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# Answers

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		<i>Marks</i>
<b>1 (a)</b>	<b>Consolidated balance sheet of Alpha at 30 September 2007 (all numbers in \$'000 unless otherwise stated)</b>	
<b>Assets</b>		
Non-current assets:		
Property, plant and equipment (132,000 + 100,000 + 90,000 + (9,910 + 4,500 (W1)) – 300 (W5))	336,110	$\frac{1}{2} + \frac{1}{2} + 1$ (W5)
Goodwill (W2)	<u>15,575</u>	6 (W2)
	<u>351,685</u>	
Current assets:		
Inventories (40,000 + 34,000 + 32,000 – 8,000 (W5))	98,000	1 + 1 (W5)
Trade receivables (40,000 + 32,000 + 30,000 – (6,000 + 5,000 (intra-group)))	91,000	$\frac{1}{2} + \frac{1}{2}$
Financial assets (10,000 – 500 (W4))	9,500	1
Cash and cash equivalents (9,000 + 11,000 + 8,000)	<u>28,000</u>	$\frac{1}{2}$
	<u>226,500</u>	
Total assets	<u><u>578,185</u></u>	
<b>Equity and Liabilities</b>		
Equity attributable to equity holders of the parent		
Share capital	100,000	1
Retained earnings (W4)	<u>169,041</u>	$4\frac{1}{2}$ (W4)
	269,041	
Minority interest (W3)	<u>54,542</u>	$4\frac{1}{2}$ (W3)
Total equity	<u>323,583</u>	
Non-current liabilities:		
Long-term borrowings (60,000 + 30,000 + 25,000)	115,000	$\frac{1}{2}$
Deferred tax (30,000 + 12,000 + 10,000 + 3,602 (W6))	<u>55,602</u>	1 + 2 (W6)
Total non-current liabilities	<u>170,602</u>	
Current liabilities:		
Trade and other payables (35,000 + 20,000 + 20,000 – (6,000 + 5,000 (intra-group)))	64,000	$\frac{1}{2} + \frac{1}{2}$
Short-term borrowings (7,000 + 7,000 + 6,000)	<u>20,000</u>	$\frac{1}{2}$
Total current liabilities	<u>84,000</u>	
Total equity and liabilities	<u><u>578,185</u></u>	<u><math>27\frac{1}{2}</math></u>
	<b>Maximum</b>	<b>25</b>

Workings – unless stated all figures in \$'000

DO NOT DOUBLE COUNT

Working 1 – Net assets table – Gamma:

	Acquisition date	Balance sheet date	
Share capital	70,000	70,000	$\frac{1}{2}$
Retained earnings:			
Per accounts of Gamma (29,000 – 6/12 x 8,000)	25,000	29,000	$1 + \frac{1}{2}$
Property adjustment – see below	10,000	9,910	$\frac{1}{2} + 1$
Plant and equipment adjustment – see below	5,000	4,500	$\frac{1}{2} + 1$
Inventories adjustment	2,000	nil	$\frac{1}{2} + \frac{1}{2}$
Deferred tax on temporary differences (W6)	<u>(4,250)</u>	<u>(3,602)</u>	$\frac{1}{2}$
Net assets for the consolidation	<u>107,750</u>	<u>109,808</u>	
	$3\frac{1}{2} \rightarrow W2$	3 $\rightarrow$ W3	

The post-acquisition profits are 2,058 (109,808 – 107,750).

1  $\rightarrow$  W4

**Note re: post-acquisition depreciation adjustments:**

- For the property this is 90 ((15,000 x 1/30 x 6/12) – (320 x 6/12)). This makes the closing adjustment 9,910 (10,000 – 90).
- For the plant and equipment this is 500 (5,000 x 1/5 x 6/12). This makes the closing adjustment 4,500 (5,000 – 500).

**Marks**

**Working 2 – Goodwill on consolidation**

Alpha has owned 80% of the equity shares of Beta since incorporation. This gives Alpha control over the operating and financial policies of Beta. Therefore under the provisions of IAS 27 – *Consolidated and Separate Financial Statements* – Alpha will consolidate Beta as a subsidiary. The cost of this investment is 48,000. Because the shares have been owned since incorporation, there will be no goodwill or pre-acquisition reserves.

1

Alpha owns 70% of the equity shares of Gamma. The purchase was made on 1 April 2007 and Gamma will be a subsidiary from this date. The cost of investment is 91,000.

Cost of investment	91,000	1/2
70% of net assets at 1 April 2007 (107,750 (W1))	(75,425)	1/2+3 1/2 (W1)
So goodwill equals	<u>15,575</u>	1/2

**Working 3 – Minority interest:**

Beta – 20% x 108,000	21,600	1
Gamma – 30% x 109,808 (W1)	32,942	1/2+3 (W1)
	<u>54,542</u>	

**Working 4 – Retained earnings**

Alpha – per own financial statements	138,000	1/2
Revaluation of financial assets at fair value through profit and loss	(500)	1
Beta (80% x 48,000)	38,400	1
Gamma (70% x 2,058 (W1))	1,441	1/2+1 (W1)
Unrealised profits (300 + 8,000 (W5))	(8,300)	1/2
	<u>169,041</u>	

**Working 5 – Unrealised profits**

On PPE ((4,400 – 4,000) x 3/4)	<u>300</u>	1
On inventory:		
Sales to Beta (25/125 x 25,000)	5,000	1/2
Sales to Gamma (25/125 x 15,000)	3,000	1/2
	<u>8,000</u>	

**Working 6 – Deferred tax on temporary differences:**

**Fair value adjustments:**

	Acquisition date	Balance sheet date	
Property adjustment	10,000	9,910	
Plant and equipment adjustment	5,000	4,500	
Inventories adjustment	2,000	nil	
	<u>17,000</u>	<u>14,410</u>	1
Net taxable temporary differences			
Related deferred tax (25%)	<u>4,250</u>	<u>3,602</u>	1

**2 (a) Income statement of Delta for the year ended 30 September 2007**

	\$'000	
Revenue (W1)	317,500	1 (W1)
Cost of sales (W3)	(212,965)	5 (W3)
Gross profit	104,535	
Distribution costs	(15,000)	1/2
Administrative expenses	(25,000)	1/2
Finance costs (W4)	(12,032)	1 (W4)
Profit before tax	52,503	
Income tax expense (W6)	(11,900)	1 1/2 (W6)
Profit for the period	<u>40,603</u>	
	Available	<u>9 1/2</u>
	<b>Maximum</b>	<b>9</b>

**Marks**

**(b) Statement of changes in equity of Delta for the year ended 30 September 2007**

	Share capital \$'000	Revaluation reserve \$'000	Retained earnings \$'000	Total \$'000	
Balance at 30 September 2006	100,000	Nil	45,000	145,000	1
Gain on property revaluation (W7)		22,500		22,500	1 (W7)
Transfer of realised profits (W8)		(1,080)	1,440	360	2½ (W8)
Profit for the period			40,603	40,603	½
Dividend paid			(25,000)	(25,000)	½
Balance at 30 September 2007	<u>100,000</u>	<u>21,420</u>	<u>62,043</u>	<u>183,463</u>	
				Available	5½
				<b>Maximum</b>	<b>5</b>

**(c) Balance sheet of Delta as at 30 September 2007**

	\$'000	
<b>Assets</b>		
Non-current assets		
Property, plant and equipment (W9)	<u>153,935</u>	2½ (W9)
Current assets		
Inventories (W3)	61,000	½
Trade receivables (125,000 – 7,500 (W1))	117,500	½
Cash and cash equivalents	<u>54,500</u>	½
	<u>233,000</u>	
Total assets	<u><u>386,935</u></u>	
<b>Equity and Liabilities</b>		
Equity		
Share capital	100,000	
Revaluation reserve	21,420	
Retained earnings	<u>62,043</u>	
Total equity	<u>183,463</u>	1
Non-current liabilities		
Long-term borrowings (W10)	118,932	2½ (W10)
Deferred tax (W11)	<u>14,540</u>	2 (W11)
Total non-current liabilities	<u>133,472</u>	
Current liabilities		
Trade and other payables (W12)	<u>70,000</u>	3 (W12)
Total current liabilities	<u>70,000</u>	
Total equity and liabilities	<u><u>386,935</u></u>	
	Available	12½
	<b>Maximum</b>	<b>11</b>

**Workings – all numbers in \$'000 unless otherwise stated: note references refer back to the question**

**Working 1 – Revenue**

Under the principles of IAS 18 – *Revenue* – where goods are supplied on a sale or return basis then the sales value of returns should be excluded from revenue and taken back into inventory where there is uncertainty about the possibility of return. In this case we know that 50% of the goods have been returned by 30 November 2007 and there is uncertainty as to the level of future returns.

Therefore the total amount recognised as revenue (7,500 (6,000 x 100/80)) should be removed from revenue and receivables. Therefore the total revenue for the year should be 317,500 (325,000 – 7,500). 1

The cost of the goods supplied (6,000) should be added back to inventory and taken off cost of sales. 1→W3

		<b>Marks</b>				
<b>Working 2 – Depreciation</b>						
Property 56,000 x 1/25	2,240	1/2→W3				
Purchased plant (80,000 x 1/5)	<u>16,000</u>	1/2→W3				
	18,240					
Leased plant (22,900 (W5) x 1/4)	<u>5,725</u>	1→W3				
Total	<u>23,965</u>					
<b>Working 3 – Cost of sales</b>						
Opening inventories	50,000	1/2				
Purchases	160,000	1/2				
Production costs	40,000	1/2				
Closing inventories (55,000 + 6,000 (W1))	(61,000)	1/2+1(W1)				
Depreciation – purchased assets (W2)	18,240	1 (W2)				
Depreciation – leased assets (W2)	<u>5,725</u>	1 (W2)				
To income statement	<u>212,965</u>					
<b>Working 4 – Borrowing costs</b>						
The total finance costs are 12,032 (11,000 + 1,032 (W5))		1				
<b>Working 5 – Suspense account/leased asset</b>						
The loan profile is as follows:						
<b>Year to</b>	<b>Opening</b>	<b>Payment</b>	<b>Balance in</b>	<b>Finance</b>	<b>Closing</b>	
<b>30 September</b>	<b>Balance</b>		<b>Period</b>	<b>Charge</b>	<b>Balance</b>	
2007	22,900	(10,000)	12,900	1,032	13,932	2→W10
2008	13,932	(5,000)	8,932	715	9,647	
Of the closing liability of 13,932, 5,000 is current and 8,932 non-current.						2→W12
<b>Working 6 – Tax charge</b>						
This year's estimate				10,000		1/2
Last year's overprovision				(500)		1/2
Transfer to deferred tax				<u>2,400</u>		1/2
				11,900		
<b>Working 7 – Initial revaluation surplus</b>						
Carrying value before revaluation				60,000		
Carrying value after revaluation				<u>90,000</u>		
So revaluation surplus before tax				30,000		1/2
Deferred tax at 25%				<u>(7,500)</u>		1/2
Net surplus				<u>22,500</u>		
<b>Working 8 – Excess depreciation</b>						
The actual depreciation charged in the period was 2,240 (W2).						1/2
The depreciation based on historical cost is 800 (40,000 x 1/50).						1/2
So the excess depreciation is 1,440 (2,240 – 800).						1/2
The accounting entry credits retained earnings with 1,440, debits the revaluation reserve with 1,080 (1,440 x 75%) and debits deferred tax with 360.						1
<b>Working 9 – Property, plant and equipment</b>						
As per trial balance:						
Cost				160,000		1/2
Accumulated depreciation				(35,000)		1/2
Leased asset (note 5)				22,900		1/2
Depreciation (W2)				(23,965)		1/2
Revaluation (W7)				<u>30,000</u>		1/2
				153,935		

		<b>Marks</b>
<b>Working 10 – Long-term borrowings</b>		
As per trial balance	110,000	1/2
Non-current portion of lease liability (W5)	8,932	2 (W5)
	118,932	
<b>Working 11 – Deferred tax</b>		
As per trial balance	5,000	1/2
Income statement charge	2,400	1/2
On revaluation (W7)	7,500	1/2
Reduction for excess depreciation (W8)	(360)	1/2
	14,540	
<b>Working 12 – Trade and other payables</b>		
Trade payables	55,000	1/2
Income tax liability	10,000	1/2
Current portion of lease liability (W5)	5,000	2 (W5)
	70,000	

### 3 Transaction (a)

Accounting for this contract is governed by IAS 11 – *construction contracts*. The treatment does not comply with IAS 11. Firstly the assistant has effectively computed the total contract revenue at \$35 million (\$50 million – \$15 million). IAS 11 defines contract revenue as *the initial amount of revenue agreed in the contract and variations, claims etc to the extent that it is probable they will affect revenue*. Based on the probabilities given it is likely that the contract revenue will be \$50 million and this is the amount that should be used to assess the contract.

IAS 11 states that any contingencies affecting the contract are disclosed in accordance with IAS 37 – *provisions, contingent liabilities and contingent assets*. Therefore in this case:

The potential penalty of \$15 million would be disclosed as a contingent liability.

The potential bonus of \$5 million would not be disclosed as it is a contingent asset.

Secondly it is incorrect to defer recognition of contract revenue until completion. IAS 11 states that where the outcome of the contract can be reliably estimated revenue should be recognised to the extent of the percentage completion of the contract at the balance sheet date (45% in this case). This amount (45% x \$50 million = \$22.5 million) should be included in revenue and 45% of the total expected contract costs of \$40 million (\$28 million + \$12 million) should be charged to the income statement as cost of sales. Therefore \$18 million (45% x \$40 million) would be charged in this case and a net amount of \$4.5 million (\$22.5 million – \$18 million) included in the income statement.

The balance sheet would show a net amount in amounts due from customers of (\$28 million + \$4.5 million – \$10 million) = \$22.5 million.

### Transaction (b)

Accounting for government grants is dealt with by IAS 20 – *accounting for government grants and disclosure of government assistance*. The basic principle of IAS 20 is that grants should be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

Where the grant relates to an asset IAS 20 allows two methods of presentation in the balance sheet. The first method sets up the grant as deferred income and then credits the grant to income over the life of the asset. In this case this would mean recognising \$400,000 (\$12 million x 1/30) as a credit to the income statement in the current year with the balance of \$11.6 million (\$12 million – \$400,000) shown in the balance sheet as a liability. \$400,000 of this amount would be shown as a current liability with the balance of \$11.2 million shown as a non-current liability.

The second permitted method deducts the grant from the cost of the asset, showing in this case a reduced cost of \$48 million (\$60 million – \$12 million). This would result in a reduced depreciation charge of \$1.6 million, giving the same net result in the income statement under both methods.

The same principle applies to the grant related to the employment of staff. The grant is probably not going to be repaid so delaying recognition is inappropriate. Unless the likelihood of repayment is remote then it would be appropriate to disclose the possible repayment as a contingent liability. \$1.6 million (\$8 million x 1/5) of the

employment grant should be recognised in the income statement for the current year. IAS 20 allows this amount either to be shown as 'other income' or as a reduction in the relevant expense. The unrecognised balance of \$6.4 million (\$8 million – \$1.6 million) would be shown as deferred income, with \$1.6 million shown as a current liability and \$4.8 million as a non-current liability.

#### Transaction (c)

It is incorrect to show the recoverable sales taxes as part of the cost of property, plant and equipment. IAS 16 – *property, plant and equipment* – states that only irrecoverable sales taxes should be treated in this way. Recoverable sales taxes may well have been recovered by the balance sheet date, either by repayment or by deduction from an amount payable to the tax authorities. If they have not been recovered by the year end they should be included as a receivable or as a deduction from a payable as appropriate.

It is also incorrect to make a provision of \$360,000 in respect of the future overhaul. IAS 37 – *provisions, contingent liabilities and contingent assets* – states that a provision is only appropriate where there is an obligation to incur the expenditure at the balance sheet date. In this case, the expenditure could be avoided by withdrawing the aircraft from service. IAS 16 states that the correct treatment of this issue is to regard the future overhaul as part of the expected cost of gaining access to the economic benefits from the aircraft. Therefore the cost is regarded as a separate component of property, plant and equipment for depreciation purposes. This means that the depreciation charged in the current period is in two parts:

- \$360,000 (\$1.8 million x 1/5) relating to the 'overhaul component'.
- \$880,000 ((\$15 million – \$1.8 million) x 1/15) relating to the balance.

Therefore \$1,240,000 (\$360,000 + \$880,000) will be charged to the income statement in the form of depreciation and \$13,760,000 (\$15 million – \$1,240,000) shown in the balance sheet as property, plant and equipment.

4 (a) (i) IAS 32 defines a financial instrument as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A **financial asset** is any asset that is:

- Cash.
- An equity instrument of another entity.
- A contractual right to receive cash or another financial asset from another entity.
- A contractual right to exchange financial assets or financial liabilities under conditions that are potentially favourable.

A **financial liability** is any contract that is:

- A contractual obligation to deliver cash or another financial asset to another entity.
- A contractual obligation to exchange financial assets or financial liabilities under conditions that are potentially unfavourable.

An **equity instrument** is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

- (ii) 1 A portfolio of investments that is held for trading would be presented as a financial asset under current assets.
- 2 An investment in the shares of a supplier that is held for the long term would be presented as a financial asset under non-current assets.
- 3 A loan that is repayable over five years in equal instalments would be presented as a financial liability. The amount repayable within one year of the balance sheet date would be presented in current liabilities, with the remainder in non-current liabilities.
- 4 Preference shares that carry a fixed rate of dividend and is redeemable at the option of the investor would be presented as a non-current liability, in accordance with their substance.

(iii) The basis of measurement of financial instruments is stated in IAS 39. The basis depends on the category of financial instruments. IAS 39 divides **financial assets** into four categories:

- Financial instruments at *fair value through profit and loss* are those that are classified as held for trading or alternatively designated as such by the entity at the date of their initial recognition. Such financial instruments are measured at fair value, with changes being recognised in the income statement.
- *Held to maturity* financial assets are those that have fixed or determinable payments and fixed maturity attaching to them that the investor has the positive intent and ability to hold to maturity. Such assets are measured at amortised cost rather than fair value. This method takes the effective rate of interest and applies it to the carrying value so as to render the carrying value at the date of redemption equal to the final redemption amount.

- *Loans and receivables* are unquoted financial assets with fixed or determinable payments. These assets are measured using amortised cost.
- *Available for sale* financial assets are any assets not classified under any of the other headings. They are measured at fair value, with changes being taken to the statement of changes in equity. When the asset is sold the cumulative fair value changes are recycled through the income statement.

**Financial liabilities** are in two categories:

- Financial liabilities at *fair value through profit and loss* are defined and treated in the same way as financial assets. However IAS 39 restricts the ability of entities to use this classification for financial liabilities.
- All other financial liabilities are measured at amortised cost.

**(b) Extracts from financial statements for year ended 30 September 2007 – NB all numbers in \$'000s**

**Extract from the balance sheet:**

Non-current liabilities:  
Financial liability (W3) 5,993 1

**Equity:**

Option to acquire shares 443 1

**Extract from the income statement:**

Finance cost 556 1

**Working 1 – split of financial instrument:**

Under IAS 32 the initial carrying value of the financial liability is the present value of the future cash outflows that would occur if the loan is repaid, discounted at 10%. This is 5,557 ( $120/(1 \cdot 10) + 120/(1 \cdot 10^2) + 7,120/(1 \cdot 10^3)$ ) and the equity element is 443 (6,000 – 5,557). The financial liability is not held for trading and so is measured using amortised cost. 3

**Working 2 – finance cost for the year to 30 September 2007**

$10\% \times 5,557 = 556.$  1

**Working 3 – closing loan amount:**

$5,557 \times 1.1 - 2\% \times 6,000 = 5,993.$  1

5

NB: unless indicated all numbers are in \$'000s

**Transaction (a)**

**Cost of investment**

Market value of shares issued (150 million x 4/3 x \$10)	2,000,000	1½
Initial estimate of market value of shares to be issued (150 million x 1/5 x \$10)	300,000	2
Subsequent adjustment to contingent consideration (30 million x (\$11 – \$10))	30,000	1
Incremental acquisition costs other than the issue cost of shares	1,000	1½
Total	<u>2,331,000</u>	

**Comments – all refer to IFRS 3 – *Business combinations***

Shares issued are recorded at their market value at the date of issue.

Contingent consideration is recognised in full if payment is probable.

Where material, future consideration is measured at the present value of the amount payable. In the case of shares to be issued, this is represented by the share price. Where the estimated value of contingent consideration changes then this is recorded as an adjustment to goodwill.

Incremental costs associated with the acquisition, other than the issue costs of financial instruments, can be included in the cost of the investment.



**Marks**

<b>Fair value of identifiable net assets at the date of acquisition</b>		
As per Sigma's balance sheet	1,200,000	1/2
Fair value of customer relationships	100,000	1 1/2
Fair value of research and development project	50,000	1 1/2
Total	<u>1,350,000</u>	

**Comments**

Under IAS 38 – *Intangible assets* – intangible assets can be recognised separately from goodwill provided they are identifiable, are under the control of the acquiring entity, and their fair value can be measured reliably.

Customer relationships that are similar in nature to those previously traded pass these tests but employee relationships fail the 'control' test. Both the research and development phases of an in process project can be capitalised provided their fair value can be measured reliably.

**Calculation of goodwill**

Fair value of consideration given	2,331,000	1/2
Fair value of net assets acquired	(1,350,000)	1/2
So goodwill on acquisition equals	<u>981,000</u>	

**Comments**

Under IFRS 3 goodwill is not written down unless impairment is evident.

**Transaction (b)**

**Extracts from the income statement**

Operating costs – charge (W1)	3,167	1/2
Deferred tax – credit (W2)	(1,146)	1/2

**Extracts from the balance sheet**

Non-current assets – deferred tax (W2)	1,500	1
equity (W1)	(6,000)	1

**Working 1 – operating costs**

Cumulative charge to equity at year end (900 x 5,000 x \$2 x 2/3)	6,000	1 1/2
Amount charged last year (850 x 5,000 x \$2 x 1/3)	(2,833)	1 1/2
So this year's charge equals	<u>3,167</u>	

**Working 2 – deferred tax**

Deferred tax asset at end of period (900 x 5,000 x 2/3 x (\$11 – \$9) x 25%)	1,500	1 1/2
Deferred tax asset at start of period (850 x 5,000 x 1/3 x (\$10 – \$9) x 25%)	(354)	1 1/2
So this year's charge equals	<u>1,146</u>	

**Comments – all refer to IFRS 2 – *Share-based payment***

The charge to income is based on the expected number of options that will vest, using the market value of a share option at the grant date as a measurement basis. The charge is spread over the vesting period.

The credit side of this entry is to equity. IFRS 2 does not state which component of equity should be credited so it would appear acceptable to credit retained earnings. Where future tax deductions are available then IAS 12 – *Income taxes* – states that a deductible temporary difference is created. The potential tax deduction should be measured based on the intrinsic value of the share option at the relevant accounting date.

**Transaction (c) – comments based on IFRS 5 – *Non-current assets held for sale and discontinued operations***

On 31 July 2007 it appears that Theta will be regarded as a subsidiary that is held for sale. This is because its carrying value will be recovered principally through sale and a buyer is being actively sought.

From 31 July 2007 the assets and liabilities of Theta will be separately presented on the consolidated balance sheet at the lower of their current carrying values and their fair value less costs to sell. In this case this is \$170 million. No further depreciation of assets of Theta will be charged in the consolidated financial statements.

An impairment loss of \$30 million (\$200 million – \$170 million) needs to be recognised and this is done in accordance with IAS 36 – *Impairment of assets*. Therefore the impairment is allocated to goodwill, which has a new carrying value of \$10 million (\$40 million – \$30 million). Therefore \$270 million (\$260 million + \$10 million) will be shown under assets held for sale and \$100 million under liabilities directly associated with assets held for sale.

It would further appear that Theta would be regarded as a discontinued operation under IFRS 5. This means that the line items in the income statement would not include relevant amounts for Theta. What will be shown is any post-tax profit or loss for the period and the impairment of goodwill of \$30 million. More detailed disclosure of the results of Theta would be shown on the face of the income statement or in the notes.

		<i>Marks</i>
<b>1</b>	PPE	2
	Goodwill	6
	Inventories	2
	Other current assets	2 <sup>1</sup> / <sub>2</sub>
	Share capital	1
	Retained earnings	4 <sup>1</sup> / <sub>2</sub>
	Minority interest	4 <sup>1</sup> / <sub>2</sub>
	Non-current liabilities	3 <sup>1</sup> / <sub>2</sub>
	Current liabilities	1 <sup>1</sup> / <sub>2</sub>
	Total	<u>27<sup>1</sup>/<sub>2</sub></u>
	<b>Maximum</b>	<b><u>25</u></b>
<b>2</b>	<b>(a)</b> Revenue	1
	Cost of sales	5
	Other operating expenses	1
	Finance costs	1
	Income tax expense	1 <sup>1</sup> / <sub>2</sub>
	Total	<u>9<sup>1</sup>/<sub>2</sub></u>
	<b>Maximum</b>	<b><u>9</u></b>
	<b>(b)</b> Opening balances	1
	Revaluation gain	1
	Transfer of realised profits	2 <sup>1</sup> / <sub>2</sub>
	Profits and dividends	1
	Total	<u>5<sup>1</sup>/<sub>2</sub></u>
	<b>Maximum</b>	<b><u>5</u></b>
	<b>(c)</b> PPE	2 <sup>1</sup> / <sub>2</sub>
	Current assets	1 <sup>1</sup> / <sub>2</sub>
	Equity	1
	Long term borrowings	2 <sup>1</sup> / <sub>2</sub>
	Deferred tax	2
	Current liabilities	3
	Total	<u>12<sup>1</sup>/<sub>2</sub></u>
	<b>Maximum</b>	<b><u>11</u></b>

		<i>Marks</i>	
<b>3</b>	<b>(a)</b>	Discuss measurement of revenue	2
		Discuss treatment of contingencies	2
		Identify income statement amounts	3
		Identify balance sheet amounts	2
		Total	<u>9</u>
		<b>Maximum</b>	<b><u>8</u></b>
	<b>(b)</b>	Identify IAS 20 issue	2
		Discuss alternative treatments available under IAS20	3
		Compute relevant amounts re: grant for asset	2
		Compute relevant amounts re: grant for employment	4
Total		<u>11</u>	
	<b>Maximum</b>	<b><u>10</u></b>	
<b>(c)</b>	Discussion of recoverable sales taxes	2	
	Discussion of overhaul	4	
	Summary of amounts included in financial statements	2	
	Total	<u>8</u>	
		<b>Maximum</b>	<b><u>7</u></b>
<b>4</b>	<b>(a) (i)</b>	Define financial asset	2
		Define financial liability	2
		Define equity instrument	1
		Total	<u>5</u>
			<b>Maximum</b>
	<b>(ii)</b>	1 Portfolio	1
		2 Supplier	1
		3 Loan	2
		4 Preference share	2
		Total	<u>6</u>
		<b>Maximum</b>	<b><u>5</u></b>
	<b>(iii)</b>	Assets at FVPL	2
		HTM assets	2
		LR assets	1
		AFS assets	2
		Liabilities	3
		Total	<u>10</u>
		<b>Maximum</b>	<b><u>9</u></b>
	<b>(b)</b>	Working 1	3
		Workings 2/3 – 1 each	2
Extracts from financial statements		3	
Total		<u>8</u>	
		<b>Maximum</b>	<b><u>7</u></b>

	<b>Marks</b>
<b>5 (a)</b> Compute cost of investment	6
Compute fair value of net assets	3 <sup>1</sup> / <sub>2</sub>
So compute goodwill	1
Total	<u>10<sup>1</sup>/<sub>2</sub></u>
<b>Maximum</b>	<b>10</b>
<b>(b)</b> Computation of operating costs	3
Computation of deferred tax	3
So present relevant financial statement extracts	3
Total	<u>9</u>
<b>Maximum</b>	<b>7</b>
<b>(c)</b> Explain held for sale	2
So identify appropriate balance sheet presentation	2
Compute impairment loss and explain treatment	3
Discuss discontinued operation issue	2
Total	<u>9</u>
<b>Maximum</b>	<b>8</b>