CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION - AUGUST 2018

NOTES:
You are required to answer Questions 1, 2 **and** 3. You are also required to answer **either** Question 4 **or** 5. Should you provide answers to both Questions 4 and 5, you must draw a clearly distinguishable line through the answer not to be marked. Otherwise, only the first answer to hand for Question 4 or 5 will be marked.

Provided are pro-forma:

Statements of Profit or Loss and Other Comprehensive Income By Expense, Statements of Profit or Loss and Other Comprehensive Income By Function, and Statements of Financial Position.

TIME ALLOWED:
3.5 hours, plus 10 minutes to read the paper.

INSTRUCTIONS:
During the reading time you may write notes on the examination paper, but you may not commence writing in your answer book. **Please read each Question carefully.**

Marks for each question are shown. The pass mark required is 50% in total over the whole paper.

Start your answer to each question on a new page.

You are reminded to pay particular attention to your communication skills, and care must be taken regarding the format and literacy of your solutions. The marking system will take into account the content of your answers and the extent to which answers are supported with relevant legislation, case law or examples, where appropriate.

List on the cover of each answer booklet, in the space provided, the number of each question attempted.

NB: PLEASE ENSURE TO ENCLOSE YOUR ANSWER SHEET TO QUESTION 3 IN THE ENVELOPE PROVIDED.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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You are required to answer Questions 1, 2 **and** 3. You are also required to answer **either** Question 4 **or** 5.
(If you provide answers to both questions 4 and 5 you must draw a clearly distinguishable line through the answer not to be marked. Otherwise only the first answer encountered by the examiner for questions 4 or 5 will be marked.)

You are required to answer Questions 1, 2 and 3.

1. Below are statements of financial position for three companies as at 31 July 2018.

Statements of Financial Position as at 31 July 2018

	Patrick Plc	**Sally Plc**	**Frank Plc**
	€ million	**€ million**	**€ million**
Non-current assets:			
Property, plant and equipment	4,860	2,100	1,530
Investments	4,450	750	250
	9,310	2,850	1,780
Current assets:			
Inventories	1,350	460	375
Trade receivables	1,720	520	125
Cash & bank	460	130	80
	3,530	1,110	580
Total assets	**12,840**	**3,960**	**2,360**
Equity:			
Equity share capital of €1 each	5,000	1,500	800
Revaluation surplus	3,000	1,200	500
Retained earnings	1,790	1,000	950
	9,790	3,700	2,250
Current liabilities:			
Trade payables	1,430	100	70
Taxation	940	120	40
Dividends proposed	680	40	0
	3,050	260	110
Total equity and liabilities	**12,840**	**3,960**	**2,360**

The following additional information is provided:

(i) Patrick Plc (Patrick) bought 900 million shares in Sally Plc (Sally) on 1 August 2016, at a cost of €2.50 per share paid in cash. On that date, the balance on the retained earnings reserve of Sally stood at €600 million, and the revaluation surplus was zero. At the date of acquisition, the net assets of Sally were equal to their carrying values except for certain items of property, plant and equipment, which had a fair value €400 million in excess of their carrying value. Patrick has had a policy of carrying property, plant and equipment at fair values. This policy is implemented across all group companies from the date of acquisition. Hence, the fair values were incorporated into the books of Sally at the acquisition date, and depreciation provided for appropriately.

(ii) Patrick bought 640 million shares in Frank Plc (Frank) on 1 August 2017. The consideration for the purchase was €3 per share in cash. In addition, it was agreed that a further payment of €1 per share would be made on 31 July 2019 provided certain profit targets were met. The fair value of this component of the consideration was €400 million on 1 August 2017, and €520 million on 31 July 2018. The cash payment was recorded in the books of Patrick, but no entry was made to record the contingent element of the purchase price. On 1 August 2017, the retained earnings reserve of Frank stood at €830 million, and the revaluation surplus at €450 million. Frank has always had a policy of measuring property, plant and equipment at fair value, hence the carrying values of these assets were equal to their fair values at the acquisition date. However, Frank controls a famous brand name, not recognised in its books, which had a fair value of €50 million on 1 August 2017. This brand was estimated to have a useful economic life of 20 years from that date.

(iii) Patrick wishes to use the fair value method to measure the non-controlling interests of Sally at the acquisition date. The share price of €2.50 should be used for this purpose. Patrick wishes to use the proportion of net assets method to measure the non-controlling interests of Frank at the acquisition date.

(iv) At 31 July 2018, goodwill was assessed for impairment, and the calculation showed that an impairment loss of €200 million would be recognised in the case of Sally, and €150 million in the case of Frank. No impairment losses had been recognised in the year to 31 July 2017.

(v) During the year, Sally bought goods from Frank for a total sum of €20 million. These goods cost Frank €15 million. 60% of the goods remained unsold by Sally at the reporting date.

(vi) The dividends by both companies were proposed at 31 July 2018. No dividend was paid by any company during the financial year. Patrick has not recognised its share of Sally's proposed dividend.

(vii) All workings and solutions should be completed to the nearest €0.1 million.

REQUIREMENT:

(a) Outline how intra-group dividends should be accounted for in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, and in the Consolidated Statement of Financial Position.

(5 marks)

(b) Prepare a Consolidated Statement of Financial Position for the Patrick Group for year ended 31 July 2018 in accordance with IFRS.

(23 marks)
Presentation (2 marks)

[Total: 30 Marks]

2. Jolene Plc is a public listed manufacturer. The group's summarised consolidated financial statements for the year ended 31 July 2018 (with 2017 comparatives) are as follows::

Jolene Plc: Consolidated Statements of Profit or Loss and Other Comprehensive Income for the years ended 31 July:

	2018 € million	2017 € million
Revenue	9,650	8,790
Cost of sales	(4,900)	(5,750)
Gross profit	4,750	3,040
Operating expenses	(3,756)	(3,020)
Gains on revaluation of financial assets	26	40
Finance costs	(49)	(33)
Profit (loss) before taxation	971	27
Income tax expense	(80)	0
Profit for the year	**891**	**27**
Profit for the year attributable to:		
Owners of the parent	876	27
Non-controlling interests	15	-
Profit for the year	**891**	**27**

Jolene Plc: Consolidated Statements of Financial Position as at 31 July:

	2018 € million	2017 € million
Non-current assets:		
Property, plant and equipment	3,680	2,400
Intangible assets	330	350
Goodwill	60	0
Financial assets	210	180
	4,280	2,930
Current assets:		
Inventory	400	275
Trade receivables	460	340
Bank	---	230
	860	845
Total assets	**5,140**	**3,775**
Equity:		
Equity shares of €1 each	1,400	1,200
Share premium	500	350
Retained earnings	1,796	1,305
	3,696	2,855
Non-controlling interest	50	0
	3,746	2,855
Non-current liabilities:		
6% bonds 2021	680	550
	680	550
Current liabilities:		
Trade payables and provisions	466	280
Bank overdraft	168	0
Current tax payable	80	90
	714	370
Total equity and liabilities	**5,140**	**3,775**

The following notes should be taken into account::

(i) On 1 December 2017, Jolene bought an 80% stake in another entity, Marlene Plc. The cost of this stake was €200 million, satisfied by Jolene issuing 48 million equity shares valued at €2.50 each and €80 million in cash.

The fair value of the net assets acquired on the acquisition date was €180 million, consisting of the following:

• Property, plant and equipment	€130m
• Intangible assets	€20m
• Inventory	€25m
• Cash	€20m
• Trade payables	(€15m)
	€180m

The fair value of the non-controlling interest at the acquisition date was €47 million. Jolene uses the full (fair value) goodwill method in all acquisitions. Goodwill was tested for impairment at 31 July 2018, and any impairment loss was correctly accounted for through operating expenses.

(ii) Depreciation of property, plant and equipment amounted to €207 million, charged to operating expenses. Amortisation charges of €45 million relating to intangible assets were also charged to operating expenses.

(iii) Disposals of property, plant and equipment were made for proceeds of €140 million, on which gains of €14 million were recognised. These gains were netted against operating expenses. No disposals of intangible assets were recorded.

(iv) There were no non-cash adjustments to the 6% bonds. Interest has been paid up to date.

(v) Included in the figure for 'trade payables and provisions' at 31 July 2018 is a provision for warranty claims amounting to €27 million (2017: €14 million).

(vi) Equity dividends were paid during the period by Jolene and Marlene.

(vii) Financial assets which had cost €60 million, and had a carrying value on 1 August 2017 of €75 million, were sold during the year for €78 million. The gain was netted against finance costs.

(viii) A bonus issue was made during the year capitalising €50m of retained earnings. Other shares were issued for cash, in addition to those to fund the acquisition referred to in note (i) above.

REQUIREMENT:
Prepare for the Jolene Group for the year ended 31 July:

(a) A Consolidated Statement of Changes in Equity in accordance with IAS 1- *Presentation of Financial Statements*, and

(8 marks)

(b) A Consolidated Statement of Cash Flows in accordance with IAS 7 - *Statement of Cash Flows*. (22 marks)

[Total: 30 Marks]

3. **The following multiple-choice question contains eight sections, each of which is followed by a choice of answers. Only one of the answers offered is correct. Each question carries 2.5 marks. Provide your answer to each section on the answer sheet provided.**

REQUIREMENT:
Give your answer to each section on the answer sheet provided

1. How many elements of financial statements are identified by the IASB's Conceptual Framework?

(a) Two
(b) Three
(c) Four
(d) Five.

2. Mitten Plc is an Irish company whose functional currency is the euro. On 31 May 2018, it sold goods to a UK customer for GBP £50,000. At the reporting date 31 July 2018, the amount remained receivable. The relevant exchange rates were as follows:

31 May 2018:	€1 = GBP £0.86
31 July 2018:	€1 = GBP £0.93

Ignoring the time value of money, the amounts which would appear in the financial statements of Mitten Plc for year ended 31 July 2018 are:

	Revenue	**Receivables**
(a)	€53,763	€53,763
(b)	€58,140	€53,763
(c)	€53,763	€58,140
(d)	€58,140	€58,140.

3. IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors* draws a clear distinction between accounting policies and accounting estimates. Which of the following would be considered a change of accounting policy under IAS 8?

(a) Revision of the monetary amount of a provision for expected costs of a court case taken against the entity, as a result of new information received.
(b) Revision of the useful economic life used to depreciate plant and equipment from 6 years to 3 years.
(c) Change from the cost model to the revaluation model of IAS 16 – *Property, Plant and Equipment* in respect of properties.
(d) All of the above are changes of accounting policy.

4. At the reporting date, 31 July 2018, Guy Plc carried its premises at its fair value of €45 million. The approval date for the financial statements is expected to be 12 September 2018. On 15 August 2018, it was announced that the local authority would be opening a landfill facility adjacent to Guy's premises. Guy's professional valuers have estimated that the fair value of the premises is now €36 million. Profit for the year was €12 million.

Which of the following is the correct accounting action for the financial statements for year ended 31 July 2018?

(a) Continue to carry the premises at €45 million and record the loss in the following year's financial statements.
(b) Continue to carry the premises at €45 million but provide a disclosure note in the July 2018 financial statements explaining the new value and the event causing the reduction.
(c) Revise the valuation to €36 million in the July 2018 financial statements.
(d) Sue the local authority for the loss in value.

5. Troy Plc has calculated its closing inventory for year ended 31 July 2018 at €56,900. Included in this figure is a batch of 30 items of raw material carried at the cost price €1,000 each. These items have declined in value, and could be sold for a maximum of €23,500 at 31 July 2018. However, Troy Plc plans to incorporate these items into finished goods and it expects these to generate a profit of €6,800. What is the correct figure for closing inventory at 31 July 2018 according to IAS 2 - *Inventory*?

   (a) €26,900
   (b) €50,400
   (c) €56,900
   (d) €63,700.

6. Norbert Plc controls land carried at €12 million at 31 July 2018, its reporting date. It has received a valuation from professional valuers showing a fair value of €14 million. It wishes to incorporate the revised values into the financial statements. This land had previously been revalued for the first time in 2016, and the loss on that revaluation of €1.3 million had been charged to profit or loss. What is the correct accounting treatment of the revaluation on 31 July 2018 (in addition to debiting land)?

   (a) Credit other comprehensive income with €2 million.
   (b) Credit profit or loss with €2 million.
   (c) Credit profit or loss with €1.3 million, and other comprehensive income with €0.7 million.
   (d) Credit retained earnings with €1.3 million as a prior-period adjustment, and credit other comprehensive income with €0.7 million.

7. Is it permissible to revalue intangible assets under IAS 38 - *Intangible Assets*?

   (a) Yes, provided the directors can make a reasonable estimate of the revalued amount.
   (b) Yes, provided the directors can make a reasonable estimate and the entity chooses the revaluation model.
   (c) Yes, provided the directors can make a reasonable estimate, the entity chooses the revaluation model and there is an active market in identical assets.
   (d) No, revaluation is prohibited by IAS 38.

8. Which of the following is required to comply with IAS 34 - *Interim Financial Reporting*?

   (a) Companies must prepare financial statements at least quarterly.
   (b) Companies must prepare financial statements at least semi-annually.
   (c) Companies choosing to prepare interim financial reports must comply with IFRS when doing so.
   (d) None of the above.

[Total: 20 marks]

Answer <u>either</u> Question 4 <u>or</u> Question 5

4. IFRS 16 - *Leases* was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. However, early adoption is permitted, provided IFRS 15 - *Revenue from Contracts with Customers* is implemented also. The IFRS brings significant changes to those leases formerly classified as operating leases under IAS 17 - *Leases*, the previous standard.

(i) On 1 August 2017, Manfred Plc entered into an agreement to lease a building for a 10-year period. The lease terms stipulated that the annual lease rental would be €100,000 per annum in arrears, with the first payment due on 31 July 2018. The interest rate implicit in the lease is 7%, and the present value of the minimum lease payments is €702,358. Manfred incurred costs of €30,000 in entering the lease. The lease terms allow for the extension of the lease at market rental. However, it is not certain that Manfred will take up this option.

(ii) On the same date, Manfred Plc entered into an agreement to acquire a motor vehicle. The terms of the agreement were that the vehicle would be leased for 5 years from the date of inception, subject to a deposit of €19,972 and 5 annual payments of €6,500 in advance, commencing on 1 August 2017. The fair value of the vehicle and the present value of the lease payments were €48,000 at inception. The interest rate implicit in the lease is 8%.

REQUIREMENT:

(a) Outline the key principles behind the accounting treatment for leases as required by IFRS 16. (6 marks)

(b) Show, with appropriate calculations, the accounting entries required to record each transaction above for the year ended 31 July 2018. Present the relevant extracts from the statement of profit or loss for the year ended 31 July 2018, and the statement of financial position as at that date.

(14 marks)

[Total: 20 Marks]

<u>OR</u>

5. IFRS 11 - *Joint Arrangements* was issued in May 2011. It establishes the principles for accounting for business arrangements that are controlled jointly by two or more parties. The standard classifies joint arrangements into two types: Joint Operations and Joint Ventures.

(i) On 1 August 2017, Lacey Plc, a company that owns a shipyard, is asked to construct a passenger liner for a customer. The customer requires special capabilities that require a specially designed propulsion system. The shipyard enters into a contract with an engine manufacturer whereby the total price of the ship will be €100 million to be split 80% to the shipyard and 20% to the engine manufacturer. Under the agreement, Lacey Plc will complete the structure of the ship, and the engine manufacturer will design and supply the engine. During the year ended 31 July 2018 the ship was completed on schedule and the agreed consideration was paid. Costs incurred by Lacey Plc were €62 million.

(ii) On 1 August 2017, Lacey Plc entered into an arrangement with another company to develop a more modern shipyard. The two companies set up a new entity to build the shipyard, and invested €130 million each into the new entity. They agreed to manage the resulting asset jointly. During year ended 31 July 2018 the shipyard was completed and generated a profit for the year of €4 million.

(iii) Lacey Plc has a 50% equity interest in another entity, Haddock Ltd. Haddock Ltd runs a shipping line, and had assets of €50 million and liabilities of €48 million at 1 August 2017. The trading loss for the year ended 31 July 2018 was €4.8 million. The other 50% equity interest is held by another entity, but day-to-day management decisions are made by Lacey Plc. Lacey Plc has appointed 4 directors to the 5-person board of Haddock Ltd.

REQUIREMENT:

(a) Distinguish between the two types of joint arrangement described by IFRS 11 - J*oint Arrangements*. (8 marks)

(b) In the case of (i), (ii) and (iii) above, discuss the accounting treatment required by IFRS. Give reasons for your answer and show any necessary journal entries in the books of Lacey Plc.

(12 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION – AUGUST 2018

SOLUTION 1

Marking Scheme:

(a)	Explanation of intra-group dividends SPLOCI	2
	Explanation of intra-group dividends SOFP	2
	Additional relevant point	1
	Subtotal	**5**
(b)	Basic consolidation (100% Patrick + 100% Sally + 100% Frank)	3
	Calculation and treatment of goodwill (including NCI at acquisition date)	5
	Subsequent treatment of contingent consideration	2
	Fair value adjustments and post acq movements	2
	Intra group sales of inventory	2
	Dividends	2
	Reserves calculation and consolidation - both	5
	NCI calculation at reporting date	2
	Presentation	2
	Subtotal	**25**
	Total	**30**

SUGGESTED SOLUTION

(a) Intra-group dividends are not considered to be group income in the SPLOCI. If the parent has recognised its share of dividends received or receivable from group companies, this must be eliminated on consolidation. If the parent has not recognised the dividends receivable, no further action is necessary. Any dividends paid or payable to the NCI shareholders must be shown in the Statement of Changes in Equity, as a deduction from NCI.

In the SOFP, the opposite is the case. Here, if the parent has recognised its share of dividends received from subsidiaries, no further action is necessary. If the dividends are receivable, there is a cancellation between the intra-group asset (representing dividends receivable by the parent) and the liability (representing dividends payable by the subsidiary). If the parent has not recognised its share, the retained earnings of the parent must be credited with its share of intra-group dividends.

The reason for the difference is that the retained earnings figures shown in the SOFP will be post SOCIE, and will therefore be net of any dividends declared. Hence the amount of intragroup dividends will be missing from the figures shown, if not yet recorded by the parent. In the SPLOCI, the profit for the year is before any dividends have been deducted. Hence if the parent shows its share of intra-group dividends, these are double counted.

(b) Group structure:

Patrick has a 60% (controlling) equity stake in Sally, bought 2 years prior to the reporting date
Patrick has an 80% (controlling) equity stake in Frank, bought 1 year ago.

Patrick Plc: Consolidated statement of financial position of as at 31 July 2018

		€ million
Non-current assets:		
Property, plant and equipment	(4,860 + 2,100 + 1,530	8,490.0
Intangible assets - Brand	(50 - 2.5)	47.5
Goodwill	W1	1,516.0
Investments	(4,450 - 2250 - 1920 + 750 + 250	1,280.0
		11,333.5
Current assets:		
Inventories	(1,350 + 460 + 375 -3 (W7)	2,182.0
Trade receivables	(1,720 + 520 + 125	2,365.0
Cash & bank	(460 + 130 + 80	670.0
		5,217.0
Total assets		**16,550.5**
Equity:		
Equity shares		5,000.0
Revaluation surplus	W2	3,520.0
Retained earnings	W3	1,755.6
		10,275.6
Non-controlling interest	W4	2,358.9
		12,634.5
Current liabilities:		
Trade payables	(1,430 + 100 + 70	1,600.0
Contingent consideration	W6	520.0
Dividends proposed	(680 + 40 - 24) (W8)	696.0
Current taxation	(940 + 120 + 40	1,100.0
		3,916.0
Total equity & liabilities		**16,550.5**

W1 - Goodwill on acquisition	**Sally € million**	**Frank € million**
Cost of investment:		
Cash (900 * €2.50), (640 * €3)	2,250.0	1,920.0
Contingent (at fair value at acquisition date)		400.0
		2,320.0
Value of NCI at acquisition (iii) (600 * €2.50), (20% * 2130)	1,500.0	426.0
Fair value of net assets at acquisition		
Equity share capital	(1,500.0)	(800.0)
Revaluation surplus	0.0	(450.0)
Retained earnings	(600.0)	(830.0)
Fair value adjustment (iii)	(400.0)	(50.0)
Goodwill	1,250.0	616.0
impairment loss (iv)	(200.0)	(150.0)
Balance to consolidated SOFP	1,050.0	466.0

Note: Contingent consideration is measured at fair value at the acquisition date, and included in the goodwill working at this amount.

W2 Revaluation surplus	**Patrick**	**Sally**	**Frank**
	€ million	**€ million**	**€ million**
Balance at reporting date	3,000.0	1,200.0	500.0
less balance at acquisition (incl fair value adjustment to PPE)	0.0	(400.0)	(450.0)
For consolidation	3,000.0	800.0	50.0
Sally: 60% * 800	480		
Frank: 80% * 50	40		
to SOFP	3,520.0		

W3 Retained earnings	**Patrick**	**Sally**	**Frank**
	€ million	**€ million**	**€ million**
Balance at reporting date	1,790.0	1,000.0	950.0
less balance at acquisition		(600.0)	(830.0)
goodwill impairment (iv) (see tutorial note below)	(150.0)	(200.0)	
Amortisation of brand (W5)			(2.5)
Movement in fair value of contingent consideration	(120.0)		
Unrealised profit on intra-group trading			(3.0)
Dividend receivable from Sally (W8)	24.0	0.0	0.0
Subtotals	1,544.0	200.0	114.5
Sally: 60% * 200	120.0		
Frank: 80% * 114.5	91.6		
to SOFP	1,755.6		

Note: Goodwill impairment is charged to the subsidiary when the fair value method is used (so NCI suffer their share). It is taken to the parent when the partial method is used.

W4 - Non-controlling Interest	**Sally**	**Frank**
	€ million	**€ million**
Balance at acquisition (W1)	1,500.0	426.0
Revaluation surplus (40% * 800), (20% * 50)	320.0	10.0
Retained earnings (40% * 200), (20% * 114.5)	80.0	22.9
Balance to SOFP	1,900.0	458.9

W**5 - Fair value adjustment**		**€ million**
Balance at acquisition - brand	to goodwill working	50.0
Amortisation since acquisition	50/20 yrs	(2.5)
Balance at reporting date	to SOFP	47.5

W6 - Contingent consideration		**€ million**
Agreed amount of contingent consideration		640.0
Fair value at acquisition date	per note (ii)	400.0
Fair value at reporting date	per note (ii)	520.0
Additional expense to R/E of parent		(120.0)

W7 - Intra-group trading		**€ million**
Total profit on trade	(20-15)	5.0
Proportion relating to goods still in group inventory at Reporting Date		60%
Unrealised profit	Deduct from R/E of seller	3.0
	Deduct from group inventory	

W8 - Dividends proposed		**€ million**
Patrick's liability		680.0
Sally's liability		40.0
Intragroup dividends	(60% * 40)	(24.0)
Balance to SOFP liability		696.0

SOLUTION 2

Marking scheme:

(a)	Statement of Changes in Equity	8
(b)	Statement of cash flows (each number correctly calculated and placed = 1 mark)	22
	Total	**30**

SUGGESTED SOLUTION

(a) Jolene plc: Consolidated Statement of Changes in Equity for year ended 31 July 2018

	Equity Shares €m	**Share Premium €m**	**Retained Earnings €m**	**Subtotal €m**	**NCI €m**	**Total €m**
Balance 1 August 2017	1,200	350	1,305.0	2,855.0	0.0	2,855.0
Acquisition	48	72		120.0	47.0	167.0
Profit for year			876.0	876.0	15.0	891.0
Bonus issue of shares	50		-50.0	0.0		0.0
Shares issued for cash	102	78		180.0		180.0
Equity dividend			-335.0	-335.0	-12.0	-347.0
Balance 31 July 2018	1,400	500	1,796.0	3,696.0	50.0	3,746.0

(b) Jolene plc: Statement of Cash Flows for year ended 31 July 2018

	€ million	**€ million**
Operating Activities		
Profit before taxation		971
Gains on revaluation of financial assets	(26)	
Finance costs (incl gain on disposal of Financial Assets)	49	
Gains on disposal of PPE (iii)	(14)	
Goodwill impairment charge (W3)	7	
Depreciation of PPE (W1)	207	
Amortisation of intangibles (ii)	45	
Movement in inventory (400 – (275 + 25))	(100)	
Movement in trade receivables (460 – 340)	(120)	
Movement in trade payables [(466-27) – (280-14+15)]	158	
Movement in provision for warranty claims (27-14)	13	
	219	
Finance costs paid (49 + 3)	(52)	
Taxation paid (W7)	(90)	77
Net cash flow from operating activities		1,048
Investing Activities		
Cash paid to acquire subsidiary (W8) (80-20)	(60)	
Proceeds of sale of PPE (iii)	140	
Cash paid to acquire PPE (W1)	(1,483)	
Cash paid to acquire intangible assets (W2)	(5)	
Proceeds of sale of investments (vii)	78	
Cash paid to acquire financial assets (W4)	(79)	
Net cash flow from investing activities		(1,409)
Financing Activities		
Issue of 6% bonds (680-550)	130	
Proceeds of share issue (a)	180	
Equity dividends paid (a)	(335)	
Dividend paid to non-controlling shareholders (a)	(12)	

Net cash flow from financing activities	(37)
Net cash flow for the year	(398)
Opening cash & cash equivalents	230
Closing cash & cash equivalents	(168)

W1

PPE

	€ million		€ million
Bal b/d	2,400	Depreciation (note ii)	207
Acquired on acq. of Marlene plc (W8)	130	Disposal (140 – 14) (iii)	126
Acquired for cash (balancing figure)	1,483	Bal c/d	3,680
	4,013		4,013

W2

Intangible Assets

	€ million		€ million
Bal b/d	350	Amortisation charge (ii)	45
Acquired on acq. of Marlene plc (W8)	20	Bal c/d	330
Acquired for cash (bal fig)	5		
	375		375

W3

Goodwill

	€ million		€ million
Bal b/d	--	Impairment charge (bal fig)	7
Recognised on acq. of Marlene plc (W8)	67	Bal c/d	60
	67		67

W4

Financial Assets

	€ million		€ million
Bal b/d	180	Disposal	75
Profit or loss	26	Bal c/d	210
Acquired for cash (bal fig)	79		
	285		285

W6

6% Bond

	€ million		€ million
		Bal b/d	550
Bal c/d	680	Cash (bal fig)	130
	680		680

W7

Taxation

	€ million		€ million
Cash paid (balancing figure)	90	Bal b/d	90
Bal c/d	80	SPLOCI	80
	170		170

W8 – Acquisition

		€ million
Cost of investment (80%)		
Shares issued (48 share capital, 72 share premium)		120
Cash		80
		200
FV of NCI		47
FV of net assets at acquisition:		
PPE	130	
Intangible assets	20	
Inventory	25	
Cash	20	
Trade payables	(15)	
		(180)
Goodwill		67

Net cash flow impact on purchase is an outflow of €60m (cash paid 80m less cash acquired 20m).
All other implications should be recorded in the respective accounts.

SOLUTION 3

Each correct mark gains 2.5 marks. No partial marks are awarded. Workings are not marked.

1 **Answer (d)**
They are: Asset, Liability, Equity, Income & Expense.

2. **Answer (b)**
Revenue is recorded at the rate prevailing on the transaction date (£50,000 / 0.86 = €58,140).
Receivables are recorded at the rate prevailing at the reporting date (£50,000 / 0.93 = €53,763).

3. **Answer (c)**
Answers (a) and (b) are changes in accounting estimates.

4. **Answer (b)**
As the event causing the loss did not occur until after the reporting date, this is a non-adjusting event. As the amount (€9 million) is likely to be material, the matter should be disclosed in the notes.

5. **Answer (c)**
If the inventory has an expected use that will lead to a recovery in excess of its cost, the amount recoverable is deemed to be its net realisable value. Hence, no write down is required.

6. **Answer (c)**
Under the revaluation model of IAS 16, and reversal of a previous revaluation should reverse the accounting treatment of that prior revaluation. Hence, €1.3 million should be credited to profit or loss, as this amount was written off profit or loss previously. The excess is treated as a first-time revaluation and credited to OCI.

7. **Answer (c)**
IAS 38 requires that an active market exist in identical assets before an intangible may be considered for revaluation. The entity may choose the cost model or the revaluation model. It is implicit in all revaluations that a reasonable estimate can be made of the fair value of the asset.

8. **Answer (c)**
IAS 34 does not require the preparation of interim reports. However, if they are prepared they must conform to IFRS.

SOLUTION 4
Marking Scheme:

(a)	3 well explained points at 2 marks each	
	Subtotal	**6**
(b)		
(i)	Recognition of asset and liability including set up costs	2
	Calculation of finance costs	2
	Calculation of depreciation	1
	Calculation of closing liability and split into current and non-current	2
(ii)	Recognition of asset and liability including deposit	2
	Calculation of finance costs	2
	Calculation of depreciation	1
	Calculation of closing liability and split into current and non-current	2
	Subtotal	**14**
	Total	**20**

SUGGESTED SOLUTION:

(a) The approach to leases adopted by IFRS 16 requires the commitment to make annual payments to be recognised as a liability, provided the resulting benefit is an asset under the control of the entity for the term of the lease.

The asset is recognised at present value of the minimum required lease payments, and is depreciated over the shorter of the lease term or the asset's useful economic life (unless it is highly likely that the asset will transfer to the lessee at the end of the least term, in which case the asset's useful economic life should be used).

The liability is initially measured at the present value of minimum required lease payments, and is subsequently measured at amortised cost, with finance costs taken to profit or loss as incurred, using the effective rate implicit in the lease, or the entity's cost of capital if the implicit rate is not available.

(6 marks)

(b)

(i) Initial recognition & measurement:

The lease obligation is initially recognised at €702,358.
The asset is recognised at this amount plus costs (€702,358 + 30,000), or €732,358.

Journal:

Dr Leasehold buildings	€732,358	
Cr Lease obligation		€702,358
Cr Cash (costs)		€30,000

Subsequent measurement:

Finance cost for year ended 31 July 2018 (702,358 * 7%)	€49,165
Payment made 31 July 2018	€100,000
Depreciation of leased asset (732,358 / 10 years)	€73,236

Journal:

Dr Profit or loss (finance costs)	€49,165	
Cr Lease obligation		€49,165
Dr Lease obligation	€100,000	
Cr Cash		€100,000
Dr Profit or loss (depreciation)	€73,236	
Cr Leasehold asset accumulated depreciation)		€73,236

Closing balance on lease obligation (702,358 + 49,165 – 100,000)	€651,523
Presented as current liability (100,000 – (651,523 * 7%))	€54,393
Presented as non-current liability	€597,130

Extracts from financial statements for year ended 31 July 2018:

Statement of Profit or Loss for year ended 31 July 2018:	**€**
Operating costs (depreciation)	73,236
Finance costs	49,165

Statement of Financial Position as at 31 July 2018:	**€**
Non-current assets:	
Leasehold building (732,358 – 73,236)	659,122
Non-current liabilities:	
Lease obligation	597,130
Current liabilities:	
Lease obligation	54,393

(ii) Initial recognition & measurement:

The asset is recognised at:		€48,000
The lease obligation is initially recognised at €48,000 – 19,972 – 6,500)		€21,528
Journal:		
Dr Vehicles	€48,000	
Cr Lease obligation		€21,528
Cr Cash (upfront payments: 19,972 + 6,500)		€26,472

Subsequent measurement:

Finance cost for year ended 31 July 2018 (21,528 * 8%)		€1,722
Depreciation of leased asset (48,000 / 5 years)		€9,600
Journal:		
Dr Profit or loss (finance costs)	€1,722	
Cr Lease obligation		€1,722
Dr Profit or loss (depreciation)	€9,600	
Cr Leasehold asset accumulated depreciation)		€9,600

Closing balance on lease obligation (21,528 + 1,722)	€23,250
Presented as current liability (full payment as it is in advance, due 1 August 2018)	€6,500
Presented as non-current liability	€16,750

Extracts from financial statements for year ended 31 July 2018:

Statement of Profit or Loss for year ended 31 July 2018:	**€**
Operating costs (depreciation)	9,600
Finance costs	1,722

Statement of Financial Position as at 31 July 2018:	**€**
Non-current assets:	
Leasehold building (48,000 – 9,600)	38,400
Non-current liabilities:	
Lease obligation	16,750
Current liabilities:	
Lease obligation	6,500

(14 marks)

Note: Combined extracts showing parts (i) and (ii) together would be acceptable for full marks.

[Total: 20 MARKS]

SOLUTION 5

Marking Scheme:

(a)	Clear distinction required for full marks	
	Subtotal	**8**
(b)		
(i)	Recognition that this is a joint operation, with reasons	2
	Accurate calculations and journal entry	2
(ii)	Recognition that this is a joint venture, with reasons	2
	Accurate calculations and journal entry	2
(iii)	Recognition that this is a subsidiary, with reasons	2
	Accurate calculations and journal entry	2
	Subtotal	**12**
	Total	**20**

SUGGESTED SOLUTION:

(a) A Joint Arrangement is an arrangement in which two or more parties have joint control over another entity.

Joint Control is the contractually agreed sharing of control. This exists only when decisions are made with the unanimous consent of the parties sharing control.

There are two types of joint arrangement:
Joint operation; and
Joint venture.

Joint operation
This is an arrangement through which the parties to the arrangement have rights to certain assets and obligations for certain liabilities of the arrangement. Joint operations may or may not separate legal entities. Each venture will record its share of the operation's assets, liabilities, expenses and gains as determined by the substance of the contract setting up the joint operation. There are no adjustments needed on consolidation.

Joint venture
This is an arrangement through which the parties have joint control over the NET ASSETS of the venture (as distinct from the individual assets and liabilities). It will be a separate legal entity. In this situation, the investment is accounted for either at cost, or in accordance with IFRS 9 in the individual financial statements of each venturer. On consolidation, equity accounting is used exactly as for associates.

(8 marks)

(b)
(i) This transaction involves the agreement between Lacey and a partner to develop a single project. No new entity is formed. Both parties would seem to be responsible for their own costs, and revenue division is pre-agreed. There is no provision for an ongoing relationship between the parties.

This is clearly a joint operation. Each party is responsible for their own assets, liabilities, expenses and gains, and will account for these.

Lacey will recognise €80 million in revenue once the ship is complete and control is handed over to the customer. Lacey will also recognise €62 million in cost of sales. It will not recognise the costs or revenue attributable to the engine manufacturer.

Journal:	**€ million**	**€ million**
Dr Cash	80	
Cr Revenue		80
(recognition of revenue and cash received)		
Dr Cost of sales	62	
Cr Cash / payables		62
(recognition of costs incurred, possibly paid)		

(4 marks)

(ii) This transaction appears to be an agreement between two parties to construct a new asset and manage it jointly. A new entity is formed, and each party contributed 50% of the capital invested. it appears that the entity is under joint control, with neither party having full control over any individual assets or liabilities of the new entity. Hence the arrangement is a joint venture.

Under IFRS 11, joint ventures are accounted for using equity accounting, similarly to associate companies. Hence the new entity will initially be varied in the books of Lacey at €130 million (cost of investment). The carrying value will be adjusted by Lacey's share of any profits or losses recognised by the joint venture. In the current year, this will amount to €2 million (50% of €4 million).

Journal:	**€ million**	**€ million**
Dr Investment in joint venture	130	
Cr Cash		130
(recognition of investment made in joint venture)		
Dr Investment in joint venture	2	
Cr Profit or loss		2
(recognition of share of profit earned by the joint venture in the year)		

(4 marks)

(iii) Under IFRS 10, control is the ability to direct the operations of another entity and benefit from it.

Haddock Ltd would appear to be under the control of Lacey.

Despite having a 50% interest, less than that which would automatically indicate control, the fact that Lacey makes all operational decisions and has a majority of the Board would suggest that control exists.

Hence, Haddock should be consolidated with Lacey and a 50% Non-controlling interest recognised.

Journal:	**€ million**	**€ million**
Dr Assets	50	
Cr Liabilities		48
Cr Non-controlling interest		1
Cr Group reserves		1
(recognition of net assets of Haddock at 1 August 2017 in group accounts of Lacey)		
Dr Group reserves / profit or loss	2.4	
Dr Non-controlling interest	2.4	
Cr Net assets		4.8
(recognition of loss for year ended 31 July 2018 in the group accounts of Lacey)		

(4 marks)

[Total: 20 MARKS]