CERTIFIED PUBLIC ACCOUNTANTS
CPA IRELAND

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION - APRIL 2015

NOTES:
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 to hand for Question 4 or 5 will be marked.)

Note: Students have optional use of the Extended Trial Balance, which if used, must be included in the answer booklet.

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.

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(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 to hand for Question 4 or 5 will be marked.)

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

1. The following Statements of Profit or Loss and Other Comprehensive Income relate to Plover plc (Plover) and its investee companies, Starling plc (Starling) and Finch plc (Finch).

Statements of Profit or Loss and Other Comprehensive Income for year ended 31 March 2015

		Plover plc € million	Starling plc € million	Finch plc € million
Revenue	...	976.0	420.0	63.0
Cost of Sales	...	(687.0)	(228.0)	(26.2)
Gross profit	...	289.0	192.0	36.8
Operating expenses	...	(68.0)	(54.0)	(13.4)
Finance costs	...	(12.0)	(18.0)	(6.2)
Other income	...	6.1	-	-
Dividend received	...	8.1	-	-
Profit before taxation	...	223.2	120.0	17.2
Taxation	...	(45.0)	(30.0)	(3.2)
Profit for the year	...	178.2	90.0	14.0
Other comprehensive income:				
Gains on revaluations of property		15.0	12.0	2.0
Total comprehensive income for the year		193.2	102.0	16.0
Reserve balances total at 1 April 2014		2,350.0	625.0	145.0
Equity share capital at 1 April 2014		1,000.0	775.0	10.0

The following additional information may be relevant:

(i) Plover bought a 60% holding in the equity of Starling on 1 April 2014. The purchase price of the investment was agreed at €900 million, of which €600 million was paid in cash. The balance was satisfied by the immediate issue of a 5% 2024 bond to the seller at par value. Starling's net assets had a fair value of €1,400 million on 1 April 2014, represented by equity share capital €775 million and retained earnings €625 million. It was decided to apply the proportion of net assets method to calculate goodwill on acquisition. No impairment loss arose during the year.

(ii) The interest on the above loan notes is payable annually in arrears. The first year's interest payment has not yet been made, nor has it been provided for.

(iii) Plover sold its entire 60% holding in Starling on 31 March 2015 for €1,150 million in cash. No entry has yet been made to reflect this transaction. Ignore taxation on this transaction.

(iv) Plover has owned 90% of the equity shares in Finch since incorporation. No goodwill arose on this acquisition. There were no reserves in existence at the acquisition date.

(v) During the year, Plover sold goods to Finch for €15 million. These goods were sold by Plover at a mark-up of 50% on cost price. Three fifths of the goods remained in the inventory of Finch at 31 March 2015. An amount of €4.3 million remained outstanding to Plover in respect of these goods at 31 March 2015.

(vi) On 1 March 2015, Finch declared an interim dividend of €9 million. Plover has recorded its share of this dividend as income. No other dividends were declared by group companies.

(vii) All calculations may be taken to the nearest €0.1 million. Assume all expenses and gains accrue evenly throughout the year unless otherwise instructed. No new equity capital was issued by any group company during the year.

REQUIREMENT:

(a) Calculate the consolidated gain or loss on the disposal of the shares in Starling on 31 March 2015, in accordance with IFRS. Show the journal entries required to record the disposal in the group financial statements.

(9 marks)

(b) Prepare the consolidated Statement of Profit or Loss and Other Comprehensive Income for the Plover Group for year ended 31 March 2015 in accordance with IFRS.

(13 marks)

(c) Prepare the consolidated Statement of Changes in Equity for the Plover Group for year ended 31 March 2015, showing equity share capital and reserves. The non-controlling interest column is not required.

(6 marks)

Format & Presentation (2 marks)

[Total: 30 MARKS]

2. The following trial balance was extracted from the books of Peppercorn plc (Peppercorn) on 31 March 2015.

	Note	Dr € million	Cr € million
Revenue			372
Cost of sales		221	
Distribution costs		46	
Administration expenses		74	
Land and buildings at valuation 1 April 2014	(i)	62	
Plant and equipment at cost	(ii)	60	
Accumulated depreciation 1 April 2014 - plant and equipment	(ii)		20
Intangible assets at cost	(iii)	30	
Financial assets at fair value 1 April 2014	(iv)	70	
Inventory at 31 March 2015		18	
Trade receivables		69	
Cash and bank		26	
Trade payables			28
Equity shares of €1 each	(vii)		90
Share premium account			30
Revaluation surplus	(i)		10
Equity investment reserve	(iv)		15
7% Debentures	(v)		40
Suspense account	(ii)	11	
Retained earnings reserve 1 April 2014			82
		687	687

The following notes may be relevant to your answer:

(i) Peppercorn applies the revaluation model of IAS 16 *Property, Plant & Equipment* to its land and buildings. The revaluation surplus reserve relates entirely to previous revaluations of this category of asset. A revaluation took place on 31 March 2014 and resulted in the fair value of €62 million shown above. This figure included €22 million in respect of land. The buildings were deemed to have a 40-year useful economic life remaining at that date. No depreciation has yet been charged for the accounting period ended on 31 March 2015. All depreciation is charged to cost of sales.

On 31 March 2015, a further revaluation took place which revealed a fair value of €24 million for the land, and €41 million for the buildings. This is to be recorded in the books in accordance with the accounting policy of Peppercorn.

(ii) Plant & equipment is being depreciated at 25% per annum straight line from the date of purchase to the date of sale. On 1 October 2014, a piece of plant was purchased at a cost of €12 million. This replaced another piece of plant which had cost €8 million some years ago and was fully depreciated prior to 31 March 2014. A trade-in allowance of €1 million was received for the old plant. The only entries made to record this transaction were to credit cash and debit suspense with the net payment of €11 million. No other item of plant was more than three years old at 1 April 2014.

(iii) Intangible assets consist of capitalised development costs of €30 million. These relate to products in development at 1 April 2014. No revenue has yet been earned from any of these products. They are all expected to be successful once ready for market, with the exception of one project. The amount previously capitalised in respect of this project was €6 million. However, adverse developments have led to the decision to abandon the project as it was unlikely to be successful in the marketplace. During the year further expenditure was incurred on other qualifying projects and was charged to administration expenses. The amounts are as follows:

1)	Prototype development costs	€3 million
2)	Marketing research to determine the optimal selling strategy	€1 million
3)	Basic research which may lead to future projects	€4 million

(iv) The figure for financial assets represents the fair value of equities held at 1 April 2014. As permitted by IFRS 9 *Financial Instruments*, an election was made at the date of purchase to account for any fair value gains and losses on all these equity investments through "other comprehensive income". Peppercorn takes such gains and losses to a separate component of equity, the equity investment reserve. The fair value of the equity investments at 31 March 2015 was €63.5 million. No equities were purchased or sold during the year.

(v) The 7% debentures were issued on 1 April 2014 at par value. There is a premium payable on redemption which has the effect of raising the effective annual finance cost to 8.5%. Coupon interest is payable annually in arrears. No interest has been provided for or paid as at 31 March 2015.

(vi) Corporation tax for the year was estimated at €0.5 million.

(vii) An equity dividend of €0.06 per ordinary share was proposed before the reporting date and is expected to be approved at the next AGM. No entry has yet been made to reflect this proposal.

REQUIREMENT:

Prepare, in a form suitable for publication to the shareholders of Peppercorn plc the:

(a) Statement of Profit or Loss and Other Comprehensive Income of Peppercorn plc for the year to 31 March 2015;

(12 marks)
Format & presentation (1 mark)

(b) Statement of Changes in Equity for year ended 31 March 2015; (5 marks)

(c) Statement of Financial Position as at 31 March 2015. (11 marks)
Format & presentation (1 mark)

[Total: 30 MARKS]

Notes to the financial statements are not required but all workings should be shown.

3. The following multiple-choice question contains eight sections, each of which is followed by a choice of answers. Only one answer is correct in each case. Each question carries equal marks.

REQUIREMENT:
Provide your answer to each section on the answer sheet provided.

1. Which of the following statements is NOT a requirement of IAS 1 *Presentation of Financial Statements*?

   (a) Items of profit or loss and other comprehensive income must be identified separately through two separate statements or one combined statement.
   (b) Changes in equity relating to transactions with owners must be shown in the Statement of Changes in Equity.
   (c) Detailed formats as laid out for each financial statement must be followed.
   (d) Comparative information must generally be disclosed in respect of the preceding accounting period.

2. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides for two primary methods of accounting for these matters, retrospective and prospective. Retrospective changes involve changing prior years' figures reported in the annual report, even if previously published, to read as they would have read if the change or correction had always been in place. Prospective changes affect the financial statements from the date of the change going forward. Which of the following is correct?

	Accounting change proposed	Retrospective or prospective
(a)	Correction of material error	Retrospective
(b)	Change of accounting estimate	Retrospective
(c)	Change of accounting policy	Prospective
(d)	None of the above.	

3. IAS 12 *Income Taxes* sets out guidance for dealing with the under or overprovision of income taxes by reporting entities. During the year ended 31 March 2015, Freddy plc finalised and paid its liability for corporation tax on profit for year ended 31 March 2014, at an amount of €42 million. It had previously made an estimated provision for corporation tax of €50 million in the financial statements for year to 31 March 2014. The directors estimate the liability for year ended 31 March 2015 at €49 million. What figures should appear in the financial statements of Freddy plc for year ended 31 March 2015 in respect of taxation?

	Profit or Loss (charge)	Statement of Financial Position (liability)
(a)	€49 million	€49 million
(b)	€41 million	€41 million
(c)	€57 million	€49 million
(d)	€41 million	€49 million

4. During the financial year ended 31 March 2015, Gerry plc delivered goods at an invoice value of €300,000 to a potential customer on a 'sale or return' basis. These goods cost Gerry plc €240,000. No payment was received. There was no indication at the reporting date or since as to whether the goods will be returned or not.

   Under IAS 18 *Revenue*, how much should be reported as (1) Revenue, (2) Receivables and (3) Inventory in respect of the above goods?

	Revenue	Receivables	Inventory
(a)	€300,000	€240,000	NIL
(b)	€300,000	€300,000	NIL
(c)	NIL	NIL	€300,000
(d)	NIL	NIL	€240,000

5. Which of the following should NOT cause the recognition of a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*?

   (a) A contractual warranty offered on 5,000 units of a product sold, where each product has a 1% chance of being faulty.
   (b) A legally enforceable promise to decommission an asset in 25 years' time.
   (c) A customary practice of accepting sales returns beyond the legally required time period.
   (d) The expectation of a major repair cost in the next accounting period.

6. The directors of Sophie plc provided the following information in respect of the year ended 31 March 2015.

- Opening trade receivables were €30 million.
- Sales revenue for year was €90 million.
- Trade receivables disposed of with subsidiaries amounted to €3 million.
- Trade receivables worth €5 million were acquired through the acquisition of a subsidiary.
- Settlement discounts allowed to customers during the year amounted to €1 million.
- Closing trade receivables were €42 million.

What was the cash received from customers for the year ended 31 March 2015 based on the above information?

(a) €102 million
(b) €80 million
(c) €79 million
(d) €75 million

7. During the year ended 31 March 2015, the directors of Teresa plc decided to sell a building no longer needed for use in the business. Which of the following is NOT normally required for this building to be accounted for as a non-current asset held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*?

(a) The building must be available for immediate sale in its present condition.
(b) The building must be sold within 1 year of classification as 'held for sale'.
(c) The building must be the subject of an active plan to locate a buyer.
(d) The building must be marketed at a price that is reasonable in relation to its fair value.

8. The Financial Reporting Council (FRC) has recently issued FRS 100, FRS 101 and FRS 102 (FRS 100-102). For entities domiciled in Ireland, that wish to prepare financial statements that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period, with a reporting period on, or after, 1 January 2015, please see the following statements:

(i) FRS100-102 are mandatory, for entities not applying 'Full International Financial Reporting Standards (IFRS), for reporting periods beginning on or after 1 January 2015.
(ii) FRS100-102 are not relevant as they are issued by a UK body.
(iii) FRS 101 may be applied by a qualifying entity.
(iv) Unless IFRS are being applied FRS100-102 represent best practice (for entities domiciled in Ireland, that wish to prepare financial statements that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period).

Regarding the above statements, which of the following options is most correct?

(a) (i) and (iv) only.
(b) (ii) only.
(c) (i), (iii) and (iv) only.
(d) (i) and (iii) only.

[Total: 20 MARKS]

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

4. The effective interest rate method is a way of allocating the finance costs associated with a financial liability to appropriate accounting periods. It seeks to charge each accounting period with an appropriate portion of these costs based on applying a constant percentage rate to the outstanding balance at any given time. This method is required by IAS 17 *Leases* to account for finance leases, as well as by IFRS 9 *Financial Instruments* to account for financial instruments held at amortised cost. It is believed that this method results in a fairer distribution of finance cost than alternative methods such as straight line and sum of the digits.

On 1 April 2014, Robby plc issued a bond with the following terms:

- The bond had a par value of €100 million.
- The bond has a coupon interest rate of 5% and is payable annually in arrears.
- The term of the bond is 4 years.
- The bond is redeemable on 31 March 2018 at a premium of 6%.
- The issue price of the bond was €96 million.
- Costs associated with issuing the bond were €2 million.

The effective interest rate has been calculated at 8.146%. Present value interest factors at 8.146% are as follows:

• 1 year	0.9247
• 2 years	0.8550
• 3 years	0.7906
• 4 years	0.7311

REQUIREMENT:

(a) Outline what is meant by each of the terms underlined above. (4 marks)

(b) In the case of the bond referred to above, calculate the finance costs over its lifetime. Show the amount of this cost that would be allocated to each accounting period under (i) the straight line method, and (ii) the effective interest rate method. Assume the accounting period ends on 31 March each year. (10 marks)

(c) Why is the effective interest rate method deemed to be superior to the others? (6 marks)

[Total: 20 MARKS]

<u>OR</u>

5. International Financial Reporting Standards (IFRS) support the use of fair values when reporting the values of assets wherever practical. This involves periodic remeasurements of assets and the consequent recognition of gains and losses in the financial statements. There are several methods of recognising gains and losses on remeasurement of assets required by IFRS.

REQUIREMENT:

(a) Advise how IFRS require gains or losses on remeasurement to be dealt with in the financial statements in the case of each of the following assets. The calculation of such gains or losses is not necessary, merely their accounting treatment. Your answer should indicate clearly where in the performance statement each component of gain or loss should appear.

(i) Property, plant & equipment held under the revaluation model of IAS 16. (4 marks)

(ii) Investment property held under the fair value model of IAS 40. (2 marks)

(iii) Financial assets held at fair value under IFRS 9. (4 marks)

(b) In each case (i) and (ii) below, outline briefly the appropriate accounting treatment and show the journal entries in the financial statements of Williamson plc (Williamson) for year ended 31 March 2015, resulting from recording the events described. Any entry affecting the performance statement must be clearly classified as either 'profit or loss' or 'other comprehensive income'. Williamson adopts the revaluation model of IAS 16 *Property, Plant & Equipment* and the fair value model of IAS 40 *Investment Property*. Williamson chooses to recognise any fair value gains or losses arising on its equity investments in 'other comprehensive income' as permitted by IFRS 9 *Financial Instruments*.

(i) Williamson owns a piece of property it purchased on 1 April 2012 for €3.5 million. The land component of the property was estimated to be €1 million at the date of purchase. The useful economic life of the building on this land was estimated to be 25 years on 1 April 2012. The property was used as the corporate headquarters for two years from that date. On 1 April 2014, the company moved its headquarters to another building and leased the entire property for five years to an unrelated tenant on an arms length basis in order to benefit from the rental income and future capital appreciation. The fair value of the property on 1 April 2014 was €4.1 million (land component €1.9 million), and on 31 March 2015, €4.8 million (land component €2.1 million). The estimate of useful economic life remained unchanged throughout the period. Land and buildings are considered to be two separate assets by the directors of Williamson.

(5 marks)

(ii) Williamson holds a portfolio of equity investments the value of which was correctly recorded at €12 million on 1 April 2014. During the year ended 31 March 2015, the company received dividends of €0.75 million. Further equity investments were purchased at a cost of €1.6 million. Shares were disposed of during the year for proceeds of €1.1 million. These shares had cost €0.4 million a number of years earlier but had been valued at €0.9 million on 1 April 2014. The fair value of the financial assets held on 31 March 2015 was €14 million.

(5 marks)

[Total: 20 MARKS]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION – APRIL 2015

SOLUTION 1

Marking Scheme:

(a)	Gain or loss on disposal	
	Recognition that calculation involves sale proceeds less carrying value	1
	Calculation of carrying value of identifiable net assets at date of disposal	3
	Calculation of goodwill at acquisition and disposal	1
	Calculation of NCI at date of disposal	1
	Journal to record acquisition	3
	Subtotal	**9**
(b)	Statement	
	Basic consolidation plan (100% Plover + 100% Starling + 100% Finch)	4
	Interest on loan note (calculation and inclusion in expenses)	1
	Intra-group revenue and purchases (exclusion)	2
	Unrealised profit (calculation and elimination)	2
	Exclusion of intragroup dividend from SPLOCI	1
	Calculation and attribution of results to NCI and owners of parent	3
	Presentation	1
	Subtotal	**14**
(c)	Statement of changes in equity	
	Calculation of opening balances	2
	Inclusion of TCI for year	1
	Calculation of closing balances	3
	Presentation	1
	Subtotal	**7**

[Total: 30 Marks]

Suggested solution

(a) Calculation of consolidated gain or loss on disposal:

	€m	€m
Sale proceeds		1,150
Carrying value in group accounts at date of disposal:		
Equity share capital	775	
Reserve balances (625 + 102)	727	
	1,502	
Group share 60%	901.2	
Goodwill on parent's share (see working below)	60	
		(961.2)
Gain on disposal		188.8
Working: Goodwill on acquisition of Starling:		
Cost of investment		900
Value of NCI (40% * 1,400)		560
Fair value of identifiable net assets acquired		
Equity share capital	775	
Reserves	625	(1,400)
Goodwill		60

Journal entry to record acquisition in group financial statements:	**DR€m**	**CR€m**
Dr Cash received on disposal	1,150	
Dr NCI derecognised [560 + (40% * 102)] OR [1,502 – 901.2]	600.8	
Cr Identifiable net assets sold and derecognised		1,502
Cr Goodwill derecognised		60
Cr profit or loss		188.8

Tutorial notes:

When any asset is disposed of we need to work out the gain or loss on disposal. That is normally calculated by taking the sales proceeds less the carrying value on the date of sale. In the case of a subsidiary, the carrying value in the group accounts is the book value of the identifiable net assets acquired, plus any profit or loss recognised since acquisition including any group adjustments, plus any goodwill net of any impairment losses. The portion of the carrying value to be matched against the proceeds is the parent's share (here 60%).

In showing the actual journal entries, the parents share is derecognised by eliminating 100% of the net assets of the subsidiary (as these are 100% shown in the group financial statements) less the non-controlling interest (calculated as the balance at acquisition plus NCI share of any profits or losses recognised since acquisition).

Goodwill is derecognised separately as it is never included in the identifiable net assets at acquisition. Goodwill is calculated as a separate asset and presented in the group statements only. As the method used to calculate goodwill in this case (proportion of net assets) results in goodwill attributed to the parent only, the full amount is deducted from the proceeds on disposal.

If goodwill had been calculated using the fair value method, it would be attributable to the parent and the NCI. In this case the share of net assets attributable to the parent would be the total less the NCI (where the NCI would include goodwill).

Had we been asked to show the gain or loss in the parent's books (as opposed to in the group accounts) the calculation would be much easier. This is because to carrying value in the parents books is likely to be its cost. Hence the profit on disposal would be the proceeds less cost. Here, this would be 1,150 – 900 = €250 million.

(b) Plover controls Starling for the entire year, having purchased it on the first day of the financial year, and sold it on the last. Plover also controls Finch, having held 90% of the shares since incorporation.

Hence consolidation plan = 100% Plover + 100% Starling + 100% Finch

Plover plc: Consolidated statement of profit or loss and other comprehensive income for year ended 31 March 2015

	(100% Firestack + 100% Smokey*4/12)	**€ million**
Revenue	(976 + 420 + 63 – 15 (v)]	1,444.0
Cost of Sales	[687 + 228 + 26.2 – 15 (v) + 3 (v)]	(929.2)
Gross Profit		514.8
Operating expenses	[68 + 54 + 13.4]	(135.4)
Finance costs	[12 + 18 + 6.2 + 15 (ii)]	(51.2)
Other income	(6.1)	6.1
Dividend received	[8.1 – 8.1 (vi)]	0
Gain on disposal of shares in group companies (iii)		188.8
Profit before taxation		523.1
Taxation	(45 +30 +3.2)	(78.2)
Profit for the year		444.9
Other comprehensive income (Amounts that will not be reclassified to profit or loss):		
Gains on revaluation of property	(15 +12 +2)	29.0
Total comprehensive income for the year		473.9
Profit for the year attributable to:		
Owners of the parent (balancing figure 444.9 – 37.4))		407.5
Non-controlling interest (viii) (36 + 1.4)		37.4
		444.9
Total comprehensive income attributable to:		
Owners of the parent (balancing figure 473.9 – 42.4)		431.5
Non-controlling interest (viii) (40.8 + 1.6)		42.4
		473.9

Working (ii) / Note (ii)
Provide for interest payable on loan note 5% * €300m = €15 million
Include in finance costs. As this is an expense of the parent, NCI is not affected.

Working (iii)
See solution to part (a) above. Include gain on disposal within profit or loss. As the disposal was made by the parent there is no impact on NCI on profit for the year. NCI will still share in the profit earned during the year.

Working (v)
Eliminate intra-group sales and purchases (€15m) in full from group revenue and group cost of sales.

Unrealised profit provision required = 15m * 50/150 * 3/5 = €3m
This figure increases cost of sales, as the closing inventory reduces.
NCI is not affected as Plover (parent) was the internal selling company that recorded the gain.

The intra-group balance outstanding has no impact on the SPLOCI.

Working (vi)
Intra-group dividends should not be recorded as income in the group financial statements. Hence we should eliminate the €8.1 million that was recorded (9 million * 90%).

Working (viii) – non-controlling interest

	Starling		Finch	
	Profit €m	**TCI €m**	**Profit €m**	**TCI €m**
per SPLOCI	90	102	14	16
NCI percentage	40%	40%	10%	10%
NCI amount	36.0	40.8	1.4	1.6

(c) Plover plc: Consolidated statement of changes in equity for year ended 31 March 2015

	Equity share capital	**Reserves**	**Subtotal**
Balance 1 April 2014	1,000	2,480.5	3,480.5
TCI for year		431.5	431.5
Balance 31 March 2015	1,000	2,912.0	3,912.0

Working: Consolidated reserves	**1 April 2014 € million**			**31 March 2015 € million**
Plover	2,350	+193.2		2,543.2
Starling (not in group at 1 April 2014)	0		102 * 60%	61.2
Finch (145 – 0) * 90%	130.5		(145 + 16 - 9) * 90%	136.8
URP on intra-group inventory (v)				(3.0)
Gain on disposal of shares in group company				188.8
Interest on 5% loan notes (i)				(15.0)
Total	2,480.5			2,912.0

Note: Consolidated reserves are calculated by taking at each relevant date the parent's figure plus the parent's share of the post acquisition reserves of each subsidiary, less adjustments.

The closing reserves figure of Finch (100%) is its opening figure €145 million, plus its TCI for the year (€16m) less dividend declared for the year (€9m). As this company was acquired at incorporation there were no reserves at that date. Hence the group's share of this is 90%, or €136.8 million.

SOLUTION 2

Marking Scheme:

(a)	Statement of profit or loss and other comprehensive income	
	Transfer of figures from trial balance to appropriate headings	2
	Capitalisation of overheads into buildings cost and exclusion from admin exp.	1
	Capitalisation of interest into buildings cost and exclusion from finance costs	1
	Depreciation on buildings (calculation and inclusion in expenses)	1
	Depreciation on plant & equipment	1
	Exclusion of sale or return goods from revenue	1
	Inclusion of sale or return goods in closing inventory at cost price	1
	Adjustment to admin expenses re warranty provision	1
	Tax (calculation and recognition in P/L)	1
	Preference dividend (calculation and inclusion in finance costs)	1
	Presentation of gain on remeasurement of equity investments within OCI	1
	Presentation	1
	Subtotal	**13**
(b)	Statement of Changes in Equity	
	Transfer of figures from trial balance to appropriate headings	1
	Eliminate recognition of brand from revaluation surplus	1
	Transfer of SPLOCI figures to correct equity account	2
	Calculation of dividend proposed and deduction from retained earnings	1
	Subtotal	**5**
(c)	Statement of Financial Position	
	Transfer of figures from trial balance to appropriate headings	2
	Correct capitalised amount for new building	1
	Depreciation of plant & equipment	1
	Depreciation of buildings	1
	Elimination of sale or return goods from trade receivables	1
	Inclusion of sale or return goods in inventory at cost	1
	Gain on equity investments (calculation and recognition in NCA)	1
	Transfer of figures from SOCIE to reserves	1
	Equity dividends proposed (calculation and inclusion in liabilities)	1
	Tax (recognition as liability net of existing balance)	1
	Preference dividends (calculation and recognition as liability)	1
	Warranty provision (calculation and inclusion of correct amount in liabilities)	1
	Presentation	1
	Subtotal	**14 - Max 12**

[Total: 30 Marks]

Suggested solution

(a) Peppercorn plc: Statement of Profit or Loss and Other Comprehensive Income for year ended 31 March 2015

		€ million
Revenue	(372)	372.0
Cost of Sales	(221 +1 (i) + 14.5 (ii)	(236.5)
Gross profit		135.5
Distribution costs	(46)	(46.0)
Administration expenses	(74 + 6 (iii) – 3 (iii)	(77.0)
Gain on disposal of plant (ii)		1.0
Finance costs	(3.4 (v)	(3.4)
Profit before tax		10.1
Tax	(vi)	(0.5)
Profit for the year		9.6
Other comprehensive income: Items that will not be reclassified to profit or loss		
Gain on revaluation of land & buildings (i)		4.0
Loss on revaluation of financial assets (iv)		(6.5)
Total comprehensive income for the year		7.1

(b) Peppercorn plc Statement of Changes in Equity for year ended 31 March 2015

	Share Capital €million	Share Premium €million	Revaluation Surplus €million	Retained Earnings €million	Equity Inv. €million	Total Equity €million
Balance 1 April 2014	90.0	30.0	10.0	82.0	15.0	227.0
Total comprehensive income			4.0	9.6	(6.5)	7.1
Dividends declared				(5.4)		(5.4)
Balance 31 March 2015	90.0	30.0	14	86.2	8.5	228.7

(c) Peppercorn plc Statement of Financial Position as at 31 March 2015

		€ million
Non-current assets:		
Land & buildings,	(62 – 1 (i) +4 (i)	65.0
Plant & equipment	(60 - 20 – 14.5 (ii) + 12 (ii)	37.5
Intangible asset	(30 – 6 (iii) +3 (iii)	27.0
Financial assets	(70 – 6.5 (iv)	63.5
		193.0
Current assets:		
Inventory	(18	18.0
Trade receivables	(69	69.0
Cash & bank	(26	26.0
		113.0
Total assets:		**306.0**
Equity:		
Equity share capital	(b)	90.0
Share premium	(b)	30.0
Revaluation surplus	(b)	14.0
Equity investments reserve	(b)	8.5
Retained earnings	(b)	86.2
		228.7
Non-current liabilities:		
7% debenture	(40 + 0.6 (v))	40.6
		40.6
Current liabilities:		
Trade payables		28.0
Debenture interest due	(v)	2.8
Corporation tax due	(vi)	0.5
Equity dividend due	(vii)	5.4
		36.7
Total equity & liabilities		**306.0**

Working (i) / note (i)

Depreciation on buildings for the year needs to be provided for. Amount (62 – 22) / 40 years * 1 year = €1 million

Dr Cost of sales	1.0	
Cr Accumulated depreciation - buildings		1.0

Revaluation of land and buildings takes place on 31 March 2015 AFTER depreciation for the year has been charged. Land shows a gain of (24-22) €2 million. Buildings shows a gain of (41 – 39) €2 million. Total gain €4 million.

Dr Land & buildings	3.0	
Dr Accumulated depreciation – buildings	1.0	
Cr Revaluation surplus		4.0

Tutorial note:

Revaluation gains and losses are calculated by deducting the carrying amount at the date of revaluation from the revalued amount. The accounting entry is to eliminate any accumulated depreciation accrued at the date of revaluation and adjust the asset account to equal the revalued amount.

Working (ii)
The new plant is depreciated for 6 months from the date of purchase to the reporting date. The amount of this depreciation is €12 million * 25% * 6/12 = €1.5 million

The remaining plant falls into two categories. First, the plant traded in, costing €8 million, was fully depreciated at the beginning of the period. Hence no depreciation remains to be charged on this plant. Second, the balance of the plant, €52 million, is depreciated for a full year as none of it is more than three years old. This means there is at lease a full year remaining in its useful economic life. Depreciation amount €52 million * 25% = €13 million.

Record depreciation on plant & equipment (1.5 + 13 = €14.5 million):

Dr Cost of sales	14.5	
Cr Accumulated depreciation – plant & equipment		14.5

The new plant has not yet been capitalised into the plant account. Also, the old plant shows a gain on disposal on €1 million as it was fully depreciated, yet generated economic benefit on disposal of €1 million.

Record new plant correctly, eliminate suspense account, and record gain on disposal of old plant:

Dr Plant & equipment	12.0	
Cr Profit or loss (gain on disposal)		1.0
Cr Suspense		11.0

Working (iii)
€6 million needs to be written off with respect to the project that is no longer expected to be successful. This judgment means that the IAS 38 criteria for capitalisation are not met in respect of this project.

Eliminate €6 million from intangible assets:

Dr Administration expenses	6.0	
Cr Intangible assets		6.0

Among the further expenses, the €3 million for prototype development should be capitalised. The other amounts are correctly charged to administration expenses.

Capitalise €3 million to intangible assets:

Dr Intangible assets	3.0	
Cr Administration expenses		3.0

Working (iv)
Under IFRS 9 the gain or loss may be taken to OCI provided an irrevocable election to do so has been made on the date of purchase. Here, the gain is 63.5 – 70, or a loss of €6.5 million.

Record loss on revaluation of equity investments:

Dr OCI – loss on revaluation of financial assets	6.5	
Cr Financial assets		6.5

Interest directly attributable to the construction should likewise be capitalised.

Dr Land & Buildings	1.2	
Cr Finance costs		1.2

Working (v)

The debentures should be accounted for under amortised cost using the effective interest rate method. The carrying value is calculated as follows:

Net proceeds on issue (initial fair value)	40.0	
Finance cost for year ended 31 March 2015 (at 8.5%)	3.4	
Coupon interest due (7% * 40) (current liability)	(2.8)	
Closing carrying amount (non-current liability)	40.6	

Adjust debenture carrying amount and recognise interest:

Dr Profit or loss – finance costs	3.4	
Cr Interest liability		2.8
Cr Debentures		0.6

Working (vi)

Accrue for corporation tax due:

Dr Profit or loss - taxation	0.5	
Cr Taxation due		0.5

Working (vii)

Equity dividend due on 90 million shares * €0.06 per share. AS the proposal was made before the reporting date a liability is recorded. Total amount due €5.4 million

Equity dividend accrued:

Dr Retained earnings	5.4	
Cr Equity dividends payable		5.4

SOLUTION 3

Marking scheme:

8 parts * 2.5 mark each	20

[Total: 20 Marks]

Suggested solution:

Part 1: **Answer (c)**

IAS 1 gives detailed requirements with respect to the contents of each statement, but does not provide prescriptive formats.

Part 2: **Answer (a)**

If an error existed in the past period, and the financial statements were incorrect as a result of this error, the correction must be made retrospectively. An error is a material misstatement which resulted from information which was available, or could reasonably have been available, to the preparers of the financial statements at the time of preparation. Hindsight is not evidence of errors.

Part 3: **Answer (d)**

An amount of €8 million was overprovided for in the previous year. Hence the provision for the current year should be reduced by that amount. Hence an expected liability of €49 million requires a provision of €41 million. The liability is still €49 million as this is the amount expected to be paid. Basically, the provision moves from the existing figure of €8 million credit to the required level of €49 million credit.

Part 4: **Answer (d)**

The goods do not satisfy the IAS 18 requirements for recognition of revenue. IT is not probable that the economic benefit associated with the sale will flow to the entity. Neither is there sufficient evidence that the risk and reward associated with the goods have transferred to the customer.

As the goods are not considered sold, they must be considered inventory of Gerry plc. Inventory is carried at the lower of cost and net realisable value.

Part 5: **Answer (d)**

There are three conditions necessary in order for a provision to be recognised. These are: (1) present obligation, (2) probable outflow of economic benefit as a result, and (3) a reliable estimate of the amount.

Item (d) fails the first test. The expectation of a major repair is not an obligation. All other examples are obligations.

Part 6: **Answer (c)**

	€m
Opening trade receivables	30
Revenue	90
Receivables sold	(3)
Receivables acquired	5
Decrease in trade receivables due to settlement discounts	(1)
Cash received (balancing figure)	(79)
Closing trade receivables	42

Part 7: **Answer (b)**

IFRS 5 requires that in order to be classified as “held for sale”, an asset must be available for immediate sale in its present condition, and that the sale be highly probable. IFRS 5 goes on to say that in order for a sale to be recognised as highly probable there are certain conditions that must be met. One of these is that the asset must be expected to qualify as a completed sale within 12 months. However this is NOT a requirement that the sale must actually occur within 12 months. Merely that the expectation at the date of classification is that this will be the case.

Part 8: **Answer (c)**

Option (b) is incorrect. Each of the other options is individually correct. Answer (c) is the most correct option.

SOLUTION 4

Marking scheme:

(a)	Explanation of any four terms at 1 mark each	4
	Subtotal	**4**
(b)	Calculation of total finance cost	3
	Allocation under the straight line method	2
	Allocation under the effective interest rate method	5
	Subtotal	**10**
(c)	Demonstration of understanding of why effective interest rate method is superior	6
	Subtotal	**6**

[Total: 20 Marks]

Suggested solution

(a) Finance Costs are all costs associated with servicing a liability. The term includes interest (whether paid annually or rolled up to be paid at the maturity date). Any issue costs, discounts or premia arising on issue or redemption, or any other costs associated with honouring the terms of the liability are included as finance costs.

A Finance Lease is a lease that transfers to the lessee the majority of significant risks and rewards associated with an asset. Features of a lease that support it being classified as a finance lease include any of the following:

- The present value of the lease payments amounts to substantially all (>90%) of the fair value of the asset at inception of the lease;
- The lease term is a substantial portion of the useful economic life of the asset;
- The leased asset is so specialised as to be of limited use to other parties;

Amortised cost is the name given to the method by which finance costs associated with a financial instruments are allocated to accounting periods at a constant effective annual interest rate of return. This method is deemed appropriate when a financial instrument's cash flows consist of interest and principal amounts, and the entity plans to hold the instrument until its maturity.

Straight line refers to a method of allocating costs or income that charges or credits each accounting period with equal amounts proportional to the passage of time.

Sum of the Digits is a method of allocating cost or income to various accounting periods. It is designed to approximate the effective interest rate method, but is less accurate. It only works with an amortising loan, where principal and interest is being repaid. It was popular in the days before spreadsheeds were popular as the effective intereest rate calculation could be lengthy and tedious if performed manually. It involves adding together the sum of the number of years a cash flow is expected to occur, and allocating a declining portion of the total cash flow to each accounting period. For example, if the cash flow was to accrue over a three year period, the sum of the digits was 3+2+1=6. Year 1 would be allocated 3/6 of the total cash flow, year 2, 2/6 and year 3, 1/6. Hence over the three years the entire cash flow would be allocated.

(b) Total finance costs associated with the bond are as follows:

- Coupon interest is 5% * €100m * 4 years = €20 million
- Discount on issue = €4 million
- Issue costs = €2 million
- Premium on redemption = €100m * 6% = €6 million
- Total finance costs = €32 million

Under the straight line method each period would be allocated ¼ of the total, or €8 million per year in finance cost.

Under the effective interest rate method, the calculation would be as follows:

Year	**Opening balance**	**Finance cost**	**Payment**	**Closing balance**
€m	**€m**	**€m**	**€m**	**€m**
1	94.0	7.657	(5.0)	96.657
2	96.657	7.874	(5.0)	99.531
3	99.531	8.108	(5.0)	102.639
4	102.639	8.361	(5.0)	106.0

Hence, the amount of finance cost allocated to each accounting preiod is as follows:

- Year 1 would be allocated €7.657 million;
- Year 2 would be allocated €7.874 million;
- Year 3 would be allocated €8.108 million;
- Year 4 would be allocated €8.361 million.

(c) The effective interest rate method is superior to the others as it takes full account of any cash flows arising during the life of the financial instrument. These may be irregular, frontloaded or even. The method allocates the total finance cost in direct proportion to the amount outstanding and the length of time it is outstanding.

Tutorial notes:

1. The opening balance is always the net cash received (in the case of a liability) or paid (in the case of an asset acquired). Here this is the discounted proceeds (€96m) less issue costs (€2m).

2. The finance cost is always the opening balance times the effective rate.

3. Any payment is decided by the terms of the instrument. Here it is 5% of the par value each year.

4. The closing balance is the opening amount plus any unpaid finance cost.

5. The total finance cost must equal the €32 million originally calculated. The method just determines the amount allocated to each period.

6. The closing balance should equal the amount due on maturity. Here the maturity is at a 6% premium, hence €100m + 6m = €106m is payable on maturity.

SOLUTION 5
Marking scheme:

(a)	Explanation and treatment of remeasurement gains / losses for PPE	4
	Explanation and treatment of remeasurement gains / losses for Investment Property	2
	Explanation and treatment of remeasurement gains / losses for Financial Assets	4
	Subtotal	**10**
(b)		
(i)	Calculation of carrying value at 1 April 2014	1
	Explanation and treatment of revaluation at 1 April 2014 (journal required)	2
	Calculation of revaluation gain to 31 March 2015	1
	Explanation and treatment of revaluation gain to 31 March 2015 (journal required)	1
	Subtotal	**5**
(ii)	Explanation and treatment of dividend received (journal required)	1
	Explanation and treatment of purchase of investments (journal required)	1
	Explanation and treatment of disposal of investments (journal required)	2
	Explanation and treatment of revaluation gain to 31 March 2015 (journal required)	1
	Subtotal	**5**

[Total: 20 Marks]

Suggested solution

(a)

(i) Under the revaluation model of IAS 16 revaluation gains and losses are treated differently depending on whether they are originating or reversing.

An originating gain on revaluation of PPE (meaning one which is occurring for the first time, and not reversing a previously recognised loss) is recognised through “Other Comprehensive Income (OCI)” in the SPLOCI. This is then taken to a separate component of equity, usually called “Revaluation Surplus” reserve.

An originating loss on revaluation is taken to profit or loss as an expense.

A revaluation gain that is reversing a previously recognised loss is taken to profit or loss as a gain until the effect of the previously recognised loss is completely reversed. This takes into account any difference in depreciation charges arising as a result of the previous loss lowering the depreciable amount. Any gain over and above the amount recognised in profit or loss is treated as an originating gain, and taken to OCI.

A revaluation loss that is reversing a previously recognised gain is taken to OCI until the effect of the revaluation gain is reversed. This means in effect that OCI is charged with the expense until the accumulated revaluation surplus remaining in equity has been eliminated. Any further loss is treated as an originating loss and taken to profit or loss.

It should be noted that gains and losses on different assets may not be offset against each other. Any reversal must be relating to revaluations of the same asset.

(ii) Under the fair value model of IAS 40, all gains or losses on investment property are taken to profit or loss and on to Retained Earnings reserve. There is no revaluation surplus reserve where investment property is concerned. Likewise, there is no difference between originating and reversing gains and losses under IAS 40.

(iii) Under IFRS 9 financial assets may be held under the “fair value” or the “amortised cost” categories. The categorization is not optional, but depends on the type of instrument and the entity’s business model for holding it. The “fair value” method is the default and applies to all financial instruments to which the “amortised cost” method does not apply.

Under IFRS 9, gains and losses on remeasurement of such assets are normally taken to profit or loss, affecting the retained earnings reserve ultimately. However there is a limited exception to this. If the financial asset in question is an equity investment, and an election has been made at the date of purchase, any gains or losses on remeasurement are taken to OCI, and on to a separate component of equity. This election is irrevocable once made, but may be applied or not as decided on the date of purchase.

(b)

(i) This property was an IAS 16 property until 1 April 2014 and an IAS 40 investment property after this date. The accounting treatment therefore changes on the date it became an investment property. Any revaluation gains or losses up to that date are accounted for under IAS 16, and any arising since are accounted for under IAS 40.

The carrying value of the property at 1 April 2014 was as follows:

	Land €million	**Building € million**
Cost	1.0	2.5
Depreciation to 31 March 2013 (3.5 – 1.0)/25		(0.1)
Depreciation to 31 March 2014 (same)		(0.1)
Carrying value (before revaluation)	1.0	2.3
Fair value at 1 April 2014	1.9	2.2
Revaluation gain (loss)	0.9	(0.1)

The revaluation gain would be taken to OCI and the revaluation loss to profit or loss as they were recognised in the financial year ended 31 March 2015. The depreciation relates to previous years, so its recording is not the subject of the requirement.

Journal entry 1 April 2014:	**DR €m**	**CR €m**
Dr Accumulated depreciation	0.2	
Dr Profit or loss	0.1	
Cr Buildings		0.3
Dr Land	0.9	
Cr OCI / Revaluation surplus		0.9

From 1 April 2014 the property is considered an investment property.

Journal entry 1 April 2014:	**DR €m**	**CR €m**
Dr Investment property	4.1	
Cr Land		1.9
Cr Buildings		2.2

Under IAS 40, investment property is not depreciated and is revalued to fair value at each reporting date. Any gains or losses are taken to profit or loss.

	Investment property €million
Fair value 1 April 2014	4.1
Fair value 31 March 2015	4.8
Fair value gain	0.7

Journal entry 31 March 2015:	DR €m	CR €m
Dr Investment property	0.7	
Cr Profit or loss		0.7

(ii) Dividends received are recognised as income regardless of the treatment of the financial assets.

Journal entry to record dividends received:	**DR €m**	**CR €m**
Dr Cash 0.75		
Cr Profit or loss		0.75

Journal entry to record purchase of investments:	**DR €m**	**CR €m**
Dr Financial assets	1.6	
Cr Cash	1.6	

Remeasurements are treated in accordance with the policy of the entity. We must assume that the irrevocable election required by IFRS 9 was made as this is the policy of Williamson Ltd.

Journal entry to record remeasurement and disposal:	**DR €m**	**CR €m**
Dr Financial assets (1.1 – 0.9)	0.2	
Cr Other comprehensive income		0.2
Dr Cash 1.1		
Cr Financial assets		1.1

The assets held at the period end must be remeasured to €14 million. These are already carried at €12.7 million (12.0 – 0.9 + 1.6). The original carrying value included €0.9 relating to the investments sold, so these are no longer there. In addition, new assets costing €1.6 million were purchased.

The fair value of these remaining assets on 31 March 2015 was 14 million, hence a gain of €1.3 million (14 – 12.7) must be recognised.

Journal entry to record remeasurement at 31 March 2015:	**DR €m**	**CR €m**
Dr Financial assets	1.3	
Cr Other comprehensive income		1.3