Answers

1 (a) The functional currency is the currency of the primary economic environment in which the entity operates (FRS23). The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity's management considers the following factors in determining its functional currency (FRS23):

(i) the currency that dominates the determination of the sales prices; and
(ii) the currency that most influences operating costs

The currency that dominates the determination of sales prices will normally be the currency in which the sales prices for goods and services are denominated and settled. It will also normally be the currency of the country whose competitive forces and regulations have the greatest impact on sales prices. In this case it would appear that currency is the dinar as Zian sells its products locally and the prices are determined by local competition. However, the currency that most influences operating costs is in fact the pound sterling, as Zian imports goods which are paid for in pounds although all selling and operating expenses are paid in dinars. The emphasis is, however, on the currency of the economy that determines the pricing of transactions, as opposed to the currency in which transactions are denominated.

Factors other than the dominant currency for sales prices and operating costs are also considered when identifying the functional currency. The currency in which an entity's finances are denominated is also considered. Zian has partly financed its operations by raising a £4 million loan from Hall but it is not dependent upon group companies for finance. The focus is on the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are retained.

Additional factors include consideration of the autonomy of a foreign operation from the reporting entity and the level of transactions between the two. Zian operates with a considerable degree of autonomy both financially and in terms of its management. Consideration is given to whether the foreign operation generates sufficient functional cash flows to meet its cash needs which in this case Zian does as it does not depend on the group for finance.

It would be said that the above indicators give a mixed view but the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions is the dinar, as it most affects sales prices and is most relevant to the financing of an entity. The degree of autonomy and independence provides additional supporting evidence in determining the entity's functional currency.

(b) Consolidated Balance Sheet of Ribby Group at 31 May 2008

	£m
Fixed Assets	
Tangible assets	415
Goodwill	17
Financial assets	23
	455
Current assets	51
Creditors: amounts falling due within one year	(143)
Net current liabilities	(92)
Total assets less current liabilities	363
Creditors: amounts falling due more than one year	(89)
Net assets	274
Ordinary shares	60
Other reserves	32
Profit and loss reserve	122
Total shareholders' funds	214
Minority interests	60
Capital employed	274

Workings

(i) Zian – translation of balance sheet and calculation of goodwill

	Dinars m	Exchange loss on loan	Fair value adjustment	Rate	£m
Tangible assets	360		66	12	35·5
Financial assets	148			12	12·3
Current assets	120			12	10
Current liabilities	(72)			12	(6)
Long term liabilities	(48)	(8)		12	(4·7)
	508				47·1
Ordinary shares	209			11	19
Other reserves			66	11	6
Retained – pre-acquisition	220			11	20
					45
Retained – post acquisition	79	(8)			2·1 (balance)
	508				47·1

Loans between subsidiaries cannot be treated as part of the holding company's net investment in a foreign subsidiary (FRS23). Zian will recognise an exchange difference on the loan from Hall in its profit and loss account and the exchange difference will flow through to the consolidated profit and loss account and will not be reclassified as a separate component of equity.

	Dinars m
Loan at 1 June 2007 £4 million at 10 dinars	40
Loan at 31 May 2008 £4 million at 12 dinars	48
Exchange loss	8

The loan of £4 million should be eliminated on consolidation.

The fair value adjustment at acquisition is:

	Dinars m
Ordinary shares	209
Profit and loss reserve	220
Fair value adjustment	66
Fair value of net assets	495

Goodwill

	Dm	Rate	£m
Cost of acquisition	330	11	30
less net assets acquired (60% of 495)	(297)	11	(27)
Goodwill	33		3

Goodwill is treated as a foreign currency asset which is retranslated at the closing rate. Therefore, goodwill at 31 May 2008 will be 33 million dinars ÷ 12, i.e. £2·8 million

Therefore, an exchange loss of £0·2 million will be recorded in consolidated reserves.

(ii) Consolidated Balance Sheet at 31 May 2008

	Ribby £m	Hall £m	Zian £m	Adjustment £m	Total £m
Tangible assets	250	120	35·5	(0·8)	414·7
				10	
Goodwill		14	3	(0·2)	16·8
Financial assets	10	5	12·3	(4)	23·3
Current assets	22	17	10	(4)	51
				6	
Current liabilities	110	7	6	3	(143)
				11	
				6	
Long-term liabilities	90	5	4·7	1	
				(4)	
				3·5	
				(11)	(89·2)
					273·6
Ordinary shares	60				60
Other reserves	30			1·8	31·8
Profit/loss reserve	120	11·2	1·3	(0·2)	
				(0·8)	
				(4·8)	
				(3·5)	
				(1)	122·2
Minority interest					59·6
					273·6

Profit and loss reserve of Zian is 60% of £2.1 million, i.e. £1·3 million

(iii) Minority Interest

		£m	£m
Zian: 40% of £(45 + 2·1)million			18·8
Hall: 30% of	total equity	130	
	Revaluation	10	
	Profit adjustment – stock	(4)	
		136	
			40·8
			59·6

(iv) Building: Ribby

	£m
Carrying value at 31 May 2008	3·8
(40 million dinars ÷ 10 = £4 million)	
(Depreciation £0·2 million)	
Value after impairment (36 million dinars ÷ 12)	(3)
Impairment loss	0·8

(v) Early repayment of loan

As the company has entered into an agreement to repay the debt early plus a penalty, it should adjust the carrying value of the financial liability to reflect actual and revised estimated cash flows (FRS26). Therefore, the carrying amount of the debt should be increased by £1 million and be transferred to current liabilities.

(vi) Past service cost

A past service cost of £3 million should be recognised immediately as those benefits have already vested and should be charged as an expense. The remaining £1 million should be recognised on a straight line basis over the two year period that it takes to vest. The pension entitlement has not yet vested fully as it is given in return for services over the remaining two year period. Thus the following entries will be required to account for the past service costs.

		£m
DR	Profit and loss reserve £(3 + 0·5)m	3·5
CR	Long-term liabilities (defined benefit obligation)	3·5

(vii) Accounting for sale of stock (see part (c))

The transaction should not be shown as a sale. Stock should be reinstated at £2 million instead of £6 million and a decrease in profit and loss reserve of £4 million should occur in the accounting records of Hall.

CR	Stock	£4 million
DR	Profit and loss reserve of Hall	£4 million

The cash position should be reversed also increasing cash by £6 million and current liabilities by the same amount.

(viii) Bonus to employees of Ribby

A liability of £3 million should be accrued for the bonus to be paid in cash to the employees of Ribby. The management should also recognise an expense of ($^{2}/_{3}$ x 90% x £3 million) £1·8 million, with a corresponding increase in equity. The terms of the share options have not been fixed and, therefore, the grant date becomes 30 November 2008 as this is the date that the terms and conditions will be fixed. However, FRS20 requires the entity to recognise the services when received and, therefore, adjustment is required to the financial statements. Once the terms are fixed, the fair value can be calculated and any adjustments made.

		£m
DR	Expense – profit and loss reserve	4·8
CR	Equity – other reserves	1·8
CR	Current liabilities	3

(ix) Goodwill: Hall

	£m
Cost of investment	98
less net assets acquired (70% of £120 million)	(84)
Goodwill	14

Alternatively

		£m
Cost of investment		98
Ordinary shares	40	
Other reserves	10	
Profit and loss reserve	60	
	110	
Fair value adjustment	10	
Fair value of assets x 70%	120	(84)
Goodwill		14

Profit and loss reserve: Hall

70% of £(80 – 4 – 60)million, i.e. £11·2 million

(x) Tangible assets

	£m	£m
Ribby	250	
Hall	120	
Zian	35·5	
		405·5
Impairment loss		(0·8)
Revaluation – Hall		10
		414·7

(xi) Profit and loss reserve

	£m	£m
Ribby	120	
Hall	11·2	
Zian	1·3	
		132·5
Past service costs		(3·5)
Exchange loss – goodwill		(0·2)
Impairment loss – building		(0·8)
Loan (working v)		(1)
Bonus to employees (working viii)		(4·8)
		122·2

(xii) Long-term liabilities

Ribby	90	
Hall	5	
Zian	4·7	
		99·7
Increase- carrying amount of debt		1
Elimination of loan		(4)
Past service costs		3·5
Transfer to current liabilities		(11)
		89·2

(c) Accounting and ethical implications of sale of stock

Manipulation of financial statements often does not involve breaking laws but the purpose of financial statements is to present a fair representation of the company's position, and if the financial statements are misrepresented on purpose then this could be deemed unethical. The financial statements in this case are being manipulated to show a certain outcome so that Hall may be shown to be in a better financial position if the company is sold. The profit and loss reserve of Hall will be increased by £4 million, and the cash received would improve liquidity. Additionally this type of transaction was going to be carried out again in the interim accounts if Hall was not sold. Accountants have the responsibility to issue financial statements that do not mislead the public as the public assumes that such professionals are acting in an ethical capacity, thus giving the financial statements credibility.

A profession is distinguished by having a:

(i) specialised body of knowledge
(ii) commitment to the social good
(iii) ability to regulate itself
(iv) high social status

Accountants should seek to promote or preserve the public interest. If the idea of a profession is to have any significance, then it must make a bargain with society in which they promise conscientiously to serve the public interest. In return, society allocates certain privileges. These might include one or more of the following:

– the right to engage in self-regulation
– the exclusive right to perform particular functions
– special status

There is more to being an accountant than is captured by the definition of the professional. It can be argued that accountants should have the presentation of truth, in a fair and accurate manner, as a goal.

2 (a) Segment Reporting

SSAP25 'Segmental Reporting' supports the provisions of the Companies Acts by saying that it is the directors' responsibility to determine the analysis of the segments. The standard aims to provide guidance on factors which should influence the definition of segments. Such factors include operations which are subject to different degrees of risk or return on capital employed, have experienced different rates of growth, and have different potential for future development. Having established that a segment is distinguishable based on the above criteria, it is necessary to consider whether a segment is significant enough to warrant separate disclosure. A segment will normally be significant if:

(a) its turnover from third parties is 10% or more of the total third party turnover, or
(b) its segment result (profit or loss) is 10% or more of the combined result of all segments in profit or of all segments in loss, whichever combined result is the greater, or
(c) its net assets are 10% or more of the total net assets of the entity

A class of business is defined as a distinguishable component of an entity that provides a separate product or resource. To identify reportable classes of business, directors should consider the nature of products, processes, markets distribution channels, the organisation of the entity and any legal factors.

The segmental information needs to reflect the company's risk and returns profile, and to inform users of the nature of that profile. Thus in determining business or geographical segments, products or services with significantly different risks, rewards, and future prospects should not be combined together to create a reportable segment. SSAP25 explains the criteria for identifying whether separate segments exist but this explanation is only for guidance purposes. The directors have to exercise their judgement in this area. It would appear that separate business segments do not exist for Norman but that separate geographical segments do exist. The standard's definition of a geographical segment is 'a geographical area comprising an individual country or group of countries in which an entity operates, or to which it supplies products or services' (SSAP25 para 31). In addition it emphasises that geographical analysis needs to consider two distinct aspects:

(i) analysis by operating location (origin basis)
(ii) analysis by destination of sale or service (destination basis)

Different risk environments are an important factor in determining segments.

In the case of the existing segments the European segment meets the criteria for a segment as its reported revenue from external sales (£210 million) is more than 10% of the combined revenue (£1,010 million). However, it fails the profit/loss and net asset tests. Its results are a profit of £10 million which is less than 10% of the greater of the reported profit or reported loss. The profit reported is £175 million. Similarly its segment net assets of £100 million are less than 10% of the combined segment assets £1,200 million). The South East Asia segment passes all of the threshold tests. If the company changes its segments then the above tests will have to be reperformed.

There may be other regions which might fall under the definition of a segment and Norman should review the risk profile of the 'other regions' segment. The fact that performance indicators are set for each hotel will not affect the determination of the geographical segments under SSAP25.

(b) Property is sometimes sold with a degree of continuing involvement by the seller so that the risks and rewards of ownership have not been transferred. The nature and extent of the buyer's involvement will determine how the transaction is accounted for. The substance of the transaction is determined by looking at the transaction as a whole and FRS5 'Reporting the substance of transactions' requires this by stating that where two or more transactions are linked, they should be treated as a single transaction in order to understand the commercial effect. In the case of the sale of the hotel, theme park and casino, Norman should not recognise a sale as the company continues to enjoy substantially all of the risks and rewards of the businesses, and still operates and manages them. Additionally the residual interest in the business reverts back to Norman. Also Norman, has guaranteed the income level for the purchaser as the minimum payment to Conquest will be £15 million a year. The transaction is in substance a financing arrangement and the proceeds should be treated as a loan and the payment of profits as interest.

The principles of FRS5 require that revenue in respect of each separate component of a transaction is measured at its fair value. FRS5 Application note G provides specific guidance on vouchers under the heading 'Separation and linking of contractual arrangements'. Where vouchers are issued as part of a sales transaction and are redeemable against future purchases, revenue should be reported at the amount of the consideration received/receivable less the voucher's fair value. In substance, the customer is purchasing both goods or services and a voucher. The fair value of the voucher is determined by reference to the value to the holder and not the cost to the issuer. Factors to be taken into account when estimating the fair value, would be the discount the customer obtains, the percentage of vouchers that would be redeemed, and the time value of money. As only one in five vouchers are redeemed, then effectively the hotel has sold goods worth (£300 + £4) million, i.e. £304 million for a consideration of £300 million. Thus allocating the discount between the two elements would mean that (300 ÷ 304 x £300m) i.e. £296·1 million will be allocated to the room sales and the balance of £3·9 million to the vouchers. The deferred portion of the proceeds is only recognised when the obligations are fulfilled.

The recognition of government grants is covered by SSAP4 'Accounting for government grants'. The accruals concept is used by the standard to match the grant received with the related costs. The relationship between the grant and the related expenditure is the key to establishing the accounting treatment. Grants should not be recognised until there is reasonable assurance that the company can comply with the conditions relating to their receipt and the grant will be received. Provision should be made if it appears that the grant may have to be repaid.

There may be difficulties of matching costs and revenues when the terms of the grant do not specify precisely the expense towards which the grant contributes. In this case the grant appears to relate to both the building of hotels and the creation of employment. However, if the grant was related to revenue expenditure, then the terms would have been related to payroll or a fixed amount per job created. Hence it would appear that the grant is capital based and should be matched against the depreciation of the hotels by using a deferred income approach or by deducting the cost from the asset. The former method is used because of Companies Acts requirements. Additionally the grant is only to be repaid if the cost of the hotel is less than £500 million which itself would seem to indicate that the grant is capital based. If the company feels that the cost will not reach £500 million, a provision should be made for the estimated liability if the grant has been recognised.

3 Report to the directors of Sirus

Terms of Reference

This report sets out the impact of Financial Reporting Standards on:

(a) the directors' interests in Sirus
(b) the directors' retirement benefits
(c) the acquisition of Marne
(d) the proposed repayment of the loan

(a) Directors' interests in Sirus

The capital should be presented either as a financial liability or equity. FRS25 'Financial Instruments: Presentation' says that a financial liability is:

Any liability that is:

– a contractual obligation:

to deliver cash or another financial asset to another entity; or
to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

– a contract that will or may be settled in the entity's own equity instruments

It also defines equity as: any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Those instruments that do not meet the definition of a liability will be classified as equity. The entity must, therefore, have an unconditional right to avoid delivery of cash or another financial asset.

The definition of a financial instrument used in FRS25 is the same as that in FRS26.

The fundamental principle of FRS25 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form. The enterprise must make the decision at the time the instrument is initially recognised.

The capital subscribed by the directors has a mandatory redemption feature at a future date, thus the substance is that there is a contractual obligation to deliver cash and, therefore, should be recognised as a liability. In contrast, if the return of capital was discretionary and Sirus has an unconditional right to avoid paying cash or assets to the directors, then the capital would be classed as equity. The financial liability will be stated at the present value of the redemption amount. This may be calculated by discounting the amount over the life of the service contract. Subsequently financial liabilities are carried at fair value throught profit or loss or at amortised cost under FRS26. In this case, the liability is likely to be held at amortised cost.

Any distribution of profits would be classed as an appropriation of equity because the shareholders of Sirus have the right to refuse payment of profits and thus the £3 million that is to be divided between the directors will be classed as an appropriation of equity rather than as an expense. As the dividend has not been paid or approved, the dividend will not appear as a liability in the balance sheet. Effectively it is being treated like a proposed dividend. The £10 million paid to directors under remuneration contracts will be treated as an expense.

(b) Directors' retirement benefits

The directors' retirement benefits are unfunded plans which may fall under FRS17 'Retirement Benefits'.

Sirus should review its contractual or constructive obligation to make retirement benefit payments to its former directors at the time when they leave the firm. The payments may create a financial liability under FRS25, or may give rise to a liability of uncertain timing and amount which may fall within the scope of FRS12 'Provisions, contingent liabilities and contingent assets'. Certain former directors are paid a fixed annuity for a fixed term which is payable annually, and on death, the present value of future payments are paid to the director's estate. An annuity meets the definition of a financial liability under FRS25, if there is a contractual obligation to deliver cash or a financial asset. The latter form of annuity falls within the scope of FRS25/26. The present value of the annuity payments should be determined. The liability is recognised because the directors have a contractual right to the annuity and the firm has no discretion in terms of withholding the payment. As the rights to the annuities are earned over the period of the service of the directors, then the costs should be recognised also over the service period.

Where an annuity has a life contingent element and, therefore, embodies a mortality risk, it falls outside the scope of FRS26 because the annuity will meet the definition of an insurance contract which is scoped out of FRS26, along with employers' rights and obligations under FRS17. Such annuities will, therefore, fall within the scope of FRS12 if a constructive obligation exists. Sirus should assess the probability of the future cash outflow of the present obligation. Because there are a number of similar obligations, FRS12 requires that the class of obligations as a whole should be considered (similar to a warranty provision). A provision should be made for the best estimate of the costs of the annuity and this would include any liability for post retirement payments to directors earned to date. The liability should be built up over the service period rather than just when the director leaves. In practice the liability may be calculated on an actuarial basis consistent with the principles in FRS17. The liability should be recalculated on an annual basis, as for any provision, to take account of changes in directors and other factors. The liability will be discounted where the effect is material.

(c) Acquisition of Marne

All business combinations within the scope of FRS2 'Accounting for subsidiary undertakings' must be accounted for using the acquisition method. Sirus is the acquirer of Marne and must measure the cost of a business combination at the sum of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of Marne; plus any costs directly attributable to the combination. If the cost is subject to adjustment contingent on future events, FRS7 requires the acquirer to include the amount of that adjustment in the cost of the combination at the acquisition date if a reasonable estimate of the fair value of amounts expected to be payable in the future can be made. However, if the contingent payment either is not probable or cannot be measured reliably, it is not measured as part of the initial cost of the business combination. The issue with the increased profit share payable to the directors of Marne is whether the payment constitutes remuneration or consideration for the business acquired. Because the directors of Marne fall back to normal remuneration levels after the two year period, it appears that this additional payment will constitute part of the purchase consideration with the resultant increase in goodwill. It seems as though these payments can be measured reliably and therefore the cost of the acquisition should be increased by the net present value of £11 million at 1 May 2007 (FRS7 para 77) being £5 million discounted for 1 year and £6 million for 2 years.

(d) Repayment of loan

If at the beginning of the loan agreement, it was expected that the repayment option would not be exercised, then the effective interest rate would be 8% and at 30 April 2008, the loan would be stated at £2 million in the balance sheet with interest of £160,000 having been paid and accounted for. If, however, at 1 May 2007, the option was expected to be exercised, then the effective interest rate would be 9·1% and at 30 April 2008, the cash interest paid would have been £160,000 and the interest charged to the profit and loss account would have been (9·1% x £2 million) £182,000, giving a balance sheet figure of £2,022,000 for the amount of the financial liability. However, FRS26 requires the carrying amount of the financial instrument to be adjusted to reflect actual and revised estimated cash flows. Thus, even if the option was not expected to be exercised at the outset but at a later date exercise became likely, then the carrying amount would be revised so that it represented the expected future cash flows using the effective interest rate. As regards the discussions with the bank over repayment in the next financial year, if the loan was shown as current, then the requirements of the Companies Acts would not be met. Sirus has an unconditional right to defer settlement for longer than twelve months and the liability is not due to be legally settled in 12 months. Sirus's discussions should not be considered when determining the loan's classification.

It is hoped that the above report clarifies matters.

4 **(a)** Consistency between UK standards and IFRS is important for the following reasons:

- it enhances the credibility and clarity of financial reporting in the UK.
- there are companies who continue to prepare financial statements under UK standards and wish to ensure that they are consistent with IFRS so as to avoid a two tier system of reporting.
- it will facilitate the movement of accountants between organisations using either UK GAAP or IFRS and lower barriers to the free-movement of accountants in business across jurisdictions.
- it helps to ensure the comparability of financial statements whatever the size of the company.
- it allows companies to enjoy a lower cost of capital as a result of their financial statements being more readily understood.

The development of IFRS has led to a change in the role of the ASB in terms of its importance in the development of UK accounting standards. UK GAAP mostly applies to private companies, subsidiaries of listed companies and Small and Medium Entities (SMEs). Consistency with IFRS is important as long as the standards are not over engineered and too complex. If this occurs then they will not be fit for purpose for the UK entities that they are aimed at.

(b) The implementation of International Financial Reporting Standards (IFRS) in the UK involves major change for companies as IFRS introduces significant changes in accounting practices that often were not formerly required by UK GAAP. For example financial instruments in many instances have appeared on the balance sheets of companies for the first time. As a result, financial statements are often significantly more complex than financial statements which were based on UK GAAP. This complexity is caused by the more extensive recognition and measurement rules and a greater number of disclosure requirements. Because of this complexity, it can be difficult for users of financial statements to understand and interpret them, and thus can lead to inconsistency of interpretation of those financial statements.

For example the implementation of the financial instruments standards (FRS25 'Financial Instruments – disclosure and presentation', and FRS26 'Financial Instruments: recognition and measurement') has led to many changes in UK accounting. The reclassification as liabilities of minority interests holding put options, split accounting for convertible bonds, revaluation of 'available-for-sale' investments at fair value recognised directly in equity and revaluation at fair value of all derivatives, including embedded derivatives, with the impact of the change recognised directly in equity for cash flow hedges are some of the changes and complexities that IFRSs incorporated into UK GAAP have introduced.

Often IFRSs introduced into UK GAAP are silent on certain issues and involve significant estimation. For example FRS20, 'Share based payment', does not require any specific disclosures as to the choice of the appropriate valuation model or how the number of equity settled awards, which will vest, have been estimated. FRS20 does require 'information that enables users to understand how the fair value of the equity instruments granted was determined' but the level of detail is left up to the company. The most popular model used by companies under this standard is the Black–Scholes–Merton method but this model does not allow for the possibility of exercise before the end of the option's life. However irrespective of this, many

companies use it.

It is possible to interpret some of the IFRS introduced in different ways and in some standards, there is insufficient guidance.

The identification of the functional currency under FRS23, 'The effects of changes in foreign exchange rates', can be subjective. For example the functional currency can be determined by the currency in which the commodities a company produces are commonly traded, or the currency which influences its operating costs, and both can be different.

Another potential problem surrounds the adoption of standards. Some of the new IFRSs have an adoption date of 1 January 2009 and if these are adopted in the UK, there could be inconsistency if companies adopt the standards early. The application of FRS25 and FRS26 was quite complex in terms of which entities were required to adopt the standards and when adoption should take place. Some companies adopted the standards early and some companies did not. The main changes brought about by the gradual adoption of IFRS, will relate to recognition and measurement rather than the form and presentation of financial statements.

(c) Management judgement may have a significant impact under UK GAAP. FRS utilises fair values extensively. Management have to use their judgement in selecting valuation methods and formulating assumptions when dealing with such areas as onerous contracts, share-based payments, pensions, intangible assets acquired in business combinations and impairment of assets. Differences in methods or assumptions can have a major impact on amounts recognised in financial statements.

In addition to the FRS, a sound financial reporting infrastructure is required. This implies effective corporate governance practices, high quality auditing standards and practices, and an effective enforcement or oversight mechanism. Therefore, consistency and comparability of financial statements will also depend on the robust nature of the other elements of the financial reporting infrastructure.

The Financial Reporting Council has developed a 'Strategic Framework' in the UK which is designed to provide confidence in corporate reporting in the UK. The aim is to facilitate co-operation between stakeholders in order to promote confidence in corporate reporting. Confidence is gained where there is

(a) an effective legislative and regulatory framework which defines high standards in corporate governance and reporting, including standards and guidance from the Government, the FRC, and professional bodies
(b) implementation of the framework by those responsible for governance which includes boards, auditors and the profession
(c) effective monitoring of the quality and integrity of reporting and governance by shareholders, audit committees, regulatory authorities, and professional bodies

A poor regulatory framework would undermine confidence in corporate reporting and governance.

			Marks
1	**(a)**	Consideration of factors	6
		Conclusion	2
			8
	(b)	Translation of Zian	6
		Loan	2
		Goodwill: Zian	4
		Minority interest	4
		Building	3
		Early repayment of loan	1
		Pension costs	2
		Stock	1
		Bonus	3
		Goodwill: Hall	2
		P/L Reserve Hall	2
		Zian	1
		Ribby	3
		Other reserves	1
			35
	(c)	Accounting	2
		Ethical discussion	3
		Quality of discussion	2
			7
		MAXIMUM	**50**
2	**(a)**	Identification of segments	2
		Definition	2
		Reporting information	2
		Norman applicability	5
			11
	(b)	Sale of businesses	4
		Vouchers	4
		Grant income	4
		Quality of discussion	2
			14
		MAXIMUM	**25**

			Marks
3	(a)	Definition of financial liability and equity	3
		Principle in FRS25	1
		Discussion	2
	(b)	FRS17	1
		Financial liability	2
		Provision	1
		Build up over service period	1
		Recalculate annually	1
	(c)	Purchase method	1
		Cost of business combinations	1
		Future payment	1
		Remuneration versus cost of acquisition	2
	(d)	Not exercised	2
		Expected exercise	1
		FRS26	1
		Current v non-current	2
	Communication in report		2
		MAXIMUM	**25**

			Marks
4	(a)	2 marks per point to max	6
		Consistency of IFRS	1
			7
	(b)	Changes from national GAAP	2
		Complexity	2
		Silence and estimation	2
		Subjectivity	2
		Adoption date	2
			10
	(c)	Management judgements	2
		Strategic framework	1
		Regulatory framework	2
		Implementation Monitoring	1
			6
		Communication	2
		MAXIMUM	**25**