Answers

1 (a) Weston Group Statement of cash flows for year ended 31 January 2016

	$m
Cash flow from operating activities	
Profit for the year (W1)	182
Finance cost	23
Associate's profits	(16)
Service cost component	11
Cash contributions to pension scheme	(19)
Depreciation (W7)	20
Impairment on amortised cost asset (W1)	8
Gain on contingent consideration (W8)	(4)
Impairment of goodwill (19 – 9 – 4)	6
Amortisation of intangible assets	7
	218
Movements in working capital	
Increase in trade and other payables (W9)	15
Increase in trade and other receivables (104 – 23 – 106)	(25)
Decrease in inventories (165 – 38 – 108)	19
Cash generated from operating activities	227
Finance costs paid (W8)	(22)
Income taxes paid (W5)	(81)
Net cash generated by operating activities	124
Cash flows from investing activities	
Purchase of property, plant and equipment (W7)	(74)
Purchase of intangible assets (W6)	(17)
Dividends received from associate (W4)	4
Purchase of associate (W4)	(90)
Proceeds on disposal of Northern (W3)	87·4
Acquisition of amortised cost asset	(20)
Settlement of contingent cash	(7)
	(116·6)
Cash flows from financing activities	
Repayment of long-term borrowings (48 – 26)	(22)
Dividends paid to non-controlling interest (W10)	(8·4)
	(30·4)
Net decrease in cash and cash equivalents	(23)
Cash and cash equivalents at beginning of period	43
Cash and cash equivalents at end of period	20

Workings

(1) Impairment on amortised cost financial asset

The financial asset has only one year to run at 31 January 2016. The remaining cash flows to be received are therefore $21·6m (($20m + (8% x $20m)). Since there is a 40% chance of default, the expected cash flow at present value would be $12m (60% x $21·6m/1·08). A further impairment of $7m ($19m – $12m) is required against profits. Additionally, the overall impairment charged for the year of $8m, including the expected 12-month credit loss of $1m, should be added back to operating profits within the operating activities reconciliation. (**Tutorial note:** *The carrying value of the investment is $19m which is after $1m impairment for 12 months expected credit losses.*)

The profit for the year will be:

	$m
Profit before tax continuing activities	183
Profit before tax discontinued activities	6
Impairment loss	(7)
	182

(2) Goodwill on acquisition of Northern

	$m
Cash paid	132
Fair value of non-controlling interest	28
	160
Identifiable net assets at acquisition	(124)
Goodwill on acquisition	36
Impairment of goodwill (75%)	(27)
Carrying value of goodwill at disposal	9

(3) Proceeds on disposal of Northern

The fair value of the property, plant and equipment at disposal will be $80m as per the question plus $16m fair value uplift less 4/8 depreciation = $88m. A deferred tax liability on the fair value adjustment would arise of (25% x $16m) = $4m. This will be released in line with the extra depreciation, so the carrying value at disposal will be only $2m ($4m – ($4m x 4/8)). The carrying value of the entire deferred tax liability at disposal is therefore $8m ($6m per question + $2m).

The revised carrying values at disposal are therefore:

	$m
Property, plant and equipment (W7)	88
Inventory	38
Trade receivables	23
Trade and other payables (W9)	(10)
Deferred tax (W5)	(8)
Bank overdraft	(2)
	129
Goodwill (W2)	9
	138

The non-controlling interest at disposal will be:

	$m
Non-controlling interest at acquisition	28
Add share of post-acquisition profits (20% x (129m – 124m))	1
Less share of goodwill impairment (20% x 27m) (W2)	(5·4)
	23·6

Loss on disposal per question	(29)
Fair value of net assets at disposal	138
Non-controlling interest at disposal	(23·6)
Proceeds on disposal	85·4
Add back overdraft disposed in year	2
Net proceeds on disposal of Northern	87·4

(4) Associate

	$m
Balance at 31 January 2016	102
Share associate profit	(16)
Add dividend received ($10m x 40%)	4
Cost of acquisition (cash)	90

Therefore, cash paid for the associate is $90 million, and cash received from the dividend is $4 million.

(5) Taxation

	$m	$m
Opening tax balances at 1 February 2015		
Deferred tax	15	
Current tax	92	
		107
Charge for year – continuing		40
Charge for year – discontinuing		2
Deferred tax on disposal (W3)		(8)
Deferred tax on actuarial gain (25% x $4m)		1
Less closing tax balances at 31 January 2016		
Deferred tax	14	
Current tax	47	
		(61)
Cash paid		81

The 31 January 2015 deferred tax asset for the pension scheme would be (25% x $72m) = $18m. At 31 January 2016, the deferred tax assets would only be (25% x $60m) = $15m. Since the actuarial gain of $4m would be recorded in other comprehensive income, the deferred tax on the actuarial gain of $1m (25% x $4m) will also be in other comprehensive income. The net gain included within other comprehensive income is $3m ($4m – $1m). The remaining movement in the deferred tax on the pension of $2m will already be included within the charge for the year.

(6) Other intangibles

	$m
Opening balance at 1 February 2015	27
Amortisation	(7)
Less closing balance at 31 January 2016	(37)
Cash additions	17

(7) Property, plant and equipment

	$m
Opening balance at 1 February 2015	386
Fair value of disposal (W3)	(88)
Depreciation charge	(20)
Less closing balance at 31 January 2016	(352)
Cash additions	74

(8) Contingent consideration and finance costs paid

The $10m contingent consideration would have been discounted at 10% and should therefore be unwound with $1m ($10m x 10%) charged to finance cost. A gain on settlement therefore arises of $4m ($10m + $1m – $7m). The finance cost per P&L is $23m.

Cash paid is therefore $23m less $1m unwinding = $22m.

(9) Trade payables

	$m
Opening balance at 1 February 2015	41
Contingent cash consideration at 1 February 2015	(10)
Disposal of subsidiary (W3)	(10)
Less balance at 31 January 2016	(36)
Increase in payables	15

(10) Non-controlling interest

	$m
Opening balance at 1 February 2015	85
Total comprehensive income of NCI	11
Disposal of subsidiary (W3)	(23·6)
Less closing balance at 31 January 2016	(64)
Dividends paid to NCI	8·4

(b) Under the IFRS for SMEs, an impairment loss recognised for goodwill must not be reversed in a subsequent period whereas under FRS102, an impairment loss recognised for all assets, including goodwill, may be reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply. Under the IFRS for SMEs, if an entity is unable to make a reliable estimate of the useful life of goodwill, the life should be presumed to be ten years. Under FRS 102, if an entity is unable to make a reliable estimate of the useful life of goodwill, the life should not exceed five years.

The requirements in the IFRS for SMEs relating to a bargain purchase have been amended in FRS 102 to comply with the European Communities (Companies: Group Accounts) Regulations 1992 [GAR 1992].

If a bargain purchase arises, FRS 102 requires the entity to:

(i) Reassess the identification and measurement of the acquiree's assets, liabilities and provisions for contingent liabilities and the measurement of the cost of the combination. This condition is the same in the IFRS for SMEs.

(ii) Recognise and separately disclose the resulting excess on the face of the statement of financial position on the acquisition date, immediately below goodwill, and followed by a subtotal of the net amount of goodwill and the excess.

(iii) Recognise subsequently the excess up to the fair value of non-monetary assets acquired in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired should be recognised in profit or loss in the periods expected to benefit.

An acquirer must disclose a reconciliation of the carrying amount of the excess recognised.

(c) It is not unusual for members of a group to provide financial assistance in the form of loans or acting as a guarantor between one another. Provided that the loan was not issued to manipulate the financial statements and that there was full disclosure as a related party transaction, then no ethical issues may arise. However, this would appear to be unlikely in this scenario.

Since the loan is interest free, the loan will have no impact on the interest cover of Eastern. Neither profits nor finance expenses will be affected. The impact on the gearing ratio of Eastern is unclear and would depend on how debt was classified within the terms of the covenants. Should the overdraft be included within debt, the loan would substantially improve the gearing ratio through the elimination of the Eastern overdraft. Accountants have the responsibility to issue financial statements which do not mislead the stakeholders of the business. It would appear that the financial statements are being deliberately misrepresented, which would be deemed unethical. The cash received would improve the liquidity of Eastern and may enable them to avoid a breach on the debt covenants. Accountants should be guided by ACCA's *Code of Ethics*. Deliberate overstatement of the entity's liquidity would contravene the principles of integrity, objectivity and professional behaviour.

The timing and nature of the loan may provide further evidence that the rationale for the loan was to ensure no breach of the covenants took place. The loan is for an unusually short period given that it was repaid within 30 days. In addition, the timing is very suspicious given that it was issued just prior to the 31 January 2016 year end. In any case, the classification of the loan within the trade and other receivables and trade and other payables balances would be misleading. The loan is not for trading purposes and a fairer representation would to be to include the loan within the current asset investments of Weston and as a short-term loan within the current liabilities of Eastern. This would ensure that the loan would be treated as debt within the gearing calculation of Eastern and would not be misleading for the bank when assessing whether a breach of the debt covenants had taken place.

2 (a) (i) IFRS 13 requires the fair value of a non-financial asset to be measured based on its highest and best use from a market participant's perspective. This requirement does not apply to financial instruments, liabilities or equity. The highest and best use takes into account the use of the asset which is physically possible, legally permissible and financially feasible. The highest and best use of a non-financial asset is determined by reference to its use and not its classification and is determined from the perspective of market participants. It does not matter whether the entity intends to use the asset differently. IFRS 13 allows management to presume that the current use of an asset is the highest and best use unless market or other factors suggest otherwise.

In this case, the agricultural land appears to have an alternative use as market participants have considered its alternative use for residential purposes. If the land zoned for agricultural use is currently used for farming, the fair value should reflect the cost structure to continue operating the land for farming, including any tax credits which could be realised by market participants. Thus the fair value of the land if used for farming would be $(5 + (20% of 0·5)) million, i.e. $5·1 million.

If used for residential purposes, the value should include all costs associated with changing the land to the market participant's intended use. In addition, demolition and other costs associated with preparing the land for a different use should be included in the valuation. These costs would include the uncertainty related to whether the approval needed for changing the usage would be obtained, because market participants would take that into account when pricing value of the land if it had a different use. Thus the fair value of the land if used for residential purposes would be $(7·4 – 0·2 – 0·3 – 0·1) million x 80%, i.e. $5·44 million. Therefore the value of the land would be $5·44 million on the highest and best use basis. In this situation, the presumption that the current use is the highest and best use of the land has been overridden by the market factors which indicate that residential development is the highest and best use. A use of an asset need not be legal at the measurement date, but it must not be legally prohibited in the jurisdiction.

In the absence of any evidence to the contrary, Mehran should value the brand on the basis of the highest and best use. The fair value is determined from the perspective of a market participant and is not influenced by Mehran's decision to discontinue the brand. Therefore the fair value of the brand is $17 million.

(ii) IFRS 13 sets out the concepts of principal market and most advantageous market. Transactions take place in either the principal market, which is the market with the greatest volume and level of activity for the inventory, or in the absence of a principal market, the most advantageous market. The most advantageous market is the market which maximises the amount which would be received to sell the inventory, after taking into account transaction costs and transportation costs. The price used to measure the inventory's fair value is not adjusted for transaction costs although it is adjusted for transport cost. The principal market is not necessarily the market with the greatest volume of activity for the particular reporting entity. The principle is based upon the importance of the market from the participant's perspective. However, the principal market is presumed to be the market in which the reporting entity transacts, unless there is evidence to the contrary. In evaluating the principal or most advantageous markets, IFRS 13 restricts the eligible markets to only those which can be accessed at the measurement date. If there is a principal market for the asset or liability, IFRS 13 states that fair value should be based on the price in that market, even if the price in a different market is higher. It is only in the absence of the principal market that the most advantageous market should be used. An entity does not have to undertake an exhaustive search of all possible markets in order to identify the principal or most advantageous market. It should take into account all information which is readily available. There is a presumption in the standard that the market in which the entity normally transacts to sell the asset or transfer the liability is the principal or most advantageous market unless there is evidence to the contrary.

In this case, the greatest volume of transactions is conducted in the domestic market – direct to manufacturers. There is no problem with obtaining data from trade journals but the problem for Mehran is that there is no data to substantiate the volume of activity in the domestic market – direct to retailers even though Mehran feels that it is at least 20,000 tonnes per annum. The most advantageous market is the export market where after transport and transaction costs the price per tonne is $1,094.

	Domestic market – direct to retailers	**Domestic market – direct to manufacturers**	**Export market**
Price per tonne	$1,000	$800	$1,200
Transport costs	$50	$70	$100
Selling agents' fees	–	$4	$6
Net price per tonne	$950	$726	$1,094

It is difficult to determine a principal market because of the lack of information. It could be argued that the domestic market – direct to manufacturers has the highest volume for the produce, and is therefore the principal market by which Mehran should determine fair value of $730 ($800 – $70). However, because of the lack of information surrounding the domestic market – direct to retailers, the principal or most advantageous market will be presumed to be the market in which Mehran would normally enter into transactions which would be the export market. Therefore the fair value would be $1,100 ($1,200 – $100) per tonne.

(b) The benefit attributed to the current year would be 1% of $39,300, i.e. $393.

The current service cost for the current year is the present value of benefit attributed to the current year, i.e. $393 discounted for four years at 10% per annum which is $268.

Under both the IFRS for SMEs and FRS 102, entities must use the projected unit credit method to measure its defined benefit obligation and the related expense. Under IFRS for SMEs, if an entity is able, without undue cost or effort, to use the projected unit credit method to measure its defined benefit obligation and the related expense, it shall do so. If defined benefits are based on future salaries, the projected unit credit method requires an entity to measure its defined benefit obligations on a basis which reflects estimated future salary increases. Additionally, the projected unit credit method requires an entity to make various actuarial assumptions in measuring the defined benefit obligation, including discount rates, the expected rates of return on plan assets, expected rates of salary increases, employee turnover, mortality, and (for defined benefit medical plans) medical cost trend rates.

The projected unit credit method is an actuarial valuation method which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. IFRS for SMEs does not require an entity to engage an independent actuary to perform the comprehensive actuarial valuation needed to calculate its defined benefit obligation. Nor does it require that a comprehensive actuarial valuation must be done annually. In the periods between comprehensive actuarial valuations, if the principal actuarial assumptions have not changed significantly, the defined benefit obligation can be measured by adjusting the prior period measurement for changes in employee demographics such as number of employees and salary levels. FRS 102 also adopts the same approach.

However, under IFRS for SMEs, in cases where the entity cannot use the projected unit credit method without undue cost or effort, the entity can:

(i) Ignore estimated future salary increases;
(ii) Ignore future service of current employees;
(iii) Ignore possible in-service mortality of current employees between the reporting date and the date employees are expected to begin receiving post-employment benefits.

This simplified valuation method is not permitted by FRS 102.

3 (a) The cost of an item of property, plant and equipment may include borrowing costs incurred for the purpose of acquiring or constructing it. IAS 23 *Borrowing Costs* requires such borrowing costs to be capitalised if the asset takes a substantial period of time to be prepared for its intended use or sale. The definition of borrowing costs includes interest expense calculated by the effective interest method, finance charges on finance leases and exchange differences arising from foreign currency borrowings relating to interest costs. Borrowing costs should be capitalised during construction and include the costs of funds borrowed for the purpose of financing the construction of the asset, and general borrowings which would have been avoided if the expenditure on the asset had occurred. The general borrowing costs are determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

The weighted-average carrying amount of the stadium during the period is

$(20 + 70 + 120 + 170) million/4, that is $95 million.

The capitalisation rate of the borrowings of Emcee during the period of construction is 9% per annum, therefore the total amount of borrowing costs to be capitalised is the weighted-average carrying amount of the stadium multiplied by the capitalisation rate.

That is ($95 million x 9% x 4/12) $2·85 million.

(b) IAS 38 *Intangible Assets* states that an entity should recognise an intangible asset where it is probable that future economic benefits will flow to the entity and the cost of the asset can be measured reliably. Therefore, the costs associated with the acquisition of players' registrations should be capitalised at the fair value of the consideration payable. Costs would include transfer fees, league levy fees, agents' fees incurred by the club and other directly attributable costs. Costs also include the fair value of any contingent consideration, which is primarily payable to the player's former club with associated league levy fees, once payment becomes probable. Subsequent reassessments of the amount of contingent consideration payable would be also included in the cost of the player's registration. The estimate of the fair value of the contingent consideration payable requires management to assess the likelihood of specific performance conditions being met, which would trigger the payment of the contingent consideration. This assessment would be carried out on an individual player basis. The additional amount of contingent consideration potentially payable, in excess of the amounts included in the cost of players' registrations, would be disclosed. Costs would be fully amortised over the period covered by the player's contract.

Where a playing contract is extended, any costs associated with securing the extension are added to the unamortised balance at the date of the extension and the revised book value is amortised over the remaining revised contract life. Player registrations would be classified as assets held for sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when their carrying value is expected to be recovered principally through a sale transaction and a sale is considered to be highly probable. Additionally, the registrations should be actively marketed by Emcee, which it appears that they are. It would appear that in these circumstances that management is committed to a plan to sell the registration, that the asset is available for immediate sale, that an active programme to locate a buyer is initiated by circulating clubs. In order to fulfil the last criteria of IFRS 5, it may be prudent to only class these registrations as available for sale where unconditional offers have been received prior to a period end. IFRS 5 requires that it is unlikely that the plan to sell the registrations will be significantly changed or withdrawn.

However, because of the subjectivity involved, in the case of player registrations these assets would be stated at the lower of the carrying amount and fair value less costs to sell, as the carrying amount will already be stated in accordance with IFRSs.

Gains and losses on disposal of players' registrations would be determined by comparing the fair value of the consideration receivable, net of any transaction costs, with the carrying amount and would be recognised in profit or loss within profit on disposal of players' registrations. Where a part of the consideration receivable is contingent on specified performance conditions, this amount is recognised in profit or loss when the conditions are met.

IAS 36 *Impairment of Assets* states that entities should annually test their assets for impairment. An asset is impaired if its carrying amount exceeds its recoverable amount which is the higher of the asset's fair value less costs of disposal and its value in use. It is difficult to determine the value in use of an individual player in isolation as that player (unless via a sale or insurance recovery) cannot generate cash flows on his own. Whilst any individual player cannot really be separated from the single cash generating unit (CGU), being the basketball or football team, there may be certain circumstances where a player is taken out of the CGU, when it becomes clear that they will not play for the club again, for example, a player sustaining a career threatening injury or being permanently removed from the playing squad for another reason. If such circumstances arise, the carrying value of the player should be assessed against the best estimate of the player's fair value less any costs to sell and an impairment charge made in profit or loss, which reflects any loss arising. The playing registrations disposed of, subsequent to the year end, for $25 million, with an associated net book value of $7 million, would be disclosed as events after the reporting date.

(c) IFRS 13 *Fair Value Measurement* would value the stadiums at the price which would be received to sell the asset in an orderly transaction between market participants at the measurement date. The price would be the one which maximises the value of the asset or the group of assets using the principal of the highest and best use. The price would essentially use Level 2 inputs which are inputs other than quoted market prices included within Level 1 which are observable for the asset or liability, either directly or indirectly. Property naming rights present complications when valuing property. The status of the property dictates its suitability for inviting sponsorship attached to its name. It has nothing to do with the property itself but this can be worth a significant amount. Therefore Emcee could include the property naming rights in the valuation of the stadiums and write it off over three years.

IAS 24 *Related Party Disclosures* sets out the criteria for two entities to be treated as related parties. Such criteria include being members of the same group or where a person or a close member of that person's family is related to a reporting entity if that person has control or joint control over the reporting entity. IAS 24 deems that parties are not related simply because they have a director or key manager in common. In this case, there are two directors in common and it appears as though the entities are not related. However, the Regulator will need to establish whether the sponsorship deal is a related party transaction (RPT) for the purpose of the financial control provisions. There would need to be demonstrated that the airline may be expected to influence, or be influenced by, the club or a related party of the club. If the deal is deemed to be an RPT, the Regulator will consider whether the sponsorship is at fair value. If the Regulator considers the deal not to be at a fair value, Emcee may be fined and therefore the entity will have to make a provision or disclose a contingent liability for any potential fine under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

4 (a) (i) The entity itself should prepare an impact assessment and project plan relating to the introduction of the new IFRS. There may be significant changes to processes, systems and controls and management should communicate the impact to investors and other stakeholders. This would include plans for disclosing the effects of new accounting standards which are issued but not yet effective. The entity should choose a path to implementation and establish responsibilities and deadlines. This may help to determine the accountability of the implementation team and allow management to identify gaps in resources.

Further, IFRS-based financial statements are used in contracts or regulation. Banking agreements often specify maximum debt levels or financial ratios which refer to figures prepared in accordance with IFRS. New financial reporting requirements can affect those ratios, with potential breach of those contracts. Many jurisdictions have regulation which restricts the amount which can be paid out in dividends, by reference to accounting profit. Further, some governments use IFRS numbers for statistical and economic planning purposes and the data as evidence to place constraints on profitability in regulated industries.

It is important that the entity communicates the effects of a move to a new IFRS to the markets and analysts. On application of the new IFRS, investors will be provided with different information upon which to base their decisions. Investors' assessment of how management has discharged its stewardship responsibilities may be changed and this could affect the investors' investment decision. Further, new financial reporting requirements may disclose information which is of competitive advantage to third parties and this is a cost to the entity.

A change in an accounting standard could cause some entities to no longer invest in certain assets or it may change how they contract for some activities. For example, if operating leases were to be shown on the statement of financial position, this could have adverse economic impacts on certain sectors. Additionally, the new standard could affect the calculation of performance-related pay.

Where there is the introduction of a new accounting standard, the financial statements will need to reflect the new recognition, measurement and disclosure requirements which, in turn, will mean that entities will need to consider the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. IAS 8 contains a requirement that changes in accounting policies are fully applied retrospectively unless there are specific transitional provisions. Further, IAS 8 requires the disclosure of a number of matters as regards the new IFRS. Additionally, IAS 1 *Presentation of Financial Statements* requires a third statement of financial position to be presented if the entity retrospectively applies an accounting policy, restates items, or reclassifies items, and those adjustments had a material effect on the information in the statement of financial position at the beginning of the comparative period.

IAS 33 *Earnings Per Share* requires basic and diluted EPS to be adjusted for the impacts of adjustments resulting from changes in accounting policies accounted for retrospectively and IAS 8 requires the disclosure of the amount of any such adjustments. Taxation is often calculated on the profit measured for financial reporting purposes. For jurisdictions using IFRS as the basis for income tax, a change in a standard can change the tax base. The economic consequences of the link of accounting with tax liabilities can be significant.

(ii) Impairment of non-financial assets and deferred tax assets

The continuous period of slow economic growth could indicate to regulators that non-financial assets will continue to generate lower than expected cash flows, especially in those industries experiencing a downturn in fortunes. Particular attention should be paid to the valuation of goodwill and intangible assets with indefinite life spans. The entity should focus on certain specific areas including cash flow projections, disclosure of key assumptions and judgements, and appropriate disclosure of sensitivity analysis for material goodwill and intangible assets with indefinite useful lives.

In measuring value-in-use, cash flow projections should be based on reasonable and supportable assumptions which represent the best estimate of the range of future economic conditions. IAS 36 *Impairment of Assets* points out that greater weight should be given to external evidence when determining the best estimate of cash flow projections. Each key assumption should be consistent with external sources of information, or there should be disclosure of how these assumptions differ from experience or external sources of information.

Such an economic climate could result in the recognition of tax losses or the existence of deductible temporary differences where perhaps impairments are not yet deductible for tax purposes. The recognition of deferred tax assets requires detailed consideration of the carry forward of unused tax losses, whether future taxable profits exist, and the need for disclosing judgements made in these circumstances.

IAS 12 *Income Taxes* limits the recognition of a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised. IAS 12 states that the existence of unused tax losses is strong evidence that future taxable profit might not be available. Therefore, recent losses make the recognition of deferred tax assets conditional upon the existence of convincing other evidence. The probability that future taxable profit will be available to utilise the unused tax losses will need to be reviewed and if convincing evidence is available, there should be disclosure of the amount of a deferred tax asset and the nature of the evidence supporting its recognition. It is particularly relevant to disclose the period used for the assessment of the recovery of a deferred tax asset as well as the judgements made.

(b) Under IAS 38 *Intangible Assets*, an intangible asset has an indefinite useful life only if there is no 'foreseeable' limit to its useful life as in the case of a brand name. In the case of Pod, the customer relationship is with individuals and therefore there is by definition a time limit to that relationship. Difficulties in accurately determining an intangible asset's useful life do not provide a basis for regarding that useful life as indefinite. Where the cash flows are expected to continue for a finite period, the useful life of the asset is limited to that period, whereas if the cash flows are expected to continue indefinitely, the useful life is indefinite. The concept of indefinite not meaning infinite life refers to the fact that for intangible assets with an indefinite useful life, maintenance costs are necessary in order that cash inflows may continue for an unlimited period of time. For example, brand names do not have an infinite useful life if no investment is made in them. This argument does not apply to the circumstances of this case and therefore Pod is in contravention of IAS 38.

According to IAS 36 *Impairment of Assets*, a CGU is defined as the smallest identifiable group of assets generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets. In accordance with IAS 36, one factor to be considered is the monitoring of the entity's operations. Pod used the daily sales information and monthly statements of profit or loss of each individual branch to monitor its operations and to make decisions about continuing or disposing of its assets and operations. Each individual branch generates cash inflows which are largely independent of those generated by the other individual branches. Therefore, each branch should be identified as a separate CGU because Pod monitors and makes decisions about its assets and operations at the individual branch level.

				Marks
1	**(a)**	**Cash flows from operating activities**		
		Profit/finance cost and associate's profit		3
		Pension scheme		2
		Depreciation and amortisation		2
		Impairment of financial asset		1
		Contingent consideration		1
		Goodwill and intangibles		2
		Working capital movements		4
		Finance cost paid		1
		Tax paid		3
		Cash flows from investing activities		
		Property, plant and equipment		2
		Intangibles		1
		Associate		2
		Disposal of Northern		5
		Amortised cost asset		1
		Contingent cash		1
		Cash flows from financing activities		
		Long-term borrowings		1
		Dividends to NCI		2
		Cash and cash equivalents		1
				35
	(b)	1 mark per valid point		8
	(c)	1 mark per valid point		7
				50
2	**(a)**	**(i)**	IFRS 13 and discussion 1 mark per point up to	8
		(ii)	IFRS 13 and discussion 1 mark per point up to	9
	(b)	Discussion 1 mark per point up to		6
	Professional marks			2
				25
3	**(a)**	IAS 23 and discussion 1 mark per point up to		6
	(b)	IFRS 5 and discussion 1 mark per point up to		10
	(c)	IFRS 13/IAS 24 and discussion 1 mark per point up to		7
	Professional marks			2
				25
4	**(a)**	**(i)**	Discussion 1 mark per point up to	7
		(ii)	Discussion 1 mark per point up to	8
	(b)	Discussion 1 mark per point up to		8
	Professional marks			2
				25