Answers

Marks

1 (a) Computation of goodwill on acquisition of Beta and Gamma

	$'000	$'000	Explanations (where needed)	Marks
Beta				
Cost of investment:				
Cash paid		150,000		½
Non-controlling interest at the date of acquisition		30,000	20,000 x $1·50	½
Net assets at the date of acquisition		(147,000)		½
Goodwill on acquisition of Beta		33,000		
Gamma				
Cost of investment:				
Share exchange	180,000		60 million x 2/3 x $4·50	1
Deferred cash consideration	15,000		$16·2 million/1·08 – the present value of the cash payable	1
Contingent consideration	26,000		Measured at fair value at the date of acquisition	½
		221,000		
Non-controlling interest at the date of acquisition		55,500	20/80 x $222 million (net assets of Gamma at date of acquisition – see below)	1
		276,500		
Net assets at the date of acquisition				
At 1 April 2016	166,500		As per Gamma's financial statements	½
Profits to 31 July 2016	13,500		4/12 x $40·5 million (the profit for the year to 31 March 2017)	1
Fair value uplifts	42,000		$30 million + $12 million as per note 2	½
		(222,000)		
Goodwill on acquisition of Gamma		54,500		
				7

Marks

(b) **Consolidated statement of profit or loss and other comprehensive income of Alpha for the year ended 31 March 2017**

	$'000	Marks
Revenue (W1)	858,000	1 (W1)
Cost of sales (W2)	(503,110)	9½ (W2)
Gross profit	354,890	
Distribution costs (26,000 + 20,000 + 18,000 x 8/12)	(58,000)	½
Administrative expenses (W5)	(82,000)	1½
Investment income (W6)	8,100	2½ (W6)
Other income (W7)	800	1 (W7)
Finance costs (W8)	(56,992)	3 (W8)
Profit before tax	166,798	
Income tax expense (24,000 + 14,000 + 8/12 x 13,500)	(47,000)	½
Profit for the year	119,798	
Other comprehensive income:		
Items that will be reclassified to profit and loss		
Effective portion of gains on derivatives classified as cash flow hedges	4,200	1
Total comprehensive income for the year	123,998	
Profit attributable to:		
Owners of Alpha (balancing figure)	105,848	½
Non-controlling interest (W9)	13,950	3½ (W9)
	119,798	
Total comprehensive income attributable to:		
Owners of Alpha (balancing figure)	110,048	½
Non-controlling interest (as above)	13,950	1
	123,998	
		26

(c) **Consolidated statement of changes in equity of Alpha for the year ended 31 March 2017**

	Alpha group $'000	Non-controlling interest $'000	Total $'000	Marks
At 1 April 2016 (W10/11)	286,000 (W10)	39,200 (W11)	325,200	2 (W10) + 1 (W11)
Increase due to acquisition (W12)	206,000	55,500	261,500	1½ (W12)
Comprehensive income for the year	110,048	13,950	123,998	½ + ½
Dividends paid (W13)	(40,000)	(7,600) (W13)	(47,600)	½ + 1 (W13)
At 31 March 2017	562,048	101,050	663,098	
				7
				40

Marks

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

Working 1 – Revenue

	$'000	
Alpha + Beta + 8/12 x Gamma	888,000	½
Intra-group revenue (20,000 + 10,000)	(30,000)	½
	858,000	1

Working 2 – Cost of sales

	$'000	
Alpha + Beta + 8/12 x Gamma	527,000	½
Intra-group purchases (as W1)	(30,000)	½
Unrealised profit:		
Closing inventory (20% x (6,000 + 4,800))	2,160	½ + ½
Opening inventory (20% x 4,000)	(800)	½ + ½
Impairment of Beta goodwill (W3)	3,000	3½ (W3)
Extra depreciation on fair value adjustments:		
Plant and equipment (12,000 x 1/5 x 8/12)	1,600	1
Extra depreciation of capitalised provision (W4)	150	2 (W4)
	503,110	9½

Working 3 – Impairment of Beta goodwill

	Unit 1 $'000	Unit 2 $'000	Unit 3 $'000	Total $'000	
Net assets at 31 March 2017 (as per SOCIE)	72,000	72,000	72,000	216,000	½
Allocated goodwill	11,000	11,000	11,000	33,000	½
	83,000	83,000	83,000	249,000	½
Recoverable amount	87,000	84,000	80,000		½
So impairment equals	Nil	Nil	3,000	3,000	½ + ½ + ½
					3½ ⇒ W2

Working 4 – Provision

	$'000	
Provision required at 1 April 2016 (8,000 x 0·30)	2,400	1
So extra depreciation (1/16) equals	150	1
		2 ⇒W2

Working 5 – Administrative expenses

	$'000	
Alpha + Beta + 8/12 x Gamma	90,000	½
Reversal of incorrectly charged provision	(8,000)	1
	82,000	1½

Working 6 – Investment income

	$'000	
Alpha	28,000	½
Intra-group dividends eliminated:		½
– Beta (80% x 18,000)	(14,400)	½
– Gamma (paid post-acquisition – 75% x 16,000)	(12,000)	½
Gain on remeasurement of FVTPL investments	6,500	½
	8,100	2½

Working 7 – Other income

	$'000	
Ineffective portion of cash flow hedge (5,000 – 4,200)	800	1

Marks

Working 8 – Finance cost

	$'000	
Alpha + Beta + 8/12 x Gamma	56,000	½
Finance cost on deferred consideration (15,000 (part(a)) x 8% x 8/12)	800	1½
Finance cost on decommissioning provision (2,400 (W4) x 8%)	192	1
	56,992	3

Working 9 – Non-controlling interest in profit

	Beta $'000	Gamma (8/12) $'000	Total $'000	
Profit after tax	41,000	27,000		½ + ½
Impairment of Beta goodwill (W3)	(3,000)			½
Extra depreciation – Gamma (W2)		(1,600)		½
Relevant profit	38,000	25,400		½
Non-controlling interest (20%/25%)	7,600	6,350	13,950	½ + ½
				3½

Working 10 – Opening equity – Alpha group

	$'000	
Alpha	250,000	½
Beta: 80% x (193,000 – 147,000)	36,800	½ + ½
Unrealised profit on opening inventory (W2)	(800)	½
	286,000	2

Working 11 – Opening non-controlling interest (in Beta)

	$'000	
At date of acquisition (part (a))	30,000	½
Increase since acquisition: 20% (193,000 – 147,000)	9,200	½
At start of the year	39,200	1

Working 12 – Increase to equity as a result of the acquisition of Gamma

	$'000	
Equity shares issued (part (a))	180,000	½
Contingent equity consideration (part (a))	26,000	½
So group element equals	206,000	1
Non-controlling interest in Gamma at the date of acquisition (part (a))	55,500	½
So total increase equals	261,500	1½

Working 13 – Dividends paid to non-controlling interest

	$'000	
Beta (18,000 x 20%)	3,600	½
Gamma (16,000 x 25%)	4,000	½
Total	7,600	1

2 (a) It would appear that the lease of the asset to entity X is a finance lease. This is because entity X is responsible for repairs, maintenance and insurance of the asset and because the present value of the minimum lease payments by entity X is $760,000 (200,000 x $3·80). This is 98·6% of the fair value of the asset at the inception of the lease ($771,000). — 1 (for decision) + 2 (for reasons)

Because the lease is a finance lease, Delta will show a lease receivable – net investment in finance leases under non-current assets. — 1 (principle of this)

The carrying amount of the lease receivable on 1 April 2016 will be $791,000 ($771,000 + $20,000). — 1

During the year ended 31 March 2017, Delta will recognise income from finance leases in the statement of profit or loss. The amount recognised will be $79,100 ($791,000 x 10%). — 1 (principle) + 1 (calculation)

Marks

Following recognition of the lease income and the rental payment from Delta on 31 March 2017, the net investment in finance leases in the statement of financial position of Delta at 31 March 2017 will be $670,100 ($791,000 + $79,100 – $200,000). 1

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(b) The joint arrangement with entity Y is a joint operation because Delta and entity Y have equal rights to the assets and joint obligations for the liabilities relating to the arrangement. 1 (principle) + 1 (reason)

In a joint operation, the operators include their share of any jointly held assets. Therefore the property, plant and equipment of Delta at 31 March 2017 will include:

– Leasehold property of $25m x 24/25 = $24m
– Plant and equipment of $7·5m x 4/5 = $6m

1 (principle) + 1 (computation)

In a joint operation, the operators include their share of jointly incurred costs. Therefore the statement of profit or loss of Delta for the year ended 31 March 2017 will include the following costs:

– Amortisation of lease premium $1m.
– Depreciation of plant and equipment $1·5m.
– Cash cost of operating the depot $4m.

½ (principle) + 1½ (computation)

Delta will also include its own discretionary delivery charges of $2m as a reduction in its operating costs. 1

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(c) Doubts regarding the going concern status of a customer would normally be regarded as *prima facie* evidence that any trade receivable had suffered impairment. In such circumstances an impairment allowance equal to the expected losses would normally be appropriate. 1

However, IFRS 9 *Financial Instruments* requires the impairment assessment to be made **at the reporting date**. 1

At the reporting date, the going concern status of Z was not in doubt, so in this case no allowance is necessary. 1

However, the information about the decline in the going concern status of Z after the reporting date is a non-adjusting event after the reporting date. 1

Therefore whilst no impairment allowance is necessary, it will be necessary to disclose details of the 20 April event at Z's business premises and its impact on the collectability of Delta's trade receivable. 1

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3 (a) (i) IAS 1 distinguishes between current and non-current assets by identifying the meaning of the term 'current asset'. ½

An asset is classified as current when the entity:

– Expects to realise the asset, or intends to sell or consume it, in its normal operating cycle. ½
– Holds the asset primarily for the purpose of trading. ½
– Expects to realise the asset within 12 months after the reporting period. ½
– Has cash or a cash equivalent which is not subject to an exchange restriction. ½

An entity classifies all other assets as non-current. ½

3

NB: Exact wordings NOT required for marks.

(ii) IAS 16 defines property, plant and equipment as **tangible** items which are held for **use** in the production or supply of goods and services, for **rental** to others, or for **administrative** purposes and are expected to be used for **more than one period**. ½ + ½, ½, ½ + ½

IAS 38 defines intangible assets as **identifiable**, **non-monetary** assets without **physical substance**. ½ + ½, ½

4

NB: Exact wordings NOT required for marks.

	Marks
(b) (i) The property purchased for $60 million is a mixed-use property. The property is being partly owner occupied and partly used for investment purposes. IAS 40 *Investment Property* states that where a property is held for mixed-use in this way, then the portions should be accounted for separately if they could be sold separately. This applies here.	1 (explanation)
The investment property has an 'effective original cost' of $15 million.	½
Since the fair value model is being used to measure investment property, the investment property will not be depreciated but remeasured to fair value at 31 March 2017, with gains or losses on remeasurement being recognised in profit or loss. Therefore the year-end carrying amount of the investment property will be $16 million ($64 million x 25%) and a remeasurement gain of $1 million ($16 million – $15 million) will be recognised in profit or loss.	1 (explanation) + 1 (computation)
The investment property will be shown as a non-current asset in the statement of financial position.	½
Since the lease is an operating lease, Epsilon (as lessor) will recognise rental income of $2 million in profit or loss for the year ended 31 March 2017.	1
The remainder of the property, having an original cost of $45 million ($60 million – $15 million), will be accounted for as property, plant and equipment and measured under the cost model.	1
The buildings component will be depreciated and the charge for the year ended 31 March 2017 will be $400,000 ($20 million x 1/50). This charge will be recognised in profit or loss.	1
The carrying amount of the property, plant and equipment at 31 March 2015 will be $44·6 million ($45 million – $400,000). This will be shown as a non-current asset in the statement of financial position	1
	8
(ii) Since the brand has been separately purchased, IAS 38 *Intangible Assets* requires that it is initially recognised at its cost of $80 million.	1
Epsilon is unable to use the revaluation model to measure the brand because IAS 38 requires the existence of an active market in the asset before this can occur – this is clearly not present in this situation as the brand name is unique.	1
Under the cost model, intangible assets are amortised over their useful lives. If the useful life is assessed as indefinite, then no amortisation is charged but the asset must be reviewed annually for impairment.	2
In this case no impairment is evident as the value in use is $85 million, so the brand will be shown as a non-current intangible asset at its original cost of $80 million.	1
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4 Query One

When an entity adopts International Financial Reporting Standards (IFRSs) for the first time, the entity needs to prepare an opening IFRS statement of financial position at the date of transition to IFRS. This is a requirement of IFRS 1 *First Time Adoption of International Financial Reporting Standards*.	1
The date of transition to IFRS is the beginning of the earliest period for which the entity provides comparative information. In our case, this date is 1 April 2015.	1
The opening IFRS statement of financial position should be prepared in accordance with IFRSs which are in force for the current reporting period – in this case, the year ended 31 March 2017.	1
The statement of profit or loss and other comprehensive income, and the statement of changes in equity, which are presented as comparative figures in the financial statements for the year ended 31 March 2017, shall also be prepared in accordance with IFRSs which are in force for the year ended 31 March 2017.	1
In the first set of financial statements we will need a reconciliation of those amounts which were previously reported under local standards in the previous year's financial statements.	1
The reconciliation will be between the amounts reported in previous periods under local standards and the equivalent amounts reported as comparatives in the current period under IFRSs.	1

Marks

For us, this will mean reconciling equity at 1 April 2015 and 31 March 2016, plus total comprehensive income for the year ended 31 March 2016. 1

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Query Two

The measurement basis for financial assets is set out in IFRS 9 *Financial Instruments*. The measurement basis depends on the business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. 1

In order for the financial asset to be measured at amortised cost, the contractual terms should give rise to cash flows on specified dates which are solely payments of principal and interest on the amounts outstanding. This condition is satisfied in the case of the loan you are querying. 1

There is, however, another condition to be satisfied. The asset should be held under a business model whose objective is to hold the financial asset in order to collect the contractual cash flows. This condition is not satisfied, given the possibility of assigning the loan should interest rates rise. 1

A financial asset is measured at fair value through other comprehensive income where the 'contractual cash flow test' is passed and the asset is held under a business model whose objective is achieved both by collecting the contractual cash flows and by selling the financial asset. This appears to be the case here, so classification as fair value through other comprehensive income seems appropriate. 1

Where a financial asset is measured at fair value through other comprehensive income, the interest income which is included in profit or loss is the same amount as would be recorded were the asset to be measured at amortised cost. Therefore interest income of $2·5 million will be recorded in profit or loss. 1

The increase in fair value of $2 million ($52 million – $50 million) will be recorded in other comprehensive income. 1

6

Query Three

Under the provisions of IFRS 2 *Share-based Payment*, this arrangement is an equity settled share-based payment. 1

IFRS 2 regulates the treatment of vesting conditions based on whether they are market based or non-market based. 1

A market based vesting condition is taken into account by reflecting it in the measurement of the fair value of the option. It does not need to be considered subsequently as to do so would result in double-counting. Therefore the condition relating to the share price can be ignored after the fair value of $1 is determined. 1

A non-market condition is taken into account by reflecting it in the calculation of the number of options ultimately expected to vest. In this case, that number would be 90,000 (900 x 100). 1

The cost of the arrangement is recognised over the vesting period, based on the fair value of the option at the grant date. 1

The amount recognised for the year ended 31 March 2017 would be $18,000 (90,000 x $1 x 1/5). 1

This amount is recognised as an employment cost (probably in profit or loss) and a corresponding credit to equity. 1

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