Answers

1 (a) Disposal of equity interest in Sitin

The loss recognised in the profit and loss account would be as follows:

	€m
Fair value of consideration	23
less net assets and goodwill derecognised	
net assets (60% of 36)	(21·6)
goodwill (€39 – €32 million) x 60%	(4·2)
Loss on disposal	(2·8)

Sitin will be treated as an associate and will be valued at (40% x (€36m + €7m) i.e. €17·2 million

(b) Grange plc

Consolidated Balance Sheet at 30 November 2009

	€m
Fixed Assets:	
Tangible assets (W6)	775·47
Investment property (W7)	8
Goodwill (32·8 + 8 – 2)	38·8
Intangible assets (10 – 3)	7
Investment in Sitin (part (a))	17·2
	846·47
Current assets	926
Creditors: amounts falling due within one year	
Trade creditors	(354)
Provisions for liabilities	(52)
	(406)
Net current assets	520
Total assets less current liabilities	1,366·47
Creditors: amounts falling due after more than one year	(334)
Net assets	1,032·47
Capital and reserves	
Called up share capital	430
Profit and loss reserve (W3)	425·25
Other reserves (W3)	39·4
	894·65
Minority interest	137·82
Capital employed	1,032·47

Working 1 Park Goodwill and subsequent acquisition

		€m
Fair value of consideration for 60% interest		250
Fair value of identifiable net assets acquired	(60% of 360)	(216)
Franchise right	(60% of 10)	(6)
Goodwill		28

Depreciation of Franchise right

1 June 2008 to 30 November 2009 – €10m divided by 5 years multiplied by 1·5 years is €3 million

Dr Profit or loss	€3 million
Cr Franchise right	€3 million

Fair value of consideration for 20% interest	90
Fair value of identifiable net assets acquired (20% of 414)	(82·8)
Fair value of land (20% of 5)	(1)
Franchise right (20% of 7)	(1·4)
Goodwill	4·8

Total goodwill is €(28 + 4·8)m i.e. €32·8m

Working 2 Fence goodwill and disposal

	€m
Fair value of consideration	214
Fair value of net assets held	(202)
Increase in value of PPE	(4)
Goodwill	8

Sale of equity interest in Fence	
Fair value of consideration received	80
Less (Net Assets per question at 30 November 2009 232 – provision created 25 + Fair value of PPE at acquisition 4 – depreciation of fair value adjustment 0·53 (4 x $^{16}/_{12}$ x $^{1}/_{10}$) x 25%	(52·62)
Less share of goodwill (8 x 25%)	(2)
Gain on sale to the group	25·38

Because a provisional fair value had been recognised and the valuation for the fixed asset was received within 12 months of the date of the acquisition, the fair value of the net assets at acquisition is adjusted thus affecting goodwill.

At the date of acquisition the liability was a contingent liability and it was only events in the post acquisition period that has resulted in the liability crystallising. The contingent liability consolidation adjustment is reversed and a provision created accordingly. No adjustment will be made to goodwill arising on acquisition.

At acquisition 31 July 2008	
Dr Retained earnings	€30 million
Cr Contingent liability	€30 million
In the period to 30 November 2009	
Dr Contingent Liability/provisions	€5 million
Cr Profit or Loss	€5 million

Working 3 Profit and loss account reserve and other reserves
Retained earnings

	€m
Grange:	
Balance at 30 November 2009	410
Associate profits Sitin (post acquisition profit 3 x 100%)	3
Loss on disposal of Sitin	(2·8)
Impairment	(31)
Provision for legal claims	(7)
Post acquisition reserves: Park (60% x (year end retained earnings 170 – acquisition profit 115 – franchise amortisation 3))	31·2
Fence (100% x (year end retained earnings 65 – acquisition retained earnings 73 + conversion of contingent liability and reduction 5 – FV PPE depreciation 0·53))	(3·53)
Fence-profit on sale	25·38
	425·25

Other reserves

	€m
Balance at 30 November 2009	22
Post acqn reserves – Park (60% x (14 – 10))	2·4
– Fence (17 – 9)	8
– Sitin (post acquisition)	1
Revaluation surplus – foreign property	4
Investment property – gain	2
	39·4

Working 4 Provisions

	€m
Balance at 30 November 2009	
Grange	10
Park	6
Fence	4
	20
Contingency	30
Cancellation of contingency and introduction of provision	(5)
Provision for environmental claims	7
	52

Working 5 Minority Interest

	€m
Park (20% of (414 + land 5 + franchise 7))	85·2
Fence	52·62
Total	137·82

Working 6 Fixed assets

	€m	€m
Grange	251	
Park	311	
Fence	238	800
Increase in value of land – Park (360 – 230 – 115 – 10)		5
Investment property – reclassified		(6)
Impairment – Grange (W9)		(31)
Increase in value of fixed assets – Fence		4
Less: increased depreciation (4 x $^{16}/_{12}$ ÷ 10)		(0·53)
Revaluation surplus – foreign property		4
		775·47

Working 7
The land should be classified as an investment property. Although Grange has not decided what to do with the land, it is being held for capital appreciation. SSAP 19 '*Investment Property*' states that land held for investment potential is an investment property. The land will be measured at open market value. The fall in value of the investment property after the year-end will not affect its year-end valuation as the uncertainty relating to the regeneration occurred after the year-end.

Dr Investment property €6 million
Cr Tangible assets €6 million

Dr Investment property €2 million
Cr Other reserves €2 million
No depreciation will be charged

Working 8 Provision for environmental claims
The environmental obligations of €1 million and €6 million (total €7 million) arise from past events but the costs of €4 million relating to the improvement of the manufacturing process relate to the company's future operations and should not be provided for.

Dr Profit and loss account €7 million
Cr Provision €7 million

Working 9 Restructuring

A provision for restructuring should not be recognised, as a constructive obligation does not exist. A constructive obligation arises when an entity both has a detailed formal plan and makes an announcement of the plan to those affected. The events to date do not provide sufficient detail that would permit recognition of a constructive obligation. Therefore no provision for reorganisation should be made and the costs and benefits of the plan should not be taken into account when determining the impairment loss. Any impairment loss can be allocated to non-current assets, as this is the area in which the directors feel that loss has occurred.

	€m
Carrying value of Grange's net assets	862
Revaluation surplus	4
Provision for legal claims	(7)
Investment property	2
	861
Value-in-use (pre-restructuring)	830
Impairment to fixed assets	(31)

Working 10 Foreign property

	€m
Value at 30 November 2009 (12m dinars/1·5)	8
Value at acquisition 30 November 2008	4
Revaluation surplus to equity	4
Change in fair value (4m dinars at 1·5)	2·67
Exchange rate change	1·33
(8m dinars at 2 minus 12 million dinars at 1·5)	4

(c) Rules are a very important element of ethics. Usually this means focusing upon the rules contained in the accounting profession's code of professional conduct and references to legislation and corporate codes of conduct. They are an efficient means by which the accounting profession can communicate its expectations as to what behaviour is expected.

A view that equates ethical behaviour with compliance to professional rules could create a narrow perception of what ethical behaviour constitutes. Compliance with rules is not necessarily the same as ethical behaviour. Ethics and rules can be different. Ethical principles and values are used to judge the appropriateness of any rule.

Accountants should have the ability to conclude that a particular rule is inappropriate, unfair, or possibly unethical in any given circumstance. Rules are the starting point for any ethical question and rules are objective measures of ethical standards. In fact, rules are the value judgments as to what is right for accountants and reflect the profession's view about what constitutes good behaviour. Accountants who view ethical issues within this rigid framework are likely to suffer a moral crisis when encountering problems for which there is no readily apparent rule.

An overemphasis on ethical codes of behaviour tends to reinforce a perception of ethics as being punitive and does not promote the positive aspects of ethics that are designed to promote the reputation of an accounting firm and its clients, as well as standards within the profession. The resolution of ethical problems depends on the application of commonly shared ethical principles with appropriate skill and judgment. Ethical behaviour is based on universal principles and reasoned public debate and is difficult to capture in 'rules'.

Accountants have to make accounting policy choices on a regular basis. Stakeholders rely on the information reported by accountants to make informed decisions about the entity at hand. All decisions require judgment, and judgment depends on personal values with the decision needing to be made on some basis such as following rules, obeying authority, caring for others, justice, or whether the choice is right. These values and several others compete as the criterion for making a choice. Such personal values incorporate ethical values that dictate whether any accounting value chosen is a good or poor surrogate for economic value. To maintain the faith of the public, accountants must be highly ethical in their work. The focus on independence (conflict of interest) and associated compliance requirements may absorb considerable resources and conceptual space in relation to ethics in practice. This response is driven by a strong commitment within the firms to meet their statutory and regulatory obligations. The primary focus on Independence may have narrowed some firms' appreciation of what constitutes broader ethical performance. As a result it may be that the increasing codification and compliance focus on one or two key aspects of ethical behaviour may be in fact eroding or preventing a more holistic approach to enabling ethics in practice.

If the director tells Field about the liquidity problems of Brook, then a confidence has been betrayed but there is a question of honesty if the true situation is not divulged. Another issue is whether the financial director has a duty to several stakeholders including the shareholders and employees of Grange as if the information is disclosed about the poor liquidity position of Brook, then the amounts owing to Grange may not be paid. However, there may be a duty to disclose all the information to Field but if the information is deemed to be insider information then it should not be disclosed.

The finance director's reputation and career may suffer if Brook goes into liquidation especially as he will be responsible for the amounts owing by Brook. Another issue is whether the friend of the director has the right to expect him to keep the information private and if the shareholders of Grange stand to lose as a result of not divulging the information. There may be an expectation that such information should be disclosed. Finally, should Field expect any credit information to be accurate or simply be a note of Brook's credit history? Thus it can be seen that the ethical and moral dilemmas facing the director of Grange are not simply a matter of following rules but are a complex mix of issues concerning trust, duty of care, insider information, confidentiality and morality.

2 (a) FRS 11 *'Impairment of fixed assets and goodwill'* states that an asset is impaired when its carrying amount will not be recovered from its continuing use or from its sale. An entity must determine at each reporting date whether there is any indication that an asset is impaired. If an indicator of impairment exists then the asset's recoverable amount must be determined and compared with its carrying amount to assess the amount of any impairment. Accounting for the impairment of fixed assets can be difficult as FRS 11 is a complex accounting standard. The turbulence in the markets and signs of economic downturn will cause many companies to revisit their business plans and revise financial forecasts. As a result of these changes, there may be significant impairment charges. Indicators of impairment may arise from either the external environment in which the entity operates or from within the entity's own operating environment. Thus the current economic downturn is an obvious indicator of impairment, which may cause the entity to experience significant impairment charges.

Assets should be tested for impairment at as low a level as possible, at individual asset level where possible. However, many assets do not generate cash inflows independently from other assets and such assets will usually be tested within the income-generating unit (IGU) to which the asset belongs. Cash flow projections should be based on reasonable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The discount rate used is the rate which reflects the specific risks of the asset or IGU.

The basic principle is that an asset may not be carried in the balance sheet at more than its recoverable amount. An asset's recoverable amount is the higher of:

(a) the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties, net of costs of disposal (fair value less costs to sell); and
(b) the present value of the future cash flows that are expected to be derived from the asset (value in use). The expected future cash flows include those from the asset's continued use in the business and those from its ultimate disposal. Value in use (VIU) is explicitly based on present value calculations.

This measurement basis reflects the economic decisions that a company's management team makes when assets become impaired from the viewpoint of whether the business is better off disposing of the asset or continuing to use it. The assumptions used in arriving at the recoverable amount need to be 'reasonable and supportable' regardless of whether impairment calculations are based on fair value less costs to sell or value in use. The acceptable range for such assumptions will change over time and forecasts for revenue growth and profit margins are likely to have fallen in the economic climate. The assumptions made by management should be in line with the assumptions made by industry commentators or analysts. Variances from market will need to be justified and highlighted in financial statement disclosures. Whatever method is used to calculate the recoverable amount; the value needs to be considered in the light of available market evidence. If other entities in the same sector are taking impairment charges, the absence of an impairment charge has to be justified because the market will be asking the same question. It is important to inform the market about how it is dealing with the conditions, and be thinking about how different parts of the business are affected, and the market inputs they use in impairment testing. Impairment testing should be commenced as soon as possible as an impairment test process takes a significant amount of time. It includes identifying impairment indicators, assessing or reassessing the cash flows, determining the discount rates, testing the reasonableness of the assumptions and benchmarking the assumptions with the market. Goodwill does not have to be tested for impairment at the year-end; it can be tested earlier and if any impairment indicator arises at the balance sheet date, the impairment assessment can be updated. Also it is important to comply with all disclosure requirements such as the discount rate and long-term growth rate assumptions in a discounted cash flow model and describe what the key assumptions are and what they are based on.

It is important that the cash flows being tested are consistent with the assets being tested. The forecast cash flows should make allowance for investment in working capital if the business is expected to grow. When the detailed calculations have been completed, the company should check that their conclusions make sense by comparison to any market data such as share prices and analysts reports. Market capitalisation below net asset value is an impairment indicator, and calculations of recoverable amount are required. If the market capitalisation is lower than a value-in-use calculation, then the VIU assumptions may require reassessment. For example, the cash flow projections might not be as expected by the market, and the reasons for this must be scrutinised. Discount rates should be scrutinised in order to see if they are logical. Discount rates may have risen too as risk premiums rise. Many factors affect discount rates in impairment calculations. These include corporate lending rates, cost of capital and risks associated with cash flows, which are all increasing in the current volatile environment and can potentially result in an increase of the discount rate.

(b) An asset's carrying amount may not be recovered from future business activity. Wherever indicators of impairment exist, a review for impairment should be carried out. Where impairment is identified, a write-down of the carrying value to the recoverable amount should be charged as an immediate expense in the income statement. Using a discount rate of 5%, the value in use of the non-current assets is:

Year to	**31 May 2010**	**31 May 2011**	**31 May 2012**	**31 May 2013**	**Total**
Discounted cash flows (€000)	267	408	431	452	1,558

The carrying value of the non-current assets at 31 May 2009 is €3 million – depreciation of €600,000. i.e. €2·4 million. Therefore the assets are impaired by €842,000 (€2·4m – €1·558m).

FRS 11 requires an assessment at each balance sheet date whether there is an indication that an impairment loss may have decreased. This does not apply to goodwill. FRS 11 states that increase in value in use should not be recognised if they arise from the unwinding of the discount or the occurrence of forecast cash flows. In this case, the increase in value will be due to the unwinding of the discount and the increase in the cash flows used in the calculation. Compensation received in the form of reimbursements from governmental indemnities is recorded in the profit and loss account when the compensation becomes receivable. It is treated as a separate economic event and accounted for as such. At this time the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

For a revalued asset, FRS 11 distinguishes two types of impairment. These are impairments arising from a clear consumption of economic benefits and other impairments of revalued fixed assets. The former should be recognised in the profit and loss account as it is effectively depreciation whilst other impairments should be recognised in the statement of total recognised gains and losses (STRGL) until the carrying amount reaches depreciated historical cost. Any balance of the loss is then treated as an expense in the profit and loss account. This latter category is intended to cover impairments caused by a general fall in prices such as would occur in the present economic climate experienced by the company. Thus the revaluation gain and the impairment loss would be treated as follows:

	Depreciated historical cost (€m)	**Revalued carrying value (€m)**
1 December 2006	10	10
Depreciation (2 years)	(2)	(2)
Revaluation		0·8
1 December 2008	8	8·8
Depreciation	(1)	(1·1)
Impairment loss	(1·5)	(2·2)
30 November 2009 after impairment loss	5·5	5·5

The impairment loss of €2·2 million is charged to equity until the carrying amount reaches depreciated historical cost and thereafter it goes to profit or loss. It is assumed that the company will transfer an amount from revaluation surplus to retained earnings to cover the excess depreciation of €0·1 million as allowed by company law. Therefore the impairment loss charged to STRGL would be €(0·8 – 0·1) million i.e. €0·7 million and the remainder of €1·5 million would be charged to profit or loss.

A plan by management to dispose of an asset or group of assets due to underperformance could be deemed to be an indicator of impairment. Where a decision is made to sell a subsidiary, the amounts expected to be received would provide a basis for measuring the recoverable amount of the entity. It seems that the subsidiary's assets are impaired because their carrying amount is not recoverable from the proceeds of sale. FRS 3 *'Reporting Financial Performance'* and FRS 12 *'Provisions, Contingent Liabilities and Contingent Assets'* prohibit recognition of provisions for liabilities in respect of sales or terminations of businesses until there is a binding sale contract or constructive obligation. Provisions do not include amounts written off fixed assets and both FRS 3 and FRS 12 refer to the need to review assets for impairment before any provisions are recognised. Thus an impairment loss of €5 million (€17m + €3m – €15m) should be recognised as soon as a disposal is envisaged. The impairment loss would be allocated first to write off goodwill of €3 million and then to write down the subsidiary's fixed assets by €2 million.

3 (i) The basic principle of revenue recognition is that a seller should recognise revenue when it obtains the right to consideration in exchange for performance (FRS 5 Application Note G). Revenue should be measured at the fair value of the consideration. Burley should recognise a purchase from Slite for the amount of the excess amount extracted (10,000 barrels x €100). The substance of the transaction is that Slite has sold the oil to Burley at the point of production at market value at that time. Burley should recognise all of the oil it has sold to the third parties as revenue including that purchased from Slite as the criteria above are met. The amount payable to Slite will change with movements in the oil price. The balance at the year-end is a financial liability, which should reflect the best estimate of the amount of cash payable, which at the year-end would be €1,050,000. The best estimate will be based in the price of oil on 30 November 2009. At the year end there will be an expense of €50,000 as the liability will have increased from €1 million. The amount payable will be revised after the year-end to reflect changes in the price of oil and would have amounted to €950,000. Thus giving a gain of €100,000 to profit or loss in the following accounting period.

Events after the balance sheet date are events, which could be favourable or unfavourable and occur between the end of the reporting period and the date that the financial statements are authorised for issue. [FRS 21 Para 3]

An adjusting event is an event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole part or part of the enterprise is not appropriate. A non-adjusting event is an event after the reporting period that is indicative of a condition that arose after the end of the reporting period. [FRS 21 Para 3]

Stock is required to be stated at the lower of cost and net realisable value (NRV). NRV is the estimated selling price in the ordinary course of business, less the estimated cost of completion and the estimated costs necessary to make the sale. Any write-down to NRV should be recognised as an expense in the period in which the write-down occurs. Estimates of NRV are based on the most reliable evidence available at the time the estimates are made. These estimates consider fluctuations in price directly relating to events occurring after the end of the financial period to the extent that they confirm conditions at the end of the accounting period.

Burley should calculate NRV by reference to the market price of oil at the balance sheet date. The price of oil changes frequently in response to many factors and therefore changes in the market price since the balance sheet date reflect events since that date. These represent non-adjusting events therefore the decline in the price of oil since the date of the financial statements will not be adjusted in those statements. The stock will be valued at cost of €98 per barrel as this is lower than NRV of €(105 – 2) i.e. €103 at the year-end.

Workings 1

	DR (€)	CR (€)
Purchases/Stock (10,000 x 100)	1m	
Slite – financial liability		1m
At year end		
Expense	50,000	
Slite – financial liability (10,000 x €(105 – 100))		50,000
After year end		
Slite – Financial liability (10,000 x €(105 – 95)	100,000	
Profit and loss account		100,000
Cash paid to Slite is €950,000 on 12 December 2009		

(ii) FRS 9 *'Associates and Joint Ventures'* states that a joint venture is:

An entity in which the reporting entity holds an interest on a long-term basis and is jointly controlled by the reporting entity and one or more other venturers under a contractual arrangement.

Joint control is present where none of the entities alone can control that entity but all together can do so and decisions on financial and operating policy essential to the activities, economic performance and financial position of that venture require each venturer's consent. Joint control implies that each venturer should play an active role in setting the operating and financial policies of the joint venture, at least at general strategy level. The effect of this requirement is that each venturer has a veto on high-level strategic decisions. A joint venture must be a separate entity actually carrying on a business of its own. Where this is not the case, it is a joint arrangement that is not an entity. Accounting for joint ventures in the consolidated financial statements joint ventures should be included under the gross equity method.

Thus Burley cannot use the gross equity method, as Wells is not jointly controlled. A decision can be made by gaining the approval of two thirds of the venturers and not by unanimous agreement. Two out of the three venturers can make the decision. Thus each investor must account for their interest in the entity as an associate since they have significant influence but not control. Equity accounting will be used.

One of the key differences between decommissioning costs and other costs of acquisition is the timing of costs. Decommissioning costs will not become payable until some future date. Consequently, there is likely to be uncertainty over the amount of costs that will be incurred. Management should record its best estimate of the entity's obligations.

Discounting is used to address the impact of the delayed cash flows. The amount capitalised, as part of the assets will be the amount estimated to be paid, discounted to the date of initial recognition. The related credit is recognised in provisions. The entity would record changes in the existing liability due to changes in discount rate and these changes are added to, or deducted from, the cost of the related asset in the current period.

Thus in the case of Wells, the accounting for the decommissioning is as follows.

The carrying amount of the asset will be

	€m
Carrying amount at 1 December 2008 (240 – depreciation 60 – 14·1 decrease In decommissioning costs)	165·9
Less depreciation 165·9 ÷ 30 years	(5·5)
Carrying amount at 30 November 2009	160·4
Finance cost (€32·6 million – €14·1 million) at 7%	1·3
Decommissioning liability will be (€32·6m – €14·1m)	18·5
Decommissioning liability at 30 November 2009	19·8

A 'joint arrangement' that is not an entity is defined by FRS 9 as a contractual arrangement under which the participants engage in joint activities that do not create an entity because it would not be carrying on a trade or business of its own. Thus cost sharing or risk taking arrangements are joint arrangements and the standard gives shared production facilities as an example of a joint arrangement. Thus the pipeline is an example of a joint arrangement.

FRS 9 requires that the venturer should recognise in its financial statements its share of the joint assets, liabilities and cash flows, measured according to the terms of the agreement. Therefore Burley should not show the asset as an investment but as fixed assets. Any joint liabilities or expenses incurred should be shown also.

(iii) An asset is a right or other access to future economic benefits controlled by an entity as a result of past transactions or events (*Statement of Principles*). An asset should be recognised when there is sufficient evidence that there has been a change in assets or liabilities, which can be measured with sufficient reliability.

FRS 10 *'Goodwill and Intangible assets'* defines intangible assets as 'non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights'. Separability is a key element of the definition of an intangible asset. Some intangibles are more clearly separable than others but determining where this point lies is quite subjective. Another component is control. FRS 5 defines control as the ability to obtain future economic benefits relating to an asset and to restrict the access of others to those benefits. In the context of intangible assets, FRS 10 states that control must be exercised through custody or legal rights. Thus in the case of the licence, control is exercised by legal rights that restrict the access of others.

Thus the licence can be capitalised at cost and amortised. If the exploration of the area does not lead to the discovery of oil, and activities are discontinued in the area, then an impairment test will be performed.

4 (a) (i) Financial instruments can be measured under FRS in a variety of ways. For example financial assets utilise the equity method for associates, fair value with gains and losses in earnings, fair value with gains and losses in equity until realised. Financial liabilities can also utilise different measurement methods including fair value with gains and losses in earnings and amortised cost. The measurement methods used under FRS sometimes portray an estimate of current value and others portray original cost. Some of the measurements include the effect of impairment losses, which are recognised differently under FRS. For example financial assets at fair value through profit/loss (FVTPL) recognise changes in value in earnings, whilst those classified as 'available for sale' are measured at fair value with changes in equity except for those impairments that are required to be reported in earnings.

The above can result in two identical instruments being measured differently by the same entity because management's intentions for realising the value of the instrument may determine the way it is measured (FVTPL compared to held to maturity investments). Management also has the option of valuing a financial instrument at fair value or at amortised cost ('available for sale' compared to 'loans and receivables'). Also the percentage of the ownership interest acquired will determine how the holding is accounted for (associate – equity method, subsidiary acquisition method).

The different ways in which financial instruments can be measured creates problems for preparers and users of financial statements because of the following:

(a) The criteria for deciding which instrument can be measured in a certain way are complex and difficult to apply. It is sometimes difficult to determine whether an instrument is equity or a liability and the criteria can be applied in different ways as new types of instruments are created.
(b) Management can choose how to account for an instrument or can be forced into a treatment that they would have preferred to avoid. For example if there is no proper documentation of the risk management or investment strategy then the FVTPL category may not be available for use and the default category of 'available for sale' may have to be utilised.
(c) Different gains or losses resulting from different measurement methods may be combined in the same line item in the profit and loss account.
(d) It is not always apparent which measurement principle has been applied to which instrument and what the implications are of the difference. Comparability is affected and the interpretation of financial statements is difficult and time consuming.

(ii) There are several approaches that can be taken to solve the measurement and related problems. There is pressure to develop standards, which are principle-based and less complex. A long-term solution is to measure all financial instruments using a single measurement principle thus making reported information easier to understand and allowing comparisons between entities and periods. If fair value was used for all types of financial instrument then:

(a) There would be no need to 'classify' financial instruments
(b) There would be no requirement to report how impairment losses have been quantified.
(c) There would be no need for rules as regards transfers between measurement categories
(d) There would be no measurement mismatches between financial instruments and the need for fair value hedge accounting would be reduced
(e) Identification and separation of embedded derivatives would not be required (this may be required for non-financial instruments)
(f) A single measurement method would eliminate the confusion about which method was being used for different types of financial instruments

(g) Entities with comparable credit ratings and obligations will report liabilities at comparable amounts even if borrowings occurred at different times at different interest rates. The reverse is true also. Different credit ratings and obligations will result in the reporting of different liabilities

(h) Fair value would better reflect the cash flows that would be paid if liabilities were transferred at the re-measurement date

Fair value would result in an entity reporting the same measure for security payment obligations with identical cash flow amounts and timing. At present different amounts are likely to be reported if the two obligations were incurred at different times if market interest rates change.

There is uncertainty inherent in all estimates and fair value measurements, and there is the risk that financial statements will be seen as more arbitrary with fair value because management has even more ability to affect the financial statements. Accountants need to be trained to recognise biases with respect to accounting estimates and fair value measurements so they can advise entities. It is important to demonstrate consistency in how an entity has applied the fair value principles and developed valuations to ensure credibility with investors, lenders and auditors. Although entities may select which assets and liabilities they wish to value under FRS 26, outside parties will be looking for consistency in how the standard was applied. Circumstances and market conditions change. Markets may become illiquid and the predicative models may not provide an ongoing advantage for the entity.

(b) Using amortised cost, both financial liabilities will result in single payments, which are almost identical at the same point in time in the future (€59·9 million). (€47m x 1·05 for 5 years and €45m x 1·074 for 4 years). However, the carrying amounts at 30 November 2009 would be different. The initial loan would be carried at €47 million plus interest of €2·35 million, i.e. €49·35 million, whilst the new loan would be carried at €45 million even though the obligation at 30 November 2013 would be approximately the same. If the two loans were carried at fair value, then the initial loan would be carried at €45 million thus showing a net profit of €2 million (interest expense of €2·35 million and unrealised gain of €4·35 million).

			Marks
1	**(a)**	Fair value of consideration	1
		Fair value of residual interest	1
		Gain reported in comprehensive income	1
		Net assets	1
		Goodwill	2
			6
	(b)	Fixed assets	6
		Investment property	2
		Goodwill	3
		Profit and loss reserve	8
		Other reserves	5
		Minority interest	2
		Creditors	1
		Provisions for liabilities	3
		Intangible assets	2
		Current assets	1
		Investment in Associate	2
			35
	(c)	Subjective up to	7
		Professional marks	2
			50
2	**(a)**	Impairment process	4
		General considerations	4
		Professional marks	2
	(b)	Fixed asset at cost	6
		Fixed asset at valuation	6
		Subsidiary intention to dispose	3
			25
3		Revenue recognition	4
		Stock	3
		Events after reporting period	2
		Joint venture	3
		Accounting for entity	2
		Decommissioning	5
		Asset definition FRS 10/FRS 5	4
		Professional marks	2
			25
4	**(a)**	**(i)** 1 mark per point up to maximum	9
		(ii) 1 mark per point up to maximum	9
		Professional marks	2
	(b)	Identical payment	2
		Carrying amount	1
		Fair value	2
			25