwill (W4)	<u>(40,650)</u>	½ (W4)
	<u>515,180</u>	<u>11</u>

Working 7 – Other components of equity

	\$'000	
Alpha – per own financial statements	295,000	½
Beta and Gamma – post acquisition only	<u>Nil</u>	½
	<u>295,000</u>	<u>1</u>

Working 8 – ‘Other investments’ of Alpha

	\$'000	
Investments figure per Alpha statement of financial position	497,000	½
<i>Deduct:</i> investments to be eliminated on consolidation		
Shares issued to acquire Beta (W3)	(360,000)	½
Due diligence costs on Beta acquisition	(1,200)	½
Cash paid to acquire Gamma (W3)	<u>(125,000)</u>	½
Carrying value of remaining investments	<u>10,800</u>	<u>2</u>

Working 9 – Deferred tax

	\$'000	
Alpha + Beta + Gamma	90,000	½
On fair value adjustments in Beta (W1)	5,600	½
On fair value adjustments in Gamma (W2)	<u>6,000</u>	½
	<u>101,600</u>	<u>1½</u>

		Marks
(b) Advice on appropriate treatment of Theta		
According to IFRS 10 – Consolidated Financial Statements – Theta is a subsidiary of Alpha if Alpha controls Theta.		½ + ½
A key aspect of determining control is considering whether Alpha has power to direct the relevant activities of Theta. Based on its current shareholding, Alpha cannot exercise that power by voting rights as Alpha owns only 45% of the shares.		½ + ½
However, IFRS 10 states that where potential voting rights (e.g. share options) are currently exercisable, they should be taken into account in considering whether control exists.		1
If Alpha exercised its options, this would take its total shareholding in Theta to 55%. On this basis, the directors of Alpha should regard Theta as a subsidiary.		1
		<u>4</u>
		40
2 (a) From 1 October 2000, the property would be regarded as an investment property since it is being held for its investment potential rather than being owner occupied or developed for sale.		½ + ½
The property would be measured under the fair value model . This means it will be measured at its fair value each year end, with any gains or losses on remeasurement recognised in profit or loss .		½ + ½
On 31 March 2015, the property ceases to be an investment property because Delta begins to develop it for sale as flats.		½ + ½
The increase in the fair value of the property from 30 September 2014 to 31 March 2015 of \$3 million (\$29 million – \$26 million) would be recognised in P/L for the year ended 30 September 2015.		½ + ½
Since the lease of the property is an operating lease, rental income of \$1 million ((\$2 million x 6/12) would be recognised in P/L for the year ended 30 September 2015.		½ + ½
When the property ceases to be an investment property, it is transferred into inventory at its then fair value of \$29 million. This becomes the initial 'cost' of the inventory.		½ + ½
The additional costs of \$6 million for developing the flats which were incurred up to and including 30 September 2015 would be added to the 'cost' of inventory to give a closing cost of \$35 million .		½
The total selling price of the flats is expected to be \$50 million (10 x \$5 million). Since the further costs to develop the flats total \$4 million , their net realisable value is \$46 million (\$50 million – \$4 million), so the flats will be measured at a cost of \$35 million.		½ + ½ + ½ + ½
The flats will be shown in inventory as a current asset .		<u>½</u>
		9
(b) The machine and the associated liability would be recorded in the financial statements using the rate of exchange in force at the transaction date – 2.5 groats to \$1. Therefore the initial carrying amount of both items is \$240,000 (600,000/2.5).		1
The liability is a monetary item so it would be retranslated at the year end of 30 September 2015 using the closing rate of 2 groats to \$1 at \$300,000 (600,000/2) and shown as a current liability.		1 + ½
The exchange difference of \$60,000 (\$300,000 – \$240,000) is recognised in profit or loss – in this case a loss.		1
The machine is a non-monetary asset measured under the cost model and so is not retranslated as the exchange rate changes.		1
The modification costs of \$30,000 are added to the cost of the machine to give a total cost figure of \$270,000.		½
The machine is depreciated from 1 September 2015 (the date it is brought into use) and so the depreciation for the year ended 30 September 2015 is \$4,500 (\$270,000 x 1/5 x 1/12).		1
The machine will be shown as a non-current asset at a closing carrying value of \$265,500 (\$270,000 – \$4,500).		1
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	Marks
(c) This equity settled share based payment arrangement should be measured using the fair value of an option on the grant date – \$3·00 in this case.	1
The revenue for the year ended 30 September 2015, plus the expected revenue for the next two years, indicates that the cumulative revenue for the three years ended 30 September 2017 is likely to be \$190 million. Therefore the number of options vesting for each director is likely to be 200.	1
This means that the charge to P/L for the year ended 30 September 2015 should be \$20,000 (100 x 200 x \$3·00 x 1/3).	1
The credit entry should be to other components of equity.	1
	<u>4</u>
	<u>20</u>
3 (a) (i) The five steps to be followed are to:	
Identify the contract(s) with the customer.	½
Identify the performance obligations the contract(s) create.	½
Determine the transaction price.	½
Allocate the transaction price to the separate performance obligations.	½
Recognise the revenue associated with each performance obligation as the performance obligation is satisfied.	½
(ii) The IASB issued IFRS 15 because the existing criteria for revenue recognition outlined in IASs 11 and 18 were considered to be very subjective . Therefore it was difficult to verify the accuracy of the reported figures for revenue and associated costs.	½ + ½
One of the fundamental qualitative characteristics of useful financial information which is referred to in the IASB Conceptual Framework is faithful representation . Information needs to be verifiable in order to ensure it meets this fundamental characteristic. IFRS 15 provides a more robust framework upon which to base the revenue recognition decision, thus increasing the verifiability of the revenue figure and hence its usefulness.	½ + ½ + ½
	<u>5</u>
(b) (i) Kappa has TWO performance obligations – to provide the machine and provide the servicing.	1
The total transaction price consists of a fixed element of \$800,000 and a variable element of \$10,000 or \$20,000.	1
The variable element should be included in the transaction price based on the probability of its occurrence. Therefore a variable element of \$10,000 should be included and the total transaction price will be \$810,000.	1
The transaction price should be allocated to the performance obligations based on their stand alone fair values. In this case, these are \$700,000:\$140,000 or 5:1.	1
Therefore \$675,000 (\$810,000 x 5/6) should be allocated to the obligation to supply the machine and \$135,000 (\$810,000 x 1/6) to the obligation to provide two years' servicing of the machine.	½ + ½
The obligation to supply the machine is satisfied fully in the year ended 30 September 2015 and so revenue of \$675,000 in respect of this supply should be recognised.	1
Only 1/24 of the obligation to provide the servicing is satisfied in the year ended 30 September 2015 and so revenue of \$5,625 (\$135,000 x 1/24) in respect of this supply should be recognised.	1
On 30 September 2015, Kappa will recognise a receivable of \$810,000 based on the expected transaction price. This will be reported as a current asset .	½
On 30 September 2015, Kappa will recognise deferred income of \$129,375 (\$810,000 – \$675,000 – \$5,625). \$67,500 (\$129,375 x 12/23) of this amount will be shown as a current liability. The balance of \$61,875 (\$129,375 – \$67,500) will be non-current.	½
	½ + ½ + ½ + ½
	<u>10</u>
(ii) When the customer has a right to return products, the transaction price contains a variable element.	1
Since this can be reliably measured, it is taken account of in measuring the revenue and the total revenue will be \$192,000 (96 x \$2,000).	1

	Marks
\$200,000 (100 x \$2,000) will be recognised as a trade receivable.	1
\$8,000 (\$200,000 – \$192,000) will be recognised as a refund liability. This will be shown as a current liability.	1
The total cost of the goods sold is \$160,000 (100 x \$1,600). Of this amount, only \$153,600 (96 x \$1,600) will be shown as a cost of sale. The other \$6,400 (\$160,000 – \$153,600) will be shown as a right of return asset under current assets.	1
	<u>5</u>
	<u>20</u>
4 (a) Expenditure on the exploration for, and evaluation of, mineral resources is excluded from the scope of standards which might be expected to provide guidance in this area. Specifically such expenditure is not covered by IAS 16 – Property, Plant and Equipment – or IAS 38 – Intangible Assets .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
This has meant that, in the absence of any alternative pronouncements, entities would determine their accounting policies for exploration and evaluation expenditures in accordance with the general requirements of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors . This could lead to considerable divergence of practice given the diversity of relevant requirements of other standard setting bodies.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
Given other pressures on its time and resources, the International Accounting Standards Board (IASB) decided in 2002 that it was not able to develop a comprehensive standard in the immediate future.	1
However, recognising the importance of accounting for extractive industries generally the IASB issued IFRS 6 – <i>Exploration for and Evaluation of Mineral Resources</i> – to achieve some level of standardisation of practice in this area.	1
IFRS 6 requires relevant entities to determine a policy specifying which expenditures are recognised as exploration and evaluation assets and apply the policy consistently .	$\frac{1}{2} + \frac{1}{2}$
When recognising exploration and evaluation assets, entities shall consistently classify them as tangible or intangible according to their nature.	1
Subsequent to initial recognition, entities should consistently apply the cost model or the revaluation model to exploration and evaluation assets.	1
If the revaluation model is used, it should be applied according to IAS 16 (for tangible assets) or IAS 38 (for intangible assets).	1
Where circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, such assets should be reviewed for impairment. Any impairment loss should basically be measured, presented and disclosed in accordance with IAS 36 – <i>Impairment of Assets</i> .	1
	<u>10</u>
(b) The accounting treatment of buildings to be sold is governed by IFRS 5 – <i>Non-Current Assets Held for Sale and Discontinued Operations</i> .	$\frac{1}{2}$
A building would be classified as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use.	$\frac{1}{2}$
For this to be the case, the asset must be available for immediate sale in its present condition. Also management must be committed to a plan to sell the asset and an active programme to locate a buyer must have been initiated. Further, the asset must be actively marketed for sale at a reasonable price. In addition, the sale should be expected to be completed within one year of the date of classification as held for sale (although there are certain circumstances in which the one-year period can be extended). Finally it should be unlikely that significant changes to the plan will be made or that the plan will be withdrawn .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$ $+ \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$ $+ \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
Immediately prior to being classified as held for sale, assets should be stated (or re-stated) at their current carrying amount under relevant International Financial Reporting Standards. Assets then classified as held for sale should be measured at the lower of their current carrying amount and their fair value less costs to sell . Any write down of the assets due to this process would be regarded as an impairment loss and treated in accordance with IAS 36 – <i>Impairment of Assets</i> .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$ $+ \frac{1}{2} + \frac{1}{2} + \frac{1}{2}$

Assets classified as held for sale should be presented separately from other assets in the statement of financial position

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