ADVANCED CORPORATE REPORTING

PROFESSIONAL 2 EXAMINATION - AUGUST 2019

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

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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 - Hometown Athletic Football Group

Hometown Athletic Football Club (Hometown) is a professional football club based in Europe. The club was founded in 1972 and is very successful, having won four league titles over the past ten years. It is the only club to have completed a league season unbeaten.

Three months ago, in April 2019, you landed your dream job and are now financial controller of Hometown Athletic Football Group. Having spent 10 years in various management accounting roles, you successfully applied for the position. You are a lifelong supporter of Hometown FC, and a passionate soccer fan. This was your dream job, or so you thought!

It is 11.30pm on 26 July 2019 and you are still in your office. The weather has been beautiful for the past two weeks but you have seen little sunshine. You have been attempting to complete the Hometown Group financial statements for the year ended 30 June 2019. It is proving difficult. The previous financial controller left the company rather suddenly in April, and his work files are in a bit of a mess. On top of that, the Chief Financial Officer, Patrick Cordon, is on holiday in Australia celebrating his 25 year wedding anniversary. He is not available for another two weeks. You are feeling rather tired and deflated. This is not how you envisaged life as financial controller of your favourite club.

However, you are making progress. In the last two days, you have managed to prepare a first draft of the financial statements of Hometown and each of its two subsidiaries, Salvon Ltd. (Salvon) and Exonic Ltd. (Exonic) - see **Appendix 1** on pages 5 and 6. Salvon is a sports retailing company acquired by Hometown in 2003 for €40m when Salvon's reserves were €22m. Hometown owns 75% of Salvon's equity share capital. The other subsidiary, Exonic, is a 3 star hotel group whose properties are located close to large football stadia. On 1 July 2018, Hometown acquired 90% of the net assets of Exonic when Exonic's reserves stood at €17m. This acquisition has proven to be difficult as there was a delay in establishing the fair values of net assets at the date of acquisition. These values arrived by email just this morning but they have not been incorporated into the draft accounts below. The acquisition of Exonic was funded by issuing bonds that are repayable in six years' time.

You are now ready to tackle the list of outstanding matters that need to be resolved before you meet with the CEO, Frances Pollock, next week (the list is summarised below). The CEO has quite a knowledge of accounting and has e-mailed you with two further specific points which she would like to discuss with you next week.

The first point refers to the quality of corporate reporting. In her email, the CEO states *'From discussions with the previous financial controller, I gather that many new International Financial Reporting Standards have been issued recently and I have to wonder if such changes will actually make any difference at all to the quality of corporate reporting'*. The second point in the email from the CEO states *'I believe that, given positive economic forecasts and a strong transfer market, Hometown would be better moving to fair value measurement, wherever possible. The reported value of the group assets will be higher under fair value accounting and any increase in asset value will be reported in full in the income statement. It's a win-win situation. However, I am concerned that the re-emergence of the Prudence concept in the revised Conceptual Framework will put a stop to fair value measurement in financial reporting. I would like your expert advice on this matter'*. So here you are. It is midnight and you need to sleep. You shut down your computer and pack away your files. As you close your office door and venture out into the balmy midnight air you think…Oh well at least Hometown finished top three in the league this year. Olé!

OUTSTANDING ISSUES IN RESPECT OF THE HOMETOWN GROUP FINANCIAL STATEMENTS 30 June 2019.
Note: You may assume that the transactions below are net of taxation

1. Hometown's accounting policy for intangible assets (which includes the costs of acquiring players and key football management staff registrations) is to capitalise costs associated with the acquisition of player and key football management staff registrations and amortise these costs in equal annual instalments over the period of the respective contracts. However, the following matters have not been resolved:

(i) Jordan Hughes, a midfielder, was acquired by the club on 1 July 2016 for a transfer fee of €10m. He signed a contract with the club for five years. On 1 July 2018, Hughes suffered a knee injury which prevented him from playing for the 2018/2019 season. He had not returned to full fitness by the end of the year and medical reports suggest that he may never make a full recovery. Hometown could transfer him to a second division club for €2m (less disposal costs of €80,000) while his value-in-use is estimated to be €1.5m. At this point, there is no firm decision in place to sell Hughes and no amortisation charge has been made for this player in 2019.

(ii) One of football's rising stars is Bobby Belling. Belling plays in defence for Hometown. Belling signed a five-year contract in 2017 and a transfer fee of €50m was paid to sign him. A number of offers have subsequently been made to buy Belling. The estimated market value for the player at 30 June 2019 was €90m. Although Belling is not on the market, the CEO would like to revalue this player in the financial statements to reflect his fair value (you may assume that the 2019 amortisation charge has already been included in the draft figures).

In addition to the transfer fee paid for Belling, the contract also includes a clause that further fees will be payable to the vendors, from whom he was bought, should he make a specified number of first team appearances. It looks probable that by the end of 2019, the specified number of appearances will be achieved. If that happens, additional fees of €8m will be payable during 2020. No adjustments have been made to the financial statements to reflect this.

(iii) Pierre Caron was signed in 2018 for €22m for a period of five years. The French player was signed with the hope of bringing Hometown to the Champions' League in 2019. However, his performance so far has been disappointing. He scored just four goals in 26 appearances. A decision to sell Caron was made in May 2019, and an offer was made by another club before the financial year end. A transfer fee of €16.5m was tentatively agreed. However, the full details of the contract are subject to negotiation. It could take months to finalise the deal. Under official rules, a football club may consider expressions of interest from other clubs until the final contract is signed. You estimate that it will cost €0.3m to complete the deal. Although the 2019 amortisation charge for Caron has been included, no adjustment has been made in the financial statements to reflect his sale and transfer.

2. Hometown sell a fixed number of season tickets each year. These tickets go on sale in June, prior to the commencement of the following football season. There are two types of season ticket, SK1 and SK2. SK1 is the basic package which comprises entry to 19 home matches. SK2 gives the holder additional rights to buy discounted tickets for cup ties and European games. The season tickets, once purchased, are non-refundable.

In June 2019, the following 2019/2020 season tickets were sold:

Number of Tickets	Ticket Type	Price per ticket
10,000	SK1	€490
12,000	SK2	€595

The cash relating to season ticket sales for the 2019/2020 season was recorded in current revenue. The previous financial controller put a note on the file to say that he accounted for the season tickets in this way as the ticket fees are non-refundable. As a consequence, there would never be any obligation on Hometown to repay the amounts received.

3. In July 2018, Hometown signed a four-year sponsorship deal with a large insurance company, RON. The terms of the deal were that RON would pay €100m upfront in exchange for having its name and logo displayed on the football team shirts and on various advertisement boards located in the stadium. The payment was entered in the accounts as a debit to Cash & Cash Equivalents and a credit to Non-Current Financial Liabilities. No other entries have been made in relation to this income in the 2019 draft financial statements.

A separate payment of €10m was due from RON in June 2019. This relates to pre-sponsorship support and exposure in the months leading up to the sponsorship period. Although RON has been invoiced for this payment, no entries have been made in the draft statements. You are unsure if you can claim all of this as revenue in 2019, or if it should be spread over the sponsorship period.

4. Hometown's club stadium is included under Property, plant and equipment in the Club's statement of financial position. The stadium cost €200m to construct in 2013. The accounting policy of the Hometown group states that property is held at historic cost and is depreciated over 50 years.

   During the months of July and August 2018, the club leased the stadium to 'GoRock', a concert promoter. Two music festivals were held on the premises during this period, generating income of €5m for the club, which was credited in full to revenue. You are now reviewing the provisions of IFRS16 - *Leases* and are wondering if the existing accounting entry is correct. You have finished reading the first half of IFRS16, the section on lessee accounting, so you know something about Right of Use Assets, Lease Liabilities and Effective Interest Rates. You have done calculations and now estimate that the present value of the lease payments at an effective rate of interest over a three-month period is €1.9m. However, you are not sure what to do next.

5. The following values relate to Exonic as at 1 July 2018. As mentioned above, these valuations arrived by email just this morning so they have not been incorporated into the draft accounts:

Asset	Book Value on 1 July 2018 €000	Fair Value on 1 July 2018 €000	Difference €000
Property, plant and equipment	41,000	43,000	2,000
Inventory	1,400	1,100	(300)
Trade receivables	5,900	5,300	(600)

   On the date of acquisition, Property, plant and equipment had a remaining useful life of 25 years. There were no items of Property, plant and equipment sold during the year, but the inventory purchased was sold at a profit before the 2019 year end and receivables were collected in full.

   You can assume that, for Salvon, the book values of net assets at the date of acquisition were equal to their fair value.

6. The acquisition of Exonic on 1 July 2018 was financed by issuing bonds for €30 million. These bonds have a par value of €33.5 million and an interest rate of 4% pa. The terms of the loan contracts state that interest on the loan is paid annually while the principal will be repaid in 6 years' time. The effective interest rate on the loan is 5%. The bonds were issued on 1 July 2018, and the effective rate is equal to the cost of borrowing for Hometown. The previous financial controller was unsure regarding what to do with the loan. The only entry made was to debit Cash & Cash Equivalents and credit Non-Current Liabilities with €30 million. The actual interest paid on the loan for the year ended 30 June 2019 has been properly treated in the financial statements. You have established that Hometown FC's financial liabilities should be stated at amortised cost.

7. It has come to your attention that no accrual has been made by Hometown FC for outstanding staff holiday entitlements over the past four years. Based on your calculations, you estimate that €1.1m should have been accrued in the financial statements at the end of each of the years 2016 to 2018. Upon further review, you establish that apart from €600,000, all of these entitlements had been taken before the end of 2019. Holiday benefit entitlements relating to 2019 and outstanding at the year-end are estimated at €1,250,000. You should assume that holiday leave can be carried forward indefinitely.

   In addition, an actuarial review has been carried out on the company's defined benefit pension plan, and you have been provided with the results. It is estimated that the present value of the defined pension obligations is now €20m (currently stated at €22.5m) and the market value of plan assets is €13.3m (currently stated at €12.5m). The defined obligations have been calculated using a market discount rate of 8%.

8. A review of Salvon's accounting records, along with correspondence from a payments officer, has alerted you to some fraudulent activity within the Group. This also explains why the previous financial controller left the company in such a hurry. It has been discovered that the former controller had been transferring funds for a number of months from Salvon's online bank accounts to another account which now transpires was in his own personal name. The total amount transferred was €450,000. The payments officer is shocked and upset, having enjoyed working with the previous financial controller. 'He was so charming'. Aware that she has contravened company policy by granting full access to the bank accounts, she just cannot believe this could happen. She has asked you

if it would be possible to omit this event from the 2019 accounts. Knowing that she is in trouble and will probably lose her job over it, she would like you to 'roll this on a year' so that she might have an opportunity at securing another job before anyone notices. *'Anyway'* she says proudly displaying her knowledge of International Financial Reporting Standards, *'IAS10 – Events after the Reporting Period states that events that occur after the reporting period are non-adjusting. As this fraud was only discovered in July 2019 it would be correct accounting procedure to report it in the 2020 financial statements and not 2019…. I will be well gone by then'.*

She has also informed you that the former financial controller has left the country and it is unlikely that Hometown's senior management will be able to locate him or recover the funds.

9. Goodwill incurred on the acquisition of both subsidiaries, was calculated using the parent entity/ proportionate net assets method. You have now established, following an impairment review on 5 July 2019, that the recoverable value of both subsidiaries remains higher than their carrying values.

REQUIREMENT:

(a) Prepare a memorandum which:

(i) Evaluates and analyses each of the items 1 to 9 on Pages 2 to 4. Your evaluation and analysis should include justification, based on appropriate IFRS, for your recommended treatment as well as the relevant calculations of how these will impact the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income for the Hometown Athletic Football Group.

(45 marks)

(ii) Includes the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of the Hometown Athletic Football Group for the year ended 30 June 2019 in accordance with relevant IFRS (showing all relevant workings).

(30 marks)

(b) In preparation for your meeting with the CEO next week, prepare a brief report which:

(i) Addresses her query over the quality of corporate reporting. In writing this section of the brief report, you should refer to the following International Financial Reporting Standards and explain to what extent each Standard may have contributed to an improvement in the quality of corporate reporting.

- IFRS15 - *Revenue from Contracts with Customers*
- IFRS16 - *Leases*

(15 marks)

(ii) Discusses the concept of Prudence in corporate reporting. In this section of your report, you should explain with reference to relevant International Financial Reporting Standards what the concept of Prudence means, outline the current practice of prudence in financial reporting, and address the concerns of the CEO on the possible effect that the re-introduction of the prudence concept may have on the application of fair value measurements in financial reporting.

(10 marks)

Appendix 1:
The draft financial statements for the HOMETOWN Athletic Football Club, SALVON Ltd. AND EXONIC Ltd.

Draft statements of financial position as at 30 June 2019

	Hometown €'000	Salvon Ltd. €'000	Exonic Ltd. €'000
ASSETS			
Non-Current Assets			
Property, plant and equipment (NBV)	360,000	30,000	40,000
Intangible Assets	540,000	10,000	
Investment in SALVON	40,000		
Investment in EXONIC	30,000		
Other financial Assets	20,000		
	990,000	40,000	40,000
Current Assets			
Inventories	7,600	4,000	1,000
Trade Receivables	50,000	40,000	6,000
Cash and cash equivalents	4,000	8,000	300
	61,600	52,000	7,300
TOTAL ASSETS	**1,051,600**	**92,000**	**47,300**
EQUITY and LIABILITIES			
Equity			
Ordinary shares €1 shares	200,000	20,000	12,500
Share Premium	116,000		
Retained Earnings	305,500	66,000	20,000
	621,500	86,000	32,500
Non-Current Liabilities			
Financial Liabilities	209,000		12,000
Provisions		400	400
Retirement Benefits	10,000		
	219,000	400	12,400
Current Liabilities			
Payables	184,080	4,400	2,000
Financial Liabilities	25,920		
Current Taxation	1,100	1,200	400
	211,100	5,600	2,400
TOTAL EQUITY AND LIABILITIES	**1,051,600**	**92,000**	**47,300**

Draft statements of profit or loss and other comprehensive income for the year ended 30 June 2019

Note: Player Trading represents amortisation, impairment and profit (loss) on disposal of intangible non-current assets, and other football trading-related income and expenditure

	Hometown €'000			Salvon €'000	Exonic €'000
	Operations Excluding Player Trading €'000	Player Trading (note) €'000	Total €'000		
Revenue	1,308,000		1,308,000	80,000	63,400
Operating Expenses	(520,000)	(160,000)	(680,000)	(32,000)	(56,000)
Operating profit/Loss	788,000	(160,000)	628,000	48,000	7,400
Finance and Other Income			8,000		
Finance Costs			(10,000)	(4,000)	(2,200)
Profit on Ordinary activities before tax			626,000	44,000	5,200
Taxation			(2,400)	(4,000)	(2,200)
Profit for the period			623,600	40,000	3,000

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

ADVANCED CORPORATE REPORTNG

PROFESSIONAL 2 EXAMINATION - AUGUST 2019

(a) Memorandum

Prepared by: A.N. Accountant, CPA, Financial Accountant, Hometown Athletic Football Group
Date: 27 August 2019
Re: Annual Financial Statements for the Year to 30 June 2019 and Matters Arising

I have included in Appendix 1 to this memorandum an analysis and explanation of the accounting treatment required under IFRS for the issues outstanding, as of yesterday, with regards to the preparation of the Group financial statements for the year ended 30 June 2019. The impact of the treatment of each issue is clearly shown. Appendix 2 contains the draft consolidated financial statements for the year in question.

I will be pleased to discuss any matters relating to these.

____
A.N. Accountant, CPA

Adjustments to HOMETOWN Draft Financial Statements

Issues	**Marks**
Issue 1	15
Issue 2	4
Issue 3	4
Isue 4	4
Issue 5	5
Issue 6	5
Issue 7	5
Issue 8	3
	45

ISSUE 1 PLAYERS (15 marks)

IAS38:

An Intangible asset with a finite useful life is amortised and an asset with an indefinite useful life is not amortised.[88]

Football players are amortised over their contract period [97] (Hughes 5 years)
The amortisation period should be reviewed regularly and changed where appropriate [104]
An impairment of a player can indicate that the amortisation period needs to be altered [105]
Impairment of Inangible assets shall be measred in accordance with IAS36 [111]

(i) Jordan Hughes		**€'000**
	Cost	10000
	Amortisation	4000
	Period from 1/7/16 to 30/6/18	
	Written down value 31/06/18	6000
	(Currently in accounts)	
	ADJUSTMENTS REQUIRED:	
	Amortise 1/7/18 to 30/6/19	2000
	Impairment on 30/06/19	
	Recoverable Value	1920
	Impairment	2080
	Amortise recoverable value over remaining period (2 years)	

Journal:			
(Hometown)	**Db Operating Expenses**	**4080**	
	(Player trading)		
	Cr Intangible Assets		**4080**
Being amortisation and IMPAIRMENT of Jordan Hughes			

(iii) Bobby Belling

An entity shall chose either the cost model or the revaluation model [IAS38.72]
revaluation model is appropriate only where there is an active market for the intangible [[IAS38.78]
As Bobby Belling is a unique intangible there revaluation would not be appropriate.
The market value of this player should be ignored. The player should be valued at cost less amortisation and impairment losses

The additional fees payable to the vendor must be considered. Hometown must question the probability is that additional fees will be paid to the vendor. The provisions of IAS 37.14 should be considered:
A provision shall be recognised when:

1. An entity has a present obligation as a result of a past event
 (Contract signed in 2017 to pay additional fees if conditions apply)
2. It is probable that an outflow of resources will be required to settle the obligation
 (*The case tells us that 'it appeared probable that the number of appearances would be achieved')*
3. A reliable estimate can be made of the liability
 (fee €8m)

A provision should be recognised. The amount recognised shall be the best estimate of the expend required to settle the present obligation at the end of the reporting period.
The time value of money should be considered [IAS37.45]

Amount	8000	
Discount		(not necessary to discount as payment will
	8000	be made in the next 12 months)

This fee represents an additional transfer payment
As transfer fees are treated as an intangible asset this additional fee should be capitalised and included in intangible assets and amortised over three years.

		Debit	Credit
Journal		**€'000**	**€'000**
(Hometown)	**Db Intangible assets**	**8000**	
	Cr Current Liabilities		**8000**
Being Provision for transfer fee			

(ii) Pierre Caron
Pierre CARON should be classified as a Non Current Asset held for Sale in accordance with IFRS5. *The conditions for an asset to be classified as held for sale* include:

NON-CURRENT ASSETS.... [IFRS5.7-12]

1. Available for sale in its present use
2. The sale must be **highly probable**
3. The sale is expected to be completed within 12 months of classification of sale
4. It is unlikely that the sale will be withdrawn

Caron is available for sale in its current state. The sale is highly probable although the final terms of the contract are uncertain (negotiations could take months). The uncertainty means that a sale cannot be recognised. In addition as the club can continue to consider expressions of interest from other companies the sale is not complete

Assets classified as held for sale shold be presented at the lower of the carrying value and it fair value [IFRS5.15]:

Carrying value Caron	17600	
(22000/5*1) 30.06.19		
Fair value less cost to sell		
(16.5m - 0.3m)	16200	
TRANSFER AND CLASSIFY AS HELD FOR SALE AT		16200

		Debit	Credit
Journal			
(Hometown)		**€'000**	**€'000**
	Db Non Current Asset held for sale	**16200**	
	Cr Intangible assets		**17600**
	Db Operating exps (player trading)	**1400**	
Being Transfer of Caron to Asset Held for Sale			

ISSUE2 Revenue season tickets (4 marks)

No revenue should be recognised in the 2019 financial statements. Receipts for 2019/2020 season have been received in advance. According to IFRS 15 Revenue revenue is recognised upon satisfaction of distinct performance obligations. This has not happened in the current year Advance receipts should be treated as a liability in the financial statements.

Journal		Debit	Credit
(Hometown)		€'000	€'000
	Revenue		
	(490*10000) + (595*12000)	12040	
	Deferred Income Current Liabilities		12040

ISSUE3 Revenue from sponsorship deal (4 marks)

There are two separate contracts to be considered (1) Sponsorship deal over 10 years and (ii) pre contract services

1. Sponsorship Deal

It is assumed that steps (1) - (3) are satisfied as the sponsorship deal is already agreed and the TP is evident
Step (4) is not relevant as there is only one PO in contract
Revenue will be recognised over time (step 5) as the PO will be completed over time
Revenue will be recognised on a straight line over the period of the contract €25m per annum
The first tranche can berecognised as revenue in 2019 year end

2. Pre sponsorship Revenue

This revenue can be recognised in full immediately. The PO has already been satisfied. The pre sponsorship Work has been completed. Revenu of €10m can be accrued at the 2019 year end

Journal		Debit	Credit
(Hometown)		€'000	€'000
	Db Receivables	10000	
	Db Non Current Financial Liabilities	25000	
	Credit Revenue		35000

Remaining Sponsorship revenue prepaid should be moved from non current financial liabilities to

Deferred Income < one year	**€25m**
Deferred Income > one year	**€50m**

ISSUE 4 Leasing (4 marks)

Financial Controllers comments re Leasing are incorrect. Hometown is the Lessor in the contract with GoRock.
The rules for Lessors in IFRS16 are similar to the leasing rules of the previous accounting standard on leases IAS17
Under IFRS16 the lessor must classify the lease into a finance lease or an operating lease. This lease is clearly an opertaing lease (lease does NOT transfers substantially all risks and rewards of ownership)
Right Of Use Asset and Lease liabilities are not relevant to lessors.
A lessor should recognise lease income in the Statement of Comprehensive Income. [IFRS16.81]
The income generated from the lease of the stadium €5m should not be included in Revenue as the income does not form part of the Ordinary activities of HOMETOWN. The income should be reclassified as OTHER INCOME in the financial statements.

Journal		Debit	Credit
(Hometown)		€'000	€'000
	DbRevenue	5000	
	Cr Other Income		5000

Issue (5) Fair value adjustment at date of Acquisition (5 marks)

[IFRS3.18] All assets in a business combination are acquired at fair value

Journal		Debit	Credit
EXONIC		€'000	€'000
	Db PPE	2000	
	Cr Receivables at acq		600
	Cr Inventory at acq		300
	Cr Reserves at acquisiton		1100
EXONIC	Db operating expenses	80	
	Cr PPE		80
EXONIC	Db Receivables	600	
	Db Inventory	300	
	Cr Post Acq Res		900

Issue (6) Financing Acquisition of Exonic (5 marks)

The liability should be classified and accounted for at amortised cost (ie it is not going to be traded) [IFRS9 4.2.1]
Loan is initially measured at Fair value less transaction costs
Interest charged to profit and loss is the effective interest rate and not the actual interest rate paid

Loans issued at a discount

Par Value of Loan	33,500
Interest @ 4%	1,340
Interest @ 5%	1,675
Difference	335

Journal		Debit	Credit
(HOMETOWN)		€'000	€'000
	Debit Finance Charges	335	
	Credit Loan (non current liability)		335

Issue (7) Employee Benefits (5 marks)

The expected cost of short-term compensated absences should be recognised as the employees render service that increases their entitlement (accumulating compensation)or, in the case of non-accumulating absences, when the absences occur. [parg11]
(holiday pay, sick pay, st disability, maternity, jury, paternity, military)

An entity shall measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. (parg 14)Example (1)

Journal		Debit	Credit
(HOMETOWN)		€'000	€'000
	Debit Opening Reserves	600	
	Db Operating Expenses	1250	
	Cr Other Paybles (<12 months)		1850

Accrued Holiday expenses ommitted in error from 2016 -2018 accounts. However this provision would have been reversed in the following periods except for €600,000 that is still outstanding. This can be carried forward indefinitely.

The defined benefit pension plan has been subject to an actuarial valuation.
According to the valuation the defined obligation has reduced in value while the market value of the plan assets has increased.
The overall difference is credited and presented in 'other Comprehensive Income' in the Statement of profit and loss and other comprehensive income

Journal (HOMETOWN)		**Debit €'000**	**Credit €'000**
	Debit Retirement Liability	**2500**	
	Debit market value of Plan Assets	**800**	
	Credit OCI		**3300**

Issue (8) IAS10 Events After the year end (3 marks)

The event in question is an adjusting event.

The event (theft of company resources) occurred before the year end although the Financial controller has only become aware of it now. The event has all kinds of recriminations for the company. Witholding such information would be a serious offence as a criminal act has been carried out and it would also contravene IAS10 accounting guidance. IAS10 states that information that becomes available after the financial year end but relating to events that occurred before ht eyear end are adjusting events and should be adjusted in the financial statements

Journal (SALVON)		**Debit €'000**	**Credit €'000**
	Debit Operating expenses	**450**	
	Credit Liabilities		**450**

Issue (9) IFRS 3 Goodwill Impairment

No adjustment required as the recoverable value exceeds carrying value

Goodwill for SOFP [3 mark]

Goodwill (Salvon)			
Cost of Investment	40,000		
For			
75% Share Capital	15000		
75% reserves at acquisition	16500		
Goodwill	8,500		
Goodwill (Exonic)			
Cost of Investment	30,000		
For			
90% Share Capital	11250		
90% Reserves at acquisition:		**Total Goodwill**	10,960
(17000+ 1100 (FV adjustment))	16290		
Goodwill	2,460		

Consolidated Reserves for SOFP [5 marks]

Parent Retained Earnings		305,500	
issue (1)	Intangible Assets	-5480	
issue 2	IFRS15 season tickets	-12040	
issue (3)	IFRS15 Sponsorship	35000	
issue (4)	IFRS16 Lessor	0	
ISSUE (6)	IFRS9 EURO Loan	-335	
issue (7)	IAS19	-1850	
			320,795
Salvon			
Salvon Retained Earnings per Case Study		66000	
Plus			
Issue (8)	IAS10	-450	
		65550	
Less			
Reserves at acquisition			
Per Case study		22000	
Post Acquisition Reserves		43550	
Parent share 75%			32662.5

Exonic				
Exonic Reserves per case study		20000		
Plus				
Issue (5)	IFRS3 Fair Value	2000		
Issue (5)	(600 + 300 - 80)	820		
		22820		
Less				
Reserves at acquisition				
Per Case study		17000		
Issue 5	Fair Value adjustments	1100		
		18100		
Post Acquisition Reserves		4720		
Parent Share 90%				4248
Consolidated Retained Earnings				357,706
Parent Other Reserves				
Issues 7				3,300

Non Controlling Interests (SOFP) [2 marks]				
Salvon	Share Capital	20000		
	Closing Reserves	65550		
		85550		
	NCI share 25%			21387.5
	Share Capital	12,500		
Exonic	Closing Reserves	22820		
		35,320		
	NCI share 10%	3532		3,532
Total Non Controlling Interests				24,920

Non Controlling Interests (SOCI) [1 marks]				
Salvon	Profit for Period			
	Per Case Study		40000	
	Issue (8)		450	
			39550	
	Non Controlling Interests 25%			9887.5
Exonic	Profit for Period			
	Per Case Study		3,000	
	Issue (5) (600 + 300 - 80)		820	
			3820	
	Non Controlling Interests 10%			382
	Total MI			10270

Consolidated Statement of Financial Position for Hometown
as at 30th June 2019 [18 marks]

	Hometown €'000	Salvon €'000	Exonic €'000	On Consol €'000	Issue 1 €'000	Issue 2 €'000	Issue 3 €'000	Issue 4 €'000	Issue 5 €'000	Issue 6 €'000	Issue 7 €'000	Issue 8 €'000	Consolidation €'000	
ASSETS														
Non Current Assets														
Property, plant and equipment (NBV)	360,000	30,000	40,000						1920				431,920	
Intangible Assets	540000	10000			-13680								536,320	
Investment in SALVON	40,000			-40,000										
Investment in EXONIC	30,000			-30,000										
Goodwill				10,960									10,960	(working)
Other financial Assets	20,000												20,000	
	990,000	40,000	40,000										999,200	
Non Current Assets held for sale					16200								16200	
Current Assets														
Inventories	7,600	4000	1000						300				12,900	
Trade Receivables	50,000	40000	6000				10000		600				106,600	
Cash and cash equivalents	4,000	8000	300										12,300	
	61,600	52,000	7,300										131,800	
TOTAL ASSETS	**1,051,600**	**92,000**	**47,300**										**1,147,200**	
EQUITY and LIABILITIES														
Equity														
Ordinary shares €1 shares	200,000	20000	12,500	-32,500									200,000	
Share Premium	116,000												116,000	
Retained Earnings	305,500	66000	20000										357,706	(Working)
Other Reserves													3300	
	621,500	86,000	32,500										677,006	
Non Controlling Interests													24,920	(working)
	621,500	86,000	32,500										701,925	
Non Current Liabilities														
Financial Liabilities	209,000	0	12000				-100000			335			121,335	
Deferred Income							50000						50000	
Provisions	0	400	400										800	
Retirement Benefits	10,000										-3300		6,700	
	219,000	400	12,400										178,835	
Current Liabilities														
Payables	184,080	4400	2000		8000						1850	450	200,780	
Deferred Income						12040	25000						37040	
Financial Liabilities	25,920												25,920	
Current Taxation	1100	1200	400										2700	
	211,100	5,600	2,400										266,440	
TOTAL LIABILITIES	430,100	6,000	14,800										445,275	
TOTAL EQUITY AND LIABILITIES	**1,051,600**	**92,000**	**47,300**										**1,147,200**	

Consolidated statement of profit and loss and other comprehensive income
for the year ended 30th June 2019 [12 marks]

	Operations Excluding Player Trading €'000	Player Trading €'000	Total €'000
Revenue			
(1308000+80000+63400-12040 (issue 2)+35000(issue 3)-5000(issue 4)	1469360		1469360
Operating Expenses non player trading:			
(520000+32000+56000+80(issue 5)+1250(issue 7)+450 (issue8)	609,780		609,780
Player trading 160000+5480 (issue 1)		165480	165480
Operating profit/Loss	859,580	165480	694,100
Finance and Other Income			13000
Finance Costs (10000+4000+2200+335(issue6)			16535
Profit on Ordinary activities before tax			690,565
Taxation			8,600
Profit for the period			681,965
Other Comprehensive Income			
Actuarial gains			3300
Total Comprehensive Income			685,265
Total Comprehensive Income Attributable to			
Equity Holders			**674,996**
Non Controlling Interests (working)			**10270**

(b)

(i) Prepare a brief report that addresses the CEOs query over the quality of corporate reporting. In writing this section of the brief report, you should refer to the following International Financial Reporting Standards and explain to what extent each Standard may have contributed to an improvement in the quality of corporate reporting.

- IFRS15 - *Revenue from Contracts with Customers*
- IFRS16 - *Leases*

IFRS15 - *Revenue from Contracts with Customers*
The objective of IFRS15 is to specify how and when an IFRS reporter will recognise revenue as well as requiring each entity to provide users with more informative and relevant disclosures. The standard provides a single, principle based five-step model to be applied to all contracts with customers. IFRS15 applies to an annual reporting period beginning on or after 1st January 2018. IFRS 15 replaces IAS11 Construction Contracts and IAS18 Revenue.

How has IFRS15 improved the quality of financial Reporting?
The overall purpose of introducing IFRS15 is to prevent businesses from deliberately manipulating financial statements by delaying or accelerating revenue. In particular:

1. IFRS15 provides comprehensive guidance on how to recognise revenue in the financial statements. This is achieved through the introduction of a five-step model. The five step approach guides the user on how to determine when to recognise revenue and at what amount. There was no such structured guidance in IAS18/IAS11.

2. IFRS 15 is more prescriptive than the previous revenue guidance and introduces more complexities. IFRS 15 provides application guidance on a number of topics. This was not available in IAS11 or IAS18.

3. IFRS 15 contains more detailed guidance regarding the provision of distinct goods or services. Therefore, goods or services that were previously bundled under IAS 18 may now be distinct and accounted for as separate performance obligations under IFRS 15.

4. IFRS15 compels the user to consider carefully when revenue is recognised. Step 5 deals with 'when' revenue is recognised. Is it at a 'point in time' or is it over time? Entities need to re-evaluate when to recognise revenue.

5. The revenue recognition model has changed from being focused on the transfer of the risks and rewards of ownership (IAS 18) to being based on the transfer of control (IFRS 15).

6. IFRS15 is disclosure driven. Disclosure requirements are more extensive than with previous standards. Disclosures are both quantitative and qualitative giving users more useful information about the activities of entities

7. IFRS15 is a global standard. This will improve consistency and comparability between entities financial statements.

IFRS16
IFRS16 Leases was issued in January 2016 and applies to annual reporting periods beginning on or after the 1st January 2019. The purpose of IFRS16 is to give guidance on how assets held under lease contracts are to be presented in the financial statements. Under IFRS16 lessees are required to recognize assets and liabilities of all leases, unless the lease term is less than 12 months or the lease is of a low value. Lessors continue to classify leases as either finance or operating leases.

How has IFRS16 improved the quality of financial Reporting?

1. The introduction of IFRS16 has addressed the long run problem for investors and investment analysts of off-balance sheet financing relating to leasing contracts. By requiring companies to present leasing contracts as assets and liabilities, visibility of lease contracts will become clearer.
2. The increased visibility of all leases will lead to better informed investment decisions by investors.
3. The IASB have stated that recognising assets and liabilities on the statement of financial position for all leases provides a more faithful representation of the financial position of a company and greater transparency about the company's gearing levels and capital employed. This is expected to enable investors and analysts to better assess the financial position and financial performance of a company.

4. The IASB expects that there will no longer be a need to present lease-adjusted ‘non-GAAP’ information after IFRS 16 is effective. This practice was widely used by investment analysts when making comparisons between different companies.
5. From the company viewpoint IFRS16 levels the playing field for companies by allowing transparent comparison between businesses. It also will lead to a more balanced lease-versus-buy decisions by management.

(ii) Prepare a brief report on the concept of Prudence in Financial Reporting. In your report you should explain what the concept of prudence means, outline the current practice of prudence in financial reporting and address the concerns of Francis Pollack CEO on the possible effect that the re-introduction of the prudence concept may have on the application of fair value measurements in financial reporting.

Prudence in Financial Reporting

The preparation of financial statements requires the IFRS preparer to use professional judgement in selecting accounting policies and estimates. Prudence requires that accountants should exercise a degree of caution in the adoption of policies and significant estimates so that assets are not overstated and liabilities and expenses are not underestimated. A prudent approach is important to ensure that financial information is relevant and faithfully represents the substance of financial information without being overstated or understated. In other words, prudence implies that the information is neutral.

The concept of prudence was removed from the 2010 version of the Conceptual Framework. It was claimed at that time that prudence was not the same as neutrality. Prudence was deemed to lead to an asymmetrical focus on understatement rather than objectiveness. However its absence led to confusion for IFRS preparers. The revised Conceptual Framework has re-introduced the concept of prudence. The IASB has stated that it believes that prudence supports the neutrality of information.

The CEO is concerned that the re-emergence of the prudence concept will put a stop to fair value measurement in financial reporting. This is not the case. Prudence simply means that IFRS preparers should be cautious in estimating fair values. The prudence concept will not put an end to fair value measurement as long as the fair value is measured reliably and faithfully represented. (This will be particularly relevant when an active market does not exist and estimates need to be made).
Prudence will not replace fair value measurement – it will simply enhance it.

[Tutorial note: Although the term ‘prudence’ was not stated in financial reporting regulation for a number of years, it has always been implied in the application of specific accounting standards. For example IAS2 requires an entity to measure inventory at the lower of cost and net realisable value. (An increase in the market value of goods is not considered). IAS37 requires that provisions are accrued when a liability is probable (while assets are recognised only when there is ‘virtual certainty’). Further exercise of prudence is evident in the application of IAS36 Impairment of Assets where assets are adjusted to recoverable value only when their value is lower than their carrying value. There are many other examples too.
IFRS13 itself refers to prudence in that it makes clear that in considering the fair value of the most difficult class of assets and liabilities to value (‘level 3’), ‘it might be necessary to include a risk adjustment when there is significant measurement uncertainty’.]