CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

ADVANCED CORPORATE REPORTING

PROFESSIONAL 2 EXAMINATION - AUGUST 2018

NOTES:
You are required to answer **ALL** Questions.

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 **20 minutes** to read the paper.

Examination Format
This is an open book examination. Hard copy material may be consulted during this examination, subject to the limitations advised on the Institute's website.

Reading Time
During the reading time you may write notes on the examination paper but you may not commence writing in your answer booklet.

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

Answers
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.

Answer Booklets
List on the cover of each answer booklet, in the space provided, the number of each question attempted. Additional instructions are shown on the front cover of each answer booklet.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

ADVANCED CORPORATE REPORTNG

PROFESSIONAL 2 EXAMINATION - AUGUST 2018

Time Allowed: 3.5 hours, plus **20 minutes** to read the paper. You are required to answer **ALL** questions.

If you make an assumption in any question, please state your assumption clearly.

Case Study

You have been appointed financial controller of Satfar Ltd. (Satfar) as from 21 February 2018. Satfar is an Irish company which manufactures its own brand of Global Positioning System (GPS). The company has grown rapidly over the last five years and sells units to customers on four continents. As a result of Satfar's success, its directors intend to list the company on the Irish Stock Exchange in the coming months.

This is your first day as financial controller. You commence your day by meeting with Satfar's Managing Director, Orla O'Leary. Orla begins the meeting, "Welcome to Satfar. We are a fast-growing company with big plans. As you've heard, we intend to list Satfar on the Irish Stock Exchange. Your appointment will strengthen our accounting team and, hopefully, improve our reporting practices."

Orla continues, "In preparation for our stock exchange listing, I have a series of meetings with the company's advisors over the coming months. The advisors are in the process of preparing a prospectus for Satfar's listing. The next meeting with them is tomorrow morning. They wish to discuss Satfar's financial performance and position for the 2017 financial year. I need to email draft financial statements to them by this evening."

"There are a number of outstanding accounting issues associated with the draft financial statements for the 2017 financial year. I need you to review these issues and prepare a draft set of financial statements by this afternoon. Satfar prepares its financial statements in accordance with International Financial Reporting Standards (IFRS)."

You sense the meeting is about to conclude when Orla states, "The advisors have requested various types of information from Satfar to facilitate the preparation of the prospectus. I hope you won't find all of the requests for additional information too stressful. A couple of weeks ago, the advisors mentioned that it may be a good idea to prepare a 'sustainability report' which will report on Satfar's social and environmental performance. There is a cost to preparing this information, and in my opinion, I don't think investors will be overly concerned with non-financial aspects of the company's performance. If Satfar's IFRS-compliant annual reports meet the information needs of our capital providers, those reports will also meet the information needs of the company's other stakeholders."

The meeting with Orla concludes. You have just settled in your new office when you receive the following email from Orla:

To: **Financial Controller (controller@satfar.com)**
From: **Orla O'Leary (o.oleary@satfar.com)**
Subject: **Outstanding accounting issues**

Hi,

As discussed this morning, below are the outstanding accounting issues:

1. Operating Segments

Our advisors say that we should prepare and disclose information on operating segments in the 2017 financial statements. Is there still an accounting standard that addresses this area? How should we account for operating segments and what information needs to be disclosed? I have reviewed the internal accounting information that I use to allocate resources and assess performance for Satfar in 2017. I have identified the following potential segments that we could report on.

	Revenue	Profit/(Loss)	Assets	Liabilities
	€'000	€'000	€'000	€'000
Asia	5,200	1,080	5,470	4,200
Australia	1,400	(430)	800	750
Europe	17,630	1,180	14,345	4,165
North America	2,300	(80)	1,200	800
Total	26,530	1,750	21,815	9,915

2. Lease

Satfar entered into a lease with Caldron Finance Ltd on 1 January 2017. Under the terms of the lease, Satfar is provided with a machine for a lease term of five years in exchange for annual lease payments of €50,000. The lease payments are due at the end of each lease year. At the end of the lease term, possession of the machine is returned to Caldron Finance. Ownership of the machine does not transfer to Satfar at any point. The interest rate implicit in the lease is 8%.

Our previous accountant was unsure how to account for this transaction under the new accounting standard, IFRS 16 - *Leases*. The accountant simply expensed the first lease payment of €50,000. No other accounting entries have been made in relation to the lease. Satfar's policy is to depreciate plant, property and equipment on a straight-line basis over five years.

3. Impairment

The auditors are in the process of completing the audit of the 2017 financial year. They have raised a query about a potential impairment to one of our machines. During 2017, this machine was damaged during a power surge. The machine still works but its production capacity has been reduced. The auditors have queried whether the machine should be impaired because it has lost some of its resale value as a result of the damage.

The machine originally cost Satfar €1,000,000. Accumulated depreciation associated with the machine is €250,000 to 31 December 2017. A mechanical engineer assessed the machine in early January 2018. The engineer's report states that similar damaged machines have sold for €100,000 in the recent past. In addition, due to the unique nature of the machine, significant advertising costs of €10,000 will be incurred to find a buyer. The machine is not covered by insurance.

The power surge reduced the production capacity and also shortened the expected life of the machine. Satfar's management accountants have estimated that the damaged machine will generate cash flows of €300,000 per annum over an expected remaining useful life of 3 years. Satfar's cost of capital is 9%.

No impairment of the machine has been recorded yet in our accounts. Could you outline the necessary accounting treatment for the above transactions?

4. Investment in shares

I intend to gradually build a portfolio of equity investments for Satfar. During 2017, I acquired 300,000 shares in Barry Donuts Ltd., a company listed on the Irish Stock Exchange. I think the company's shares are undervalued and I plan to sell the shares in the upcoming months when the price rises. I purchased the shares for €0.98 each on 15 March 2017. Satfar's stockbrokers charged a commission on the purchase, totalling €6,000. Barry Donuts' share price had increased to €1.56 on 31 December 2017. Our accountant was not sure how to account for this transaction and the original investment amount plus broker fees has been capitalised on the Statement of Financial Position of Satfar.

5. Events after the reporting period

The 2017 financial statements are still in draft form. The audit is ongoing, and we intend to authorise the financial statements in April 2018. Satfar rents a distribution warehouse in Cork, located beside the River Lee. On 3 January 2018, the River Lee burst its banks and €650,000 of Satfar's inventory was destroyed by the flood. The inventory was not insured and Satfar will not receive any compensation for the loss. We're not sure how to account for this event. The destroyed inventory is included in the inventory figure that is disclosed on Satfar's draft statement of financial position at 31 December 2017.

6. Government grant

Satfar received a government grant related to an employment scheme. The conditions of the grant state that we must employ ten staff from a government employment initiative each year for a period of two years. The grant provides Satfar with income of €100,000 per annum to offset the cost of salaries of the ten staff. If the grant conditions are not met in any particular year, the €100,000 grant for that year must be repaid to the government immediately. We received the full amount of the grant, €200,000 on commencement of the scheme on 1 January 2017.

We met the grant conditions in 2017, but we do not expect to meet the grant condition in 2018. The accountant wasn't sure how to account for the above transactions and included the total amount of the grant in a current liability account, titled 'Government Grant', on the statement of financial position.

7. Post-employment benefit scheme

On 1 January 2017, we commenced a defined benefit pension plan for a number of head office employees. Under the pension scheme, Satfar has an obligation to provide these staff with agreed post-employment benefits. Satfar carries the actuarial and investment risk associated with the pension scheme.

I have attached draft details on this scheme in Attachment 2. The accountant was not sure which accounting standard to apply when accounting for the pension scheme. The only adjustment made to account for the scheme was to expense the company's contributions of €550,000 for the 2017 financial year in the Statement of Profit or Loss and Other Comprehensive Income and to credit the 'Cash' account. Can you review the accounting treatment of the pension plan?

8. Acquisition of VeTrack Ltd

On 1 January 2017, Satfar acquired 90% of the outstanding shares of a promising software company, VeTrack Ltd (VeTrack). VeTrack has developed vehicle tracking software specifically for use with Satfar's GPS units. The unconsolidated financial statements for the 2017 financial year for Satfar and VeTrack are included in Attachment 1. Could you prepare a separate Group Statement of Financial Position and Group Statement of Profit or Loss and Other Comprehensive Income?

We entered into a new sales arrangement with VeTrack after we acquired the company. Under the sales arrangement, we act as a collection agent for VeTrack. When Satfar sells a GPS unit, with VeTrack's software pre-installed, Satfar collects the sales proceeds from the customer and transfers the price of the tracking software to VeTrack. Outstanding amounts between the companies are recorded in current accounts. Before I forget, a cheque for €200,000 was sent to VeTrack in December 2017 as payment against the current account. The cheque was only received by VeTrack on 10th January 2018.

VeTrack did not declare a dividend, issue any new shares, or undertake any share buybacks during the 2017 financial year. VeTrack is the only subsidiary that has been acquired by Satfar to date.

Regards,
Orla

Attachment 1:

The following extracts are from the draft financial statements of Satfar Ltd:

Statements of Financial Position as at 31 December 2017

	Satfar Ltd	VeTrack Ltd
	€'000	**€'000**
ASSETS		
Non-Current Assets		
Land	4,000	300
Investment in VeTrack Ltd	3,000	-
Intangible Assets	1,000	2,800
Property, Plant & Equipment	5,900	700
- Cost	9,900	1,500
- Accumulated Depreciation	(4,000)	(800)
	13,900	3,800
Current Assets		
Equity Investment – Barry Donuts (300,000 shares)	300	-
Current Account – Satfar Ltd		500
Inventory	1,300	100
Trade Receivables	1,450	50
Short-term Investments	500	-
Cash	95	120
	3,645	770
TOTAL ASSETS	**17,545**	**4,570**
EQUITY AND LIABILITIES		
Equity		
Ordinary Share Capital (€1 shares)	3,000	1,000
Share Premium	800	-
Retained Earnings	5,600	1,500
	9,400	2,500
Non-Current Liabilities		
10% Debentures	5,025	1,740
Current Liabilities		
Government Grant	200	-
Current Account – VeTrack Ltd	300	
Trade Payables	1,220	230
Bank Overdraft	600	-
Corporation Tax	240	-
Dividends Declared	100	-
Accruals	460	100
	3,120	330
TOTAL EQUITY AND LIABILITIES	**17,545**	**4,570**

Satfar Ltd
Statements of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2017

	Satfar Ltd	VeTrack Ltd
	€'000	€'000
Operating Profit	1,890	800
Interest Received	4	-
Interest Paid	(524)	(180)
Profit Before Tax	1,370	620
Taxation	(170)	(70)
Profit After Tax	1,200	550

Attachment 2 – Information on Satfar's pension scheme

The following information has been compiled from workings by Satfar's accounting staff and actuarial reports for the 2017 financial year:

	€
Interest Income on plan assets	16,500
Employer contributions to plan	550,000
Current service cost	600,000
Interest on plan liability	18,000
Fair value of plan assets at 31.12.2017	580,000
Present value of plan obligation at 31.12.2017	620,000

REQUIREMENT:

1. Write a memo to Orla O'Leary detailing and justifying the necessary accounting treatment for each of the outstanding accounting issues (1) to (7). You should provide journal entries, where appropriate.
(50 marks)

2. Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Consolidated Statement of Financial Position for the Satfar Group for the year ended 31 December 2017. As part of your answer, any applicable adjustments identified in Question 1 should be incorporated into these consolidated financial statements. You are not required to prepare notes to the consolidated financial statements.
(25 marks)

3. In order to prepare Orla for her next meeting with the financial advisors, evaluate three areas of the Consolidated Financial Statements of the Satfar Group for the year ended 31 December 2017 that they are likely to focus on during the meeting with her.
(15 marks)

4. Critically discuss Orla O'Leary's statements regarding 'sustainability reporting'. (10 marks)

[Total: 100 MARKS]

Appendix 1 – Present Value Table

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386

END OF PAPER

ADVANCED CORPORATE REPORTNG

PROFESSIONAL 2 EXAMINATION - AUGUST 2018

SOLUTION 1

Memorandum
Confidential

To: Orla O'Leary
From: Accountant
Subject: Satfar Ltd: Outstanding Issues
Date: xx/xx/xxxx

Issue #1 – Segmental Reporting – 8 MARKS

IFRS 8 requires a reporting entity to identify 'operating segments'. An 'operating segment' is a component of an organisation:

1. That engages in business activities from which it may earn revenue and incur expenses.
2. Whose operating results are reviewed regularly by the organisation's 'chief operating decision maker' to:
3. For which discrete financial information is available

It is apparent from the information provided that all four geographical areas of Satfar's operations will be identified as 'operating segments'.

IFRS 8 (Operating Segments) requires a reporting entity to report financial and descriptive information on 'reportable segments'.

'Reportable segments' are 'operating segments' that meet specific size criteria, outlined in IFRS 8:
1. Revenue of the operating segment is 10% or more of the combined revenue (€26,530) of all operating segments or
2. The absolute profit or loss of the operating segment is 10% or more of the greater of:
   - The combined absolute reported profit of all operating segments that did not report a loss: €1,080 + €1,180 = €2,260 and
   - The combined absolute reported loss of all operating segments that reported a loss: €430 + €80 = €510
   - The greater of the two figures above is €2,260 or
3. The assets of the operating segment are 10% or more of the combined assets (€21,815) of all operating segments.

We can calculate the relative size of the revenue, profit or loss and assets of each operating segment:

	Revenue € millions	**Profit/Loss € millions**	**Assets € millions**
Asia	20%	48%	25%
Australia	5%	19%	4%
Europe	66%	52%	66%
North America	9%	4%	4%

Asia, Australia and Europe meet the IFRS 8 size criteria for 'reportable segments'.

IFRS 8 requires total sales revenue of reportable segments to consist of 75% or more of total sales revenue or else additional operating segments must be identified as reportable segments. Total revenue from reportable segments (€24,230) as a percentage of company's overall sales revenue (€26,530) is 92%. The requirement is met.

IFRS 8 requires Satfar to prepare comparative segmental information for the reportable segments. In addition, Satfar must make the following disclosures in the financial statements for the financial year ended 31st December 2007 under IFRS 8 (Operating Segments):

1. How the company identified its 'operating segments' and the types of products/services from which each 'reportable segment' derives its revenue.

2. Information about the reported segment profit or loss, segment assets and segment liabilities, including the basis for measurement.

3. A reconciliation of total segment revenues, reported segment profit or loss, segment assets, segment liabilities and other material items to corresponding items in Satfar Ltd's financial statements.

4. Information about each profit/service or group or products/services even if the entity only has one reportable segment.

5. An analysis of revenues and certain non-current assets by geographical area.

6. Information about transactions with major customers.

Issue #2 – Lease – 8 MARKS

Under IFRS 16, on commencement of the lease, the lessee is required to recognise the following on its balance sheet:
- The 'right-of-use' asset
- A lease liability – the obligation to make a series of future lease payments.

Initial recognition: The right-of-use asset and the lease liability should initially be measured at the present value of the lease payments over the lease term.

The present value of the lease payments:
n = 5
i = 8%
pmt = -€50,000
PV = €199,636

Journal entry:

Dr	Right-of-use asset (SOFP)	199,636	
Cr	Lease liability (SOFP – non-current liability)		199,636

Subsequently, the right-of-use asset should be measured using the cost model under IAS 16 (Property, Plant & Equipment). The lease liability will be unwound using the implicit interest rate in the lease.

A lease schedule will aid in accounting for the lease liability for year 1:

Year	Opening capital balance	Lease Payment	Interest/Finance Expense (P&L)	Difference: to capital sum	Closing capital balance
0					199,636
1	199,636	(50,000)	15,971	34,029	165,607
2	165,607	(50,000)	13,249	36,751	128,856

Therefore, the accountant's previous journal entry should be reversed:

Dr	Bank (SOFP)	50,000	
Cr	Lease expense (P&L)		50,000

The correct journal entries are:

Dr	Depreciation expense (P&L)	39,927	
Cr	Accumulated depreciation (SOFP)		39,927
	Depreciation on a straight line basis over 5 years. [Cost (€199,636) / 5 years]		
Dr	Lease liability (SOFP – non-current liabilities)	50,000	
Cr	Bank (SOFP)		50,000
	The annual lease payment of €50,000.		

Dr	Interest/Finance Expense (P&L)	15,971	
Cr	Lease liability (SOFP)		15,971

The interest expense calculated using the implicit interest rate in lease – see working 1 in lease schedule.

Dr	Lease liability (SOFP – Non-current liabilities)	36,751	
Cr	Lease Liability (SOFP – Current liabilities)		36,751

Presentational journal entry to reclassify the capital portion of the lease liability that is due in the next 12 months.

Issue #3 – Impairment of asset – 6 MARKS

IAS 36 (Impairment of assets) applies. The core principle of IAS 36 is that an asset must not be carried in the financial statements at more than the highest amount to be recovered through its use or sale. If the carrying amount exceeds the recoverable, the asset must be impaired.

The carrying amount of the machine is: €1,000,000 (cost) - €250,000 (accumulated depreciation) = €750,000.

The recoverable amount is the higher of:

(a) Fair value less costs to sell: €100,000 (fair value) - €10,000 (costs to sell) = €90,000

(b) Value in use:
- o PV of future cash flows: i=9%, n=3years & pmt=€300,000
- o PV of future cash flows: €759,388

Therefore, the recoverable amount of the machine is its value in use of €759,388.

The recoverable amount of the machine is higher than its carrying amount; therefore an impairment should not be recognised on the machine. Satfar should provide the auditors with the workings and supporting documentation for the value in use calculation.

Issue #4 – Investment in shares – 5 MARKS

The relevant accounting standard is IFRS 9 (Financial Instruments). It appears, from the information in the case, that the portfolio of shares is being held for trade. Under IFRS 9 equity investments held for trade must be accounted for using a fair value through the profit or loss model (FVTPL).

Under the FVTPL model, the equity investment should initially be measured at its fair value. Transaction costs should be expensed through the profit or loss as incurred. Therefore, the accountant's treatment of the transaction costs was incorrect. The necessary correcting journal entry is:

Dr	Transaction cost expense (P&L)	6,000	
Cr	Financial asset: equity investment (SOFP)		6,000

The financial asset should be measured at its fair value at each subsequent reporting date, with any changes in fair value taken to the profit or loss for the year.

The fair value of the equity investment has increased by 300,000 shares x (€1.56 - €0.98) = €174,000. This gain should be recognised in Satfar's profit or loss for 2017. The necessary journal entry is:

Dr	Financial asset: equity investment (SOFP)	174,000	
Cr	Gain on equity investment (P&L)		174,000

Issue #5 – Post balance sheet event – 6 MARKS

IAS 10 (Events After the Reporting Period) is the applicable accounting standard. IAS 10 outlines that an "event after the reporting period" is an event which occurs between the end of the reporting period and the date that the financial statements are approved.

The standard differentiates between adjusting and non-adjusting events. Adjusting events provide further evidence on a condition that existed at the reporting date. Adjusting events must be adjusted in the financial statements.

Non-adjusting events are events that are indicative of conditions that arose after the reporting date. No adjustments are made for non-adjusting events. The flood occurred on the 3rd January 2018. The condition (the flood and damage to the inventory) did not exist at the reporting date of 31st December 2017. Therefore, the event is a non-adjusting event and Satfar does not have to adjust the 2017 financial statements for the €650,000 inventory loss.

However, IAS 10, states that if the event is material then the reporting entity must disclose the nature of the event and an estimate of its financial effect. Therefore, as the inventory loss is material, Satfar would have to make a disclosure describing the nature of the event (a flood affecting a distribution warehouse) and an estimate of the financial effect of the event (€650,000 damage to inventory) in its 2017 financial statements.

Issue #6 – Government grant – 7 MARKS

The applicable accounting standard is IAS 20 (Accounting for Government Grants). IAS 20 states that government grants should be recognised when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received.

A government grant related to income can initially be recognised by either:
- Reporting the income separately as 'other income' or
- The grant income can be deducted from the related expense.

On initial receipt of the government grant of €200,000, Satfar can recognise the amount as deferred income. The necessary journal to correct the accountant's treatment of the grant is:

Dr	Government Grant (SOFP - CL)	200,000	
Cr	Deferred income (SOFP)		200,000

The deferred income should be recognised in subsequent reporting periods by matching the income with the related costs that the grant is intended to compensate. Therefore, at the end of the first year, Satfar should recognise the portion of the grant that relates to 2017 in income. This can be done by offsetting the income against the related expense:

Dr	Deferred income(SOFP)	100,000	
Cr	Salaries & Wages Expense (P&L)		100,000

Or else, the income can be recognised in a separate line item for other income:

Dr	Deferred income(SOFP)	100,000	
Cr	Other income (P&L)		100,000

At the end of the first year, Satfar does not expect to meet the grant conditions for the next year. The portion of the government grant (€100,000) that relates to 2018 will become repayable under the conditions of the grant. The balance of deferred income should be reduced by the amount of the grant that is repayable:

Dr	Deferred income(SOFP)	100,000	
Cr	Provision for grant repayment(SOFP)		100,000

Issue #7 – Defined benefit pension scheme – 10 MARKS

The applicable accounting standard is IAS 19 (Employee Benefits). Satfar's pension plan is a defined benefit plan as Satfar has an obligation to provide agreed post-employment benefits and the entity carries the actuarial and investment risk associated with the pension scheme.

The accountant has accounted for the employer contributions to the scheme incorrectly by simply recognising the employer contributions in the profit or loss. IAS 19 requires a defined benefit liability (asset) to be recognised on the balance sheet at the new amount of the present value of the obligation less the fair value of plan assets at reporting date.

A defined benefit plan may give rise to current service cost and net interest expense, which should be recognised through the profit or loss. In addition, any actuarial gains and/or losses from re-measurement of the defined pension liability (asset) should be recognised through other comprehensive income.

Workings – Calculation of Actuarial Gain/Loss:

Pension Asset

Op balance	0		
Return on assets	16,500		
Employer contributions	550,000		
Remeasurement –Actuarial Gain	13,500		
		Closing Bal	**580,000**

Pension Liability

		Op Bal	0
		Interest Cost	18,000
		Current Service Cost	600,000
		Remeasurement – Actuarial Loss	2,000
Closing Bal	**620,000**		

Net Actuarial Gain: €13,500 - €2,000 = €11,500

Journals:

DR	Net Interest Expense (P+L)	1,500	
CR	Pension Liability		1,500
	Net interest expense		
DR	Current Service Cost (P+L)	600,000	
CR	Pension Liability		600,000
	Current service cost		
DR	Net Pension Liability	11,500	
CR	Remeasurement – Actuarial Gain (OCI)		11,500
	Recogn of net actuarial loss in OCI.		

Finally, the accountant's previous accounting treatment for the employer's contributions should be corrected:

DR	Net Pension Liability (SOFP)	550,000	
CR	Pension Contribution Expense (P&L)		550,000

Contributions paid into defined benefit scheme – correcting previous accounting treatment of expensing contributions through P&L.

SOLUTION 2 – 25 MARKS

Statements of Financial Position as at 31st December 2017

ASSETS	Satfar Ltd €'000	VeTrack Ltd €'000		Satfar Group €'000
Non-Current Assets				
Land	4,000	300		4,300.000
Investment in VeTrack Ltd	3,000	-	-3,000(8)	-
Intangible Assets	1,000	2,800		3,800.000
Property, Plant & Equipment	5,900	700		6,759.709
-Cost	9,900	1,500	+199.636(1)	11,599.636
-Accumulated Depreciation	-4,000	-800	-39.927(1)	-4,839.927
Goodwill			+1,245(8)	1,245.000
Current Assets				
Equity Investment – Barry Donuts	300	-	-6(4)+174(4)	468.000
Current Account – Satfar Ltd		500	-200(8)-300(8)	-
Inventory	1,300	100		1,400.000
Trade Receivables	1,450	50		1,500.000
Short-term Investments	500	-		500.000
Cash	95	120	+50 (1)-50(1)+200(8)	415.000
TOTAL ASSETS	**17,545**	**4,570**		**20,387.709**
EQUITY & LIABILITIES				
Equity				
Ordinary Share Capital	3,000	1,000	-1,000(8)	3,000.000
Share Premium	800	-		800.000
Retained Earnings	5,600	1,500	-1,200(Satfar I/S)-1,500(8)+1,917.102(Group I/S)	6,317.102
Non-Controlling Interests			+195(8)+55(8)	250.000
Non-Current Liabilities				
10% Debentures	5,025	1,740		6,765.000
Lease Liability (NCL)			+199.636(1)-50(1)+15.971(1)-36.751(1)	128.856
Net Pension Liability			+1.5(7)+600(7)-11.5(7)-550(7)	40.000
Current Liabilities				
Government Grant	200	-	-200(6)	
Deferred income			+200(6)-100(6)-100(6)	
Provision for grant repayment			100(6)	100.000
Current Account – VeTrack Ltd	300		-300(8)	
Trade Payables	1,220	230		1,450.000
Bank Overdraft	600	-		600.000
Corporation Tax	240	-		240.000
Dividends Declared	100	-		100.000
Accruals	460	100		560.000
Lease Liability			36.751(1)	36.751
TOTAL E&L	**17,545**	**4,570**		**20,387.709**

Statements of Profit or Loss and Other Comprehensive Income
For the Year Ended 31st December 2017

	Satfar Ltd	VeTrack Ltd		Satfar Group
Profit or loss:	**€'000**	**€'000**		**€'000**
Operating Profit	1,890	800	+50(1)-39.927(1)-6(4)-600(7)+550(7)	2,644.073
Gain on investment in shares			+174(4)	174.000
Other income			+100(6)	100.000
Interest Received	4	-		4.000
Interest Paid	-524	-180	-15.971(1)-1.5(7)	-721.471
Profit Before Tax	1,370	620		2,200.602
Taxation	-170	-70		-240.000
Profit After Tax	1,200	550		1,960.602
Other comprehensive income:				
Re-measurement gain			11.5(7)	11.500
Total Comprehensive Income				1,972.102
Attributate to:				
Equity holders of parent				1,917.102
Non-controlling interests			+55(8)	55.000
				1,972.102

Workings:

Analysis of Equity of VeTrack

		Satfar	NCI
AT ACQUISITION	**Total**	**90%**	**10%**
Share capital	1,000		
Retained profit	950		
	1,950	1,755	195
Consideration paid		3,000	
Goodwill		1,245	
CURRENT YEAR			
Profit after tax	550	495	55

Reversal of current accounts:

	Dr	Cr
Bank	200	
Current Account - Satfar		200
Current Account - VeTrack	300	
Current Account - Satfar		300

SOLUTION 3 – 15 MARKS

A thorough analysis of any reasonable points is acceptable.

Critical areas of the company's financial statements that the advisors may discuss at the meeting include:

(1) Leverage. The company has a high debt-to-equity ratio of approximately 66% (€6,933.856/€10,367). The advisors will likely focus on capital structure and the maturity terms/future cash flows of the 10% Debentures.

(2) Liquidity. Related to point (1), the advisors may focus on liquidity concerns in the group. The group has a high interest cost (€721,471) and interest cover is approximately 4x (€2,922.073 / €721.471). The future expected growth prospects of the group may be a topic of discussion.

(3) Segments. The Acquisition of VeTrack. The VeTrack business represents a significant component of the group. The advisors may be interested in VeTrack's historical financial information and future growth prospects.

SOLUTION 4 – 10 MARKS

Any discussion on the motivations of managers to disclose social and environmental info linked to the accountabilities of a business i.e. managers should disclose information where they believe the company has a responsibility. If the manager believes that the company has a wider range of responsibilities, then the various stakeholders have a right to accountability (information on company's performance toward meeting its wider responsibilities)

People view the responsibilities of corporations differently:

A. Narrow view:
- It is a private company and members of public have minimal rights.
- A company has responsibilities to capital providers; in line with the law.

Managerial Branch of Stakeholder Theory:
- If the company's managers are motivated by maximizing shareholder value – may only use social and environmental reporting to win approval of economically powerful stakeholders.
- The stakeholders addressed by the social and environmental report are focused on economically powerful stakeholders (EPS).
- Economically powerful stakeholders could be consumers (during a recession), semi-skilled employees (during economic boom) and EPS may shift over time.

B. Broader view:
- A company is an entity which operates within society, with the consent of society i.e. there is a social contract whereby:
  - o Company can operate & accumulate profit within a society.
  - o Society expects company's actions to conform to societal values and norms.
- Therefore, members of the public have a right to accountability in relation to whether or not the company has performed in relation to its wider responsibilities.

Ethical Branch of Stakeholder Theory:
- Companies corporate social responsibility (& sustainability reporting) motivated by broader ethical consideration of reducing negative impact of company's operation on every affected person/entity etc.
- Stakeholders might include:
  - ➢ All current & future people potentially impacted by company's operations.
  - ➢ All animals (current & future).
  - ➢ Any other elements of nature affected by company's operations.

The information needs of stakeholders differ. The view that all information needs will be met through meeting the information needs of investors is not necessarily accurate:

- ➢ Managerial Stakeholder Theory:
  - o Company is concerned about economically powerful stakeholders.
  - o Easy to identify stakeholders.
  - o Stakeholders most likely to be individuals living in developed countries.
  - o They are accessible through commercial mass media e.g. tv/radio/newspaper.

- ➢ Ethical Stakeholder Theory:
  - o Company is concerned about all stakeholders impacted by its operations.
  - o Dialogue may be problematic.
  - o Companies need to engage using a variety of channels of communication to obtain needs, views, expectations etc. of these stakeholders.

Some companies use websites to establish dialogue with stakeholders across the world.

Can obtain knowledge of stakeholder expectations through a "Social Audit".