Answers

1 Consolidated statement of financial position of Alpha at 30 September 20X5
(All numbers in $'000)

	$'000	*Marks*
Assets		
Non-current assets		
Property, plant and equipment (250,000 + 170,000 + 44,000 (W1))	464,000	½
Goodwill (W2)	34,520	6½ (W2)
	498,520	
Current assets		
Inventories (80,000 + 60,000 – (20,000 x 25%))	135,000	½ + 1
Trade receivables (90,000 + 55,000)	145,000	½
Cash and cash equivalents (30,000 + 25,000)	55,000	½
	335,000	
Total assets	833,520	
Equity and liabilities		
Equity attributable to equity holders of the parent		
Share capital ($1 shares)	160,000	½
Retained earnings (W5)	138,540	6½ (W5)
Other components of equity (W7)	52,500	3 (W7)
	351,040	
Non-controlling interest (W4)	58,680	2 (W4)
Total equity	409,720	
Non-current liabilities		
Long-term borrowings (90,000 + 15,000))	105,000	½
Deferred tax (20,000 + 15,000 + 8,800 (W1))	43,800	½ + ½
Contingent consideration payable	50,000	½
Pension liability (160,000 – 105,000)	55,000	½
Total non-current liabilities	253,800	
Current liabilities		
Trade and other payables (70,000 + 50,000)	120,000	½
Current tax payable (30,000 + 20,000)	50,000	½
Total current liabilities	170,000	
Total liabilities	423,800	
Total equity and liabilities	833,520	**25**

Working 1 – Net assets table for Beta

	1 October 20X4 $'000	30 September 20X5 $'000	For W2	For W5
Share capital	80,000	80,000	½	
Retained earnings:				
Per financial statements of Beta	80,000	85,000	½	½
Fair value adjustments (post-acquisition additional depreciation 55,000 x 1/5 = 11,000)	55,000	44,000	½	½
Deferred tax on fair value adjustments:	(11,000)	(8,800)	½	½
Unrealised profit on intra-group sales by Beta (25% x 20,000)		(5,000)		½
Other components of equity	45,000	45,000	½	½
Net assets for the consolidation	249,000	240,200	2½	2½
			→ W2	→ W5

Decrease in net assets (249,000 – 240,200) = 8,800

Marks

Working 2 – Goodwill on acquisition of Beta

	$'000	
Cost of investment:		
Cash paid	175,000	½
Fair value of contingent consideration at date of acquisition	60,000	½
Non-controlling interest at date of acquisition	65,000	½
Net assets at date of acquisition (W1)	(249,000)	2½ (W1)
Goodwill at date of acquisition	51,000	
Impairment at 30 September 20X5 (W3)	(16,480)	2½ (W3)
Goodwill at 30 September 20X5	34,520	6½

Working 3 – Impairment of goodwill at 30 September 20X5

	Unit A $'000	Unit B $'000	Unit C $'000	Total $'000	
Fair value of identifiable net assets of Beta at 30 September 20X5 (40:35:25)	96,080	84,070	60,050	240,200	½
Goodwill on acquisition (W2) (40:35:25)	20,400	17,850	12,750	51,000	½
	116,480	101,920	72,800	291,200	
Recoverable amounts of CGUs	(100,000)	(110,000)	(80,000)		½
Impairment	16,480	Nil	Nil		1
					2½
					→ W2

Working 4 – Non-controlling interest in Beta

	$'000	
At date of acquisition	65,000	½
25% of post-acquisition decrease in net assets (25% x 8,800 (W1))	(2,200)	½ + ½
25% of impairment of goodwill of (25% x 16,480 (W3))	(4,120)	½
	58,680	2

Working 5 – Retained earnings

	$'000	
Alpha – per draft SOFP	150,000	½
Adjustment re: defined benefit retirement plan (W6)	2,500	1 (W6)
Reduction in fair value of contingent consideration (60,000 – 50,000)	10,000	1
Acquisition costs of Beta	(5,000)	½
75% of post-acquisition share of Beta (75% x 8,800 (W1))	(6,600)	½ + 2½ (W1)
75% of impairment of goodwill of (75% x 16,480 (W3))	(12,360)	½
	138,540	6½

Working 6 – Adjustment re: defined benefit retirement plan

	$'000	
Current service cost and net interest cost	(27,500)	½
Contributions incorrectly charged to retained earnings	30,000	½
Adjustment to retained earnings	2,500	1
		→ W5

Working 7 – Other components of equity

	$'000	
Alpha – per draft financial statements	60,000	½
Actuarial gain/(loss) on defined benefit retirement plan (W8)	(7,500)	2½ (W8)
	52,500	3

Marks

Working 8 – Actuarial gain/(loss) on defined benefit retirement plan

	$'000	
Opening liability	50,000	½
Current service cost and net interest cost	27,500	½
Contributions paid into plan	(30,000)	½
	47,500	
Actuarial loss on re-measurement (balancing figure)	7,500	½
Closing liability ($160,000 – $105,000)	55,000	½
		2½
		→ W7

2 Exhibit 1 – Issue of convertible loan (all figures in $'000)

Under the principles of IFRS® 9– *Financial Instruments* – convertible loans need to be split into their liability and equity elements by computing the liability element and deriving the equity element as the balancing figure. ½ (principle)

The liability element is computed by discounting the future amounts payable assuming the loan is repaid using the discount rate equivalent to the return which would be required by a lender without any conversion option – the market rate. ½ (principle)

In this case, the liability element is $184,840,000 ($(16 million x 3·79) + $(200 million x $0·621)). 1 + 1

Therefore the equity element is $15,160,000 ($200 million – $184,840,000) – OF rule applies here. ½

The issue costs are deducted from the equity and liability elements in proportion to their carrying amounts before such a deduction. 1 (principle)

Therefore the amount deducted from the liability element will be **$1,848,000** ($(2 million x 184,840)/200,000)) and the amount deducted from the equity element will be **$152,000** ($2 million – $1,848,000). 1 + ½

The resulting equity element – which is $15,008,000 ($15,160,000 – $152,000) – will be **unchanged** from 1 October 20X4 and will be presented in the statement of financial position in the **equity** section as **other components of equity**. ½ + ½

The carrying amount of the loan element after deducting the issue costs will be $182,992,000 ($184,840,000 – $1,848,000). ½

The finance cost for the year ended 30 September 20X5 will be **$18,848,000** ($182,992,000 x 10·3%) and the liability at 30 September 20X5 **$185,840,000** ($182,992,000 + $18,848,000 – $16 million). ½ + 1

The finance cost of $18,848,000 for the year ended 30 September 20X5 will be presented in the statement of profit or loss and other comprehensive income as a finance cost. ½

The liability of $185,840,000 at 30 September 20X5 will be presented as a non-current liability in the statement of financial position. ½

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Exhibit 2 — Purchase of machine

Under the principles of IAS® 16 – *Property, Plant and Equipment* (PPE) – the machine will be recognised as an asset in PPE from 30 November 20X4, the date of delivery. ½ (principle)

Under the principles of IAS 16, the **installation costs and the costs of the inspection and the safety certificate** will be included in the initial carrying amount of PPE **because** these costs are necessarily incurred in getting the machine ready for use. ½ + ½

$30 million will be added to PPE on 30 November 20X4, a further $60 million in the period from 1 December 20X4 to 30 April 20X5, and $600,000 on 15 May 20X5. ½

Under the principles of IAS 16, employee training costs **cannot** be recognised as part of the carrying amount of PPE. They are specifically excluded by IAS 16. Therefore these costs (of $1 million) will be shown as an **operating expense** in the statement of profit or loss and other comprehensive income for the year ended 30 September 20X5. ½ + ½

Under the principles of IAS 23 – *Borrowing Costs* – **borrowing costs** which are **directly** attributable to the acquisition of an asset should be included as part of the carrying amount of that asset. ½ + ½ (principle)

	Marks
The costs which are eligible for such treatment are those incurred in the period starting from the date expenditure is incurred on the asset and ending on the date the asset is ready for use.	½ (principle)
In this case, that means that the relevant period is the six months from 1 December 20X4 until 31 May 20X5 and the relevant borrowing costs to capitalise will be $1·8 million ($90 million x 4% x 6/12).	½ + 1
This means that the total depreciable amount of the PPE will be $92·4 million ($30 million + $60 million + $600,000 + $1·8 million).	½
Under the principles of IAS 16, depreciation commences when an asset is ready for use (1 June 20X5) rather than when it is brought into use (31 July 20X5).	½ (principle)
Under the principles of IAS 16, a single physical asset which has two or more significant components with different useful lives is regarded as two assets for depreciation purposes.	½ (principle)
In this case, one component is the **engine** element with an initial carrying amount of **$24 million** – its fair value at the **date of acquisition**. The estimated future replacement cost is not relevant.	½ + ½
The depreciation of this component for the year ended 30 September 20X5 will be $1·6 million (**$24 million** x **1/5** x 4/12).	½ + ½
The residual component has a carrying amount of $68·4 million ($92·4 million – $24 million) and its depreciation for the year ended 30 September 20X5 will be $2,280,000 ($68·4 million x 1/10 x 4/12).	½ + ½
The total depreciation expense in the statement of profit or loss and other comprehensive income for the year ended 30 September 20X5 will be $3,880,000 ($1·6 million + $2,280,000). This will be presented as an **operating** expense.	½ + ½
The balance in PPE on 30 September 20X5 will be **$88,520,000** ($92·4 million – $3,880,000). This will be presented under **non-current assets**.	½ + ½
The finance cost on the loan for the current year will be **$3·3 million** ($90 million x 4% x 11/12). The amount not capitalised of **$1·5 million** ($3·3 million – $1·8 million) will be shown as a finance cost in the statement of **profit or loss and other comprehensive income**.	½ + ½ + ½
The closing loan balance will be $93·3 million ($90 million + $3·3 million). This will be presented as a **current** liability.	½ + ½
	15
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3 Exhibit 1 – Share-based payment

Under the principles of IFRS 2 – *Share-based payment* – equity settled share-based payment obligations are measured using the fair value of the equity instruments to be issued at the **grant** date. In this case, therefore, the relevant fair value is **$2·50** per option.	½ + ½
Where vesting conditions apply (as is the case here) then, in the case of non-market conditions, the number of options expected to vest is adjusted to latest estimates at the end of the reporting period.	½ (principle)
Therefore, for the year ended 30 September 20X4, the expected total cost of the arrangement is $300,000 (3,000 x 40 x $2·50).	1
The cost is recognised in profit or loss over the vesting period. Therefore the amount recognised in profit or loss for the year ended 30 September 20X4 is $100,000 ($300,000 x 1/3).	½ + ½
The expected total cost of the arrangement at 30 September 20X5 would be $285,000 (3,000 x {50 – 12} x $2·50).	1
Therefore the cumulative amount recognised in profit or loss up to 30 September 20X5 in respect of the original arrangement will be **$190,000** ($285,000 x 2/3) and the actual amount recognised for the year ended 30 September 20X5 will be **$90,000** ($190,000 – $100,000). This will be shown as an **employment expense** under operating expenses.	½ + ½ + ½
The modification to the terms of the arrangement which takes place on 1 April 20X5 will be an **additional cost which will be recognised over the remaining vesting period**. This additional cost will be based on the increase in the fair value of an option caused by the modification.	½ + ½
In this case, the additional cost which will be recognised over the remaining vesting period will be $68,400 (3,000 x 38 x {$2·70 – $2·10}).	1
The amount which will be recognised in the year ended 30 September 20X5 will be **$22,800** ($68,400 x 6/18) and so the total charge to profit or loss for the year ended 30 September 20X5 in respect of the arrangement will be **$112,800** ($90,000 + $22,800).	½ + ½

	Marks
The cumulative total cost recognised to date of **$212,800** ($190,000 + $22,800) will be shown in the equity section of the statement of financial position at 30 September 20X5.	½ + ½
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Exhibit 2 – Sale of two properties

Under the principles of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* – property 1 **would** be classified as 'held-for-sale' from 1 September 20X5. This is **because** the property is available for immediate sale in its current condition, is being actively marketed at a reasonable price, and a sale is expected in less than 12 months.	½ + ½ (principle)
Property 1 is removed from non-current assets (PPE) and separately classified as a current asset on the statement of financial position as a 'held for sale' asset.	1
When an asset is classified as held-for-sale, it is **measured at the lower of its current carrying amount and its fair value less costs to sell**. Held-for-sale assets are **not** depreciated after classification.	1 + ½ (principle)
The fair value less costs to sell for property 1 is $57million (95% x $60 million). Therefore property 1 will be measured at $50 million.	1
Property 2 cannot be classified as held-for-sale because it is not available for immediate sale in its current condition. Therefore it will continue to be presented in PPE.	1
Based on the information available in the question, it would appear that property 2 has suffered impairment.	½ (principle)
An asset has suffered impairment if its recoverable amount is lower than its carrying amount. Recoverable amount is the higher of value-in-use and fair value less costs to sell.	1 (principle)
Since property 2 is not able to generate any future income for Delta other than through sale, then in this case the recoverable amount of the property is its fair value less costs to sell.	½ (principle)
The fair value less costs to sell of property 2 is $32·75 million ($45 million x 95% – $10 million). The repair costs of $10 million are necessarily incurred in getting the property into a saleable condition and so are deducted in computing its fair value less costs to sell.	1 + ½
Property 2 will therefore be recognised in PPE at $32·75 million.	½
An impairment loss of $7·25 million ($40 million – $32·75 million) will be recognised as an operating expense in the statement of profit or loss and other comprehensive income.	½
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Exhibit 3 – Sale of two business units during the year

Under the principles of IFRS 5, the segment would be regarded as a discontinued operation because it is a separate line of business which has been disposed of in the period.	1 (principle)
This means that, in the statement of profit or loss and other comprehensive income, the results and post-tax gain or loss on sale would be presented as a single amount below the profit after tax from continuing operations and described as profit or loss on discontinued operations.	1 (principle)
In this case, the amount would be $8·2 million ($5 million + (($54 million – $50 million) x 80%)).	1
The sale of the distribution centres is not separately presented as it is not a discontinued operation – the distribution operations of Delta are being reorganised, not discontinued.	1 (principle)
The profit on disposal of the distribution centre of $2 million ($12 million – $10 million) would be recognised as part of its pre-tax profit for the year.	1
	5
	25

4 Exhibit 1 – Exploration and evaluation assets

IFRS 6 – *Exploration for and Evaluation of Mineral Resources* – specifies financial reporting in this area.	½ (principle)
IFRS 6 does not specifically prescribe what expenditures should be included as exploration and evaluation assets. Relevant entities are allowed to determine an accounting policy which specifies which expenditures should be included as exploration and evaluation assets and must apply it consistently. (Exact wording not needed – just the overall sense of the point.)	2

	Marks
IFRS 6 states that, in making this determination, entities should consider the degree to which the expenditure can be associated with finding the specific mineral resources it is seeking.	1
Therefore it is quite possible that two entities in fairly similar sectors might make a different assessment of their accounting policies given very specific criteria which might apply to one entity or another. (Exact wording not needed – just the overall sense of the point.)	1
IFRS 6 does, however, **specifically prohibit** the inclusion of the costs of developing mineral resource in the exploration and evaluation assets figure. Such expenditures should be accounted for in accordance with **IAS 38** – *Intangible Assets*.	1 + ½
IFRS 6 allows exploration and evaluation assets to be measured under either the cost model or the revaluation model.	1
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Exhibit 2 – Events occurring after 30 September 20X5

The accounting treatment of events occurring after the year-end date is set out in IAS 10 – *Events after the Reporting Period*.	½ (principle)
IAS 10 defines events after the reporting period as being those events occurring after the end of the reporting period up to the date the financial statements are authorised for issue (15 November 20X5).	1
IAS 10 classifies events after the reporting period into two types – adjusting and non-adjusting.	½ (principle)
Adjusting events provide additional evidence of conditions existing at the reporting date. (Exact wording not needed – just the overall sense of the point.)	1
The information about the legal case provides additional evidence about the final liability and so is an adjusting event, so it is proper to recognise the correct amounts ($5·5m) in the financial statements. (Exact wording not needed – just the overall sense of the point.)	2
The fire at the factory does not relate to conditions at the reporting date and so is non-adjusting.	1
IAS 10 requires **disclosure** of the impact of non-adjusting events in the notes to the financial statements. The only exception to this rule would be if the event impacted on the **going concern** status of Omega. This is not the case based on the information provided.	1 + 1
The insolvency of the customer occurred after the financial statements were authorised for issue so it is not reportable in the financial statements for the year ended 30 September 20X5. (Exact wording not needed – just the overall sense of the point.)	2
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Exhibit 3 – Use of IFRS Standards in the financial statements of a subsidiary

The principles underpinning the first-time preparation of financial statements under IFRS Standards are set out in IFRS 1 – *First-time Adoption of International Financial Reporting Standards*.	½
IFRS 1 requires that **both the financial statements for the current period and the comparative figures be presented using IFRS Standards in force at the first reporting date** under IFRS Standards. **In this case, this date is 30 September 20X5**.	1
The starting point for the first-time adoption of IFRS Standards is to prepare the opening IFRS Standards statement of financial position. This is the statement of financial position at **the start of the earliest period** for which Epsilon presents comparative information in its first full IFRS Standards financial statements. In Epsilon's case, this date is **1 October 20X3**.	1 + ½
Unless there is objective evidence that they were in error, the accounting estimates used in the opening IFRS Standards statement of financial position should be consistent with those used in the financial statements of Epsilon's prepared using national standards.	1
The **opening** IFRS Standards statement of financial position needs to be published in Epsilon's first set of IFRS Standards financial statements. Therefore the financial statements at 30 September 20X5 will contain three statements of financial position, rather than the usual two.	1
Despite there being three statements of financial position in the financial statements for the year ended 30 September 20X5, there will be only two statements of profit or loss and other comprehensive income and statements of changes in equity in these financial statements.	1
There is likely to be a difference between the net assets at 1 October 20X3 using national standards and the net assets using IFRS Standards. This difference will be recognised in the statement of changes in equity for the comparative period, rather than in the statement of profit or loss and other comprehensive income.	1

	Marks
The first set of IFRS Standards financial statements need to include reconciliations of equity at all dates previously reported under national standards to equity reported under IFRS Standards. In the case of Epsilon, reconciliations will be required at 1 October 20X3 and 30 September 20X4.	1
	8
	25