
Answers

		<i>Marks</i>
1 (a)	Consolidated statement of financial position of Alpha at 31 March 2015	
	\$'000	
Assets		
Non-current assets:		
Property, plant and equipment (300,000 + 240,000 + 180,000 + 27,500 (W1) – (12,000 + 3,000 {held for sale assets – W5}))	732,500	½ + ½ + ½
Goodwill (W3)	78,600	9½ (W3)
Other investments (33,000 + 43,000 + 11,600)	87,600	1
	<u>898,700</u>	
Current assets:		
Inventories (90,000 + 60,000 + 45,000 – 5,000 (W6))	190,000	½ + ½
Trade receivables (72,000 + 46,000 + 40,000 – (9,000 + 6,000 {intra-group}))	143,000	½ + ½
Cash and cash equivalents (15,000 + 10,000 + 8,000 + (9,000 + 6,000 {cash in transit}))	48,000	½ + ½
	<u>381,000</u>	
Non-current assets classified as held for sale (W5)	13,000	½
Total assets	<u><u>1,292,700</u></u>	
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital (200,000 + 60,000 (shares issued to acquire Gamma))	260,000	1
Retained earnings (W6)	388,955	12 (W5)
Other components of equity (W8)	132,548	5 (W8)
	<u>781,503</u>	
Non-controlling interest (W4)	107,245	2 (W4)
Total equity	<u>888,748</u>	
Non-current liabilities:		
Provision	8,000	½
Long-term borrowings (60,000 + 45,000 + 50,000 + 25,452 (W7) – 30,000)	150,452	½ + ½ + ½
Deferred tax (W10)	86,500	1½
Total non-current liabilities	<u>244,952</u>	
Current liabilities:		
Trade and other payables (45,000 + 42,000 + 33,000)	120,000	½
Short term borrowings (22,000 + 10,000 + 7,000)	39,000	½
Total current liabilities	<u>159,000</u>	40
Total equity and liabilities	<u><u>1,292,700</u></u>	

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

Working 1 – Net assets table – Beta:

	1 April 2010 \$'000	31 March 2015 \$'000	For W3	For W6
Share capital	150,000	150,000	½	
Retained earnings:				
Per accounts of Beta	75,000	115,000	½	½
Property adjustment	30,000	30,000	½	
Extra depreciation (90,000 – 80,000) X 5/20		(2,500)		½
Plant and equipment adjustment	13,000	–	½	½
Other components of equity	1,000	7,000*	½	½
Deferred tax on fair value adjustments	(8,600)	(5,500)	1 (W9)	1 (W9)
Net assets for the consolidation	<u>260,400</u>	<u>294,000</u>		

The post-acquisition increase in net assets is 33,600 (294,000 – 260,400). 6,000 of this increase relates to other components of equity and the balance (27,600) relates to retained earnings.

<u>3½</u>	<u>4</u>
⇒W3	⇒W6

* The other components of equity balance of Beta at 31 March 2015 is 4,000 + [43,000 – 40,000] (the **current** year revaluation of Beta's investments).

Working 2 – Net assets table – Gamma:

	1 July 2014 \$'000	31 March 2015 \$'000	For W3	For W6
Share capital	120,000	120,000	½	
Retained earnings:				
Other components of equity	46,500* ¹	51,000	1	½
	2,000	3,600* ²	½	1
Net assets for the consolidation	<u>168,500</u>	<u>174,600</u>		

The post-acquisition increase in net assets is 6,100 (174,600 – 168,500). 1,600 of this increase relates to other components of equity and the balance (4,500) relates to retained earnings.

<u>2</u>	<u>2</u>
⇒W3	⇒W6

*¹ The retained earnings of Gamma at 1 July 2014 were 45,000 + 3/12 (51,000 – 45,000).

*² The other components of equity balance of Gamma at 31 March 2015 is 2,000 + [11,600 – 10,000] (the **current** year revaluation of Gamma's investments).

Working 3 – Goodwill on consolidation

	Beta \$'000	Gamma \$'000	
Costs of investment:			
Cash paid to acquire Beta (not including acquisition costs)	234,500		1
Shares issued to acquire Gamma 60,000 X \$2.90		174,000	1
Fair value of non-controlling interest at date of acquisition (30 million X \$1.80 – Beta; 30 million X \$1.50 – Gamma)	54,000	45,000	1 + 1
Net assets at date of acquisition (W1/W2)	<u>(260,400)</u>	<u>(168,500)</u>	3½ (W1) + 2 (W2)
Goodwill	<u>28,100</u>	<u>50,500</u>	<u>9½</u>

The total goodwill is 78,600 (28,100 + 50,500).

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Working 4 – Non-controlling interest

	Beta \$'000	Gamma \$'000	
Fair value at date of acquisition (W3)	54,000	45,000	½ + ½
20%/25% of post-acquisition increase in net assets (33,600 (W1)/6,100 (W2))	<u>6,720</u>	<u>1,525</u>	½ + ½
	<u>60,720</u>	<u>46,525</u>	<u>2</u>

The total NCI is 107,245 (60,720 + 46,525).

Working 5 – Adjustment for assets held for sale

Asset	Existing carrying amount (E) \$'000	Lower of E and fair value less costs to sell \$'000	Adjustment \$'000	
Property	12,000	12,000	Nil	½
Plant	<u>3,000</u>	<u>1,000</u>	<u>2,000</u>	½
	<u>15,000</u>	<u>13,000</u>	<u>2,000</u>	<u>1</u>
				⇒W6

Working 6 – Retained earnings

Alpha	367,500	½
Adjustment for acquisition costs of Beta	(2,500)	½
Adjustment for disallowable provision (2,500 + 2,000)	4,500	½ + ½
Adjustment for held for sale asset (W5)	(2,000)	1 (W5)
Beta (80% X 27,600 (W1))	22,080	½ + 4 (W1)
Gamma (75% X 4,500 (W2))	3,375	½ + 2 (W2)
Unrealised profits on sales to Beta and Gamma (20% X (15,000 + 10,000))	(5,000)	1
Deferred tax on unrealised profits (20% X 5,000)	<u>1,000</u>	<u>1</u>
	<u>388,955</u>	<u>12</u>

Working 7 – Convertible loan

Present value of interest payments (1,800 X 3.790)	6,822	½
Present value of principal repayment (30,000 X 0.621)	<u>18,630</u>	½
So loan element equals	25,452	
Equity component is the balancing figure	<u>4,548</u>	½
	<u>30,000</u>	<u>1½</u>
		⇒W8

Working 8 – Other components of equity

Alpha	5,000	½
Premium on issue of shares to acquire Gamma (60 million X \$1.90)	114,000	1
Revaluation of 'other investments' of Alpha (33,000 – (267,000 – 237,000))	3,000	1
Equity element of convertible loan (W7)	4,548	1½ (W7)
Beta (80% X 6,000 (W1))	4,800	½
Gamma (75% X 1,600 (W2))	<u>1,200</u>	<u>½</u>
	<u>132,548</u>	<u>5</u>

Working 9 – Deferred tax on fair value adjustments – Beta

Fair value adjustments:

	1 April 2014 \$'000	31 March 2015 \$'000	
Property adjustment	30,000	27,500	½
Plant and equipment adjustment	<u>13,000</u>	<u>Nil</u>	½
Net taxable temporary differences	<u>43,000</u>	<u>27,500</u>	½
Related deferred tax (20%)	<u>8,600</u>	<u>5,500</u>	½
			<u>2</u>
			⇒W1

Working 10 – Deferred tax

	\$'000	
Alpha + Beta + Gamma	82,000	½
On fair value adjustments in Beta (W9)	5,500	½
On unrealised profits (W6)	(1,000)	½
	86,500	1½

- 2 (a) Under the provisions of IFRS 9 – *Financial Instruments* – the option to acquire shares in Epsilon would be regarded as a derivative financial instrument. ½
- This is because the value of the option depends on the value of an underlying variable (Epsilon's share price), it requires a relatively small initial investment and it is settled at a future date. ½
- A derivative financial instrument is initially measured at its fair value. ½
- In this case fair value will be the price paid – which is \$250,000 at 1 April 2014. ½
- Derivative financial instruments are remeasured to fair value at the reporting date and gains or losses on remeasurement recognised in the statement of profit or loss. ½
- However, in this case the derivative is derecognised on 31 December 2014, when the option is exercised. ½
- On 31 December 2014, the investment in Epsilon's shares would be regarded as a financial asset. ½
- Under IFRS 9, financial assets are initially measured at fair value, so the initial carrying value of the shares in the books of Delta will be **\$2.6 million** (1 million X \$2.60). ½
- The difference between the carrying value of the new asset – \$2.6 million and the price paid plus the derecognised derivative – \$2.25 million (\$2 million + \$250,000) will be taken to **profit or loss** for the year ended 31 March 2015 as investment income. In this case **\$350,000** will be included as investment income. ½ + ½
- Because the investment in Epsilon is an equity investment, it will continue to be remeasured to fair value at each year end. 1
- Because the investment is part of a trading portfolio, the investment is measured at fair value through profit or loss. ½
- Therefore the acquisition costs of \$100,000 must be recognised as an expense in the statement of profit or loss for the year ended 31 March 2015. ½
- The investment is included in the statement of financial position at 31 March 2015 as a **current** asset at its fair value of **\$2.9 million**. ½ + ½
- The increase in fair value of **\$300,000** (\$2.9 million – \$2.6 million) is taken to **the statement of profit or loss**. ½ + ½
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- (b) The lease-back of the property will be regarded as an operating lease because the lease is for only 25% (10/40) of the future life of the property. 1
- Therefore the property will be derecognised by Delta. ½
- The apparent loss on sale of \$2 million (\$48 million – \$50 million) will **not** be recognised immediately because Delta is being compensated by reduced rentals for the whole lease term. The amount will instead be regarded as a **pre-payment**. ½ + ½
- The total lease rentals over the whole term are \$12.5 million (5 X \$1 million + 5 X \$1.5 million). 1
- Rental expense of \$1.25 million (\$12.5 million X 1/10) will be recognised in profit or loss for the year ended 31 March 2015. ½
- A **proportion** of the apparent loss on sale will be recognised in **profit or loss** for the year ended 31 March 2015. ½ + ½
- The amount recognised will be \$160,000 – (\$2 million X {\$1 million/\$12.5 million}). 1
- The closing pre-payment will be \$1,590,000 (\$2 million – \$160,000 + \$1 million (rent paid) – \$1.25million (rent charged)). 1
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(c) The information about the obsolescence of the components is an event after the reporting date because it occurs after the reporting date but before the financial statements are authorised for issue.	1
This event would be a non-adjusting event because it does not give information about conditions existing at the reporting date.	1
At the reporting date, the inventory should be measured at the lower of cost (\$10 million) and net realisable value (\$12 million).	1
The after-date obsolescence of the inventory and its financial implications for Delta should be disclosed in a note to the financial statements.	1
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3 (a) (i) For equity-settled share-based payment arrangements, the transaction should be measured based on the fair value of the goods or services received, or to be received.	½
Where the third party is an employee, 'fair value' should be based on the fair value of the equity instruments granted , measured at the grant date .	½ + ½
For cash-settled share-based payment arrangements, the transaction should be measured based on the fair value of the liability at each reporting date.	½ + ½
(ii) The amount recognised should take account of all vesting conditions other than (in the case of equity-settled share-based payment arrangements) market conditions (which are reflected in the measurement of the fair value of the instruments granted).	½ + ½ + ½
(iii) For both types of arrangement, the debit entry will normally be to profit or loss unless the relevant expense would qualify for recognition as an asset.	1
For an equity-settled share-based payment arrangement, the credit entry would be recognised in equity, either as share capital or (more commonly) as an option reserve.	½
For cash-settled share-based payment arrangements, the credit entry would be recognised as a liability.	½
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(b) (i) The expected total cost of the arrangement at 31 March 2014 is 400 X \$1.50 X (500 – 10 – 20) = \$282,000.	1
Therefore \$70,500 (\$282,000 X ¼) would be credited to equity and debited to profit or loss for the year ended 31 March 2014.	1
For the year ended 31 March 2015, the expected total cost of the originally granted options would be 400 X \$1.50 X (500 – 10 – 5 – 10) = \$285,000.	1
The cumulative amount taken to profit or loss and recognised in equity at 31 March 2015 is \$142,500.	1
The additional cost of the repriced options must also be recognised over the three -year period to 31 March 2017.	½ + ½
The total additional cost is 400 X (\$1.45 – \$0.25) X 475 = \$228,000.	1
Therefore the amount recognised in the year ended 31 March 2015 is \$76,000 (\$228,000 X 1/3).	1
Therefore the total recognised in equity at 31 March 2015 is \$218,500 (\$142,500 + \$76,000).	1
The amount recognised in equity would be shown as 'other components of equity'.	½
And the charge to profit or loss for the year ended 31 March 2015 is \$148,000 (\$142,500 + \$76,000 – \$70,500).	1
The amount recognised in profit or loss would be shown as an employment expense.	½
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(ii) For the year ended 31 March 2014, the expected total cost will be 50 X 1,000 X \$0.90 = \$45,000.	1
The amount taken to profit or loss in the prior period, and recognised as a liability, will be \$15,000 (\$45,000 X 1/3).	1
At 31 March 2015, the liability will be 50 X 2,000 X \$1.20 X 2/3 = \$80,000.	1
Since the rights are exercisable on 30 June 2016, the liability will be non-current.	1
The charge to profit or loss for the year ended 31 March 2015 will be \$65,000 (\$80,000 – \$15,000). This will be included in employment expenses.	1
	<u>5</u>
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4 (a) It is not true that, given the existence of IAS 41 – <i>Agriculture</i> – other IFRSs do not apply to farming companies. The general presentation requirements of IAS 1 – <i>Presentation of Financial Statements</i> , together with the specific recognition and measurement requirements of other IFRSs, apply to farming companies just as much as others.	1
IAS 41 deals with agricultural activity . Two key definitions given in IAS 41 are biological assets and agricultural produce .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
A biological asset is a living animal or plant. Examples of biological assets would be sheep and fruit trees.	1
The criteria for the recognition of biological assets are basically consistent with other IFRSs, and are based around the Framework definition of an asset.	1
A key issue dealt with in IAS 41 is that of measurement of biological assets. Given their nature (e.g. lambs born to sheep which are existing assets, the use of cost as a measurement basis is impracticable.	$\frac{1}{2} + \frac{1}{2}$
The IAS 41 requirement for biological assets is to measure them at fair value less costs to sell .	$\frac{1}{2} + \frac{1}{2}$
Changes in fair value less costs to sell from one period to another are recognised in profit or loss.	$\frac{1}{2}$
Agricultural produce is the harvested produce of a biological asset. Examples would be wool (from sheep) or fruit (from fruit trees).	1
The issue of measuring ‘cost’ of such assets is similar to that for biological assets. IAS 41 therefore requires that ‘cost’ should be fair value less costs to sell at the point of harvesting. This figure is then the deemed ‘cost’ for the purposes of IAS 2 – <i>Inventories</i> .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
A consequence of the above treatment is that government grants receivable in respect of biological assets are not treated in the way prescribed by IAS 20 – <i>Government Grants</i> . Where such a grant is unconditional , it should be recognised in profit or loss when it becomes receivable. If conditions attach to the grant, it should be recognised in profit or loss only when the conditions have been met.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
The IAS 20 treatment of grants is to recognise them in profit or loss as the expenditure to which they relate is recognised. This means that recognition of grants relating to property, plant and equipment takes place over the life of the asset rather than when the relevant conditions are satisfied.	1
	<u>12</u>
(b) The International Accounting Standards Board has developed an IFRS for small and medium sized entities (SMEs) which can be used as an alternative to full IFRS.	$\frac{1}{2} + \frac{1}{2}$
Despite the title of the IFRS for SMEs it is not available for all small and medium sized entities. The standard can only be used by entities which are not publicly accountable . Therefore the standard could not be used by your colleague as the entity is listed .	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
The IFRS for SMEs is one single standard which, if adopted, is used instead of all IFRS .	$\frac{1}{2} + \frac{1}{2}$
The IFRS for SMEs omits completely the requirements of IFRS which are specifically relevant to listed entities, for example , earnings per share and segmental reporting.	$\frac{1}{2} + \frac{1}{2}$
In addition, the subject matter included in the IFRS for SMEs has been simplified compared with full IFRS. For example , research and development costs are always expensed and non-current assets are never revalued.	$\frac{1}{2} + \frac{1}{2} + \frac{1}{2}$
In general terms, the disclosures required by the IFRS for SMEs are considerably less burdensome than for full IFRS.	1
A further benefit is that the IFRS for SMEs is only updated once every three years, thus reducing the extent of change to financial reporting practice.	1
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