CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION - AUGUST 2017

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

Note: You 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.

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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

1. The following Statements of Profit or Loss and other Comprehensive Income relate to Allen Plc (Allen) and its investee companies, Corrib Plc (Corrib) and Neagh Plc (Neagh). Neagh is based in Northern Ireland. It produces, sells, and is managed autonomously in Northern Ireland. Accordingly, its financial statements are presented in GB£ Sterling as the functional currency.

Statements of Profit or Loss and Other Comprehensive Income for year ended 31 July 2017

	Allen Plc € million	Corrib Plc € million	Neagh Plc GB£ million
Revenue	225	240	60
Cost of sales	(130)	(123)	(18)
Gross profit	95	117	42
Operating expenses	(27)	(75)	(18)
Finance costs	(12)	(21)	(2.4)
Other income	8		
Investment income	14	-	-
Profit before taxation	78	21	21.6
Taxation	(10)	(3)	(4)
Profit for the year	68	18	17.6
Other comprehensive income (items that will not be reclassified to profit or loss):			
Gains on revaluation of property	24	6	-
Total comprehensive income for the year	92	24	17.6

The following additional information is provided:

(i) Allen purchased a 70% holding in the equity of Corrib on 1 December 2016. The purchase price was €200 million paid in cash. Goodwill arising on acquisition was calculated at €30 million, using the fair value method. On 31 July 2017, impairment losses amounting to €10 million had been incurred. No accounting entry was made to reflect the impairment.

(ii) Allen purchased a 60% holding in Neagh on 1 August 2016, for an immediate cash payment of £80 million. On that date, the fair values of the identifiable net assets of Neagh totalled £100 million, which was the same as their carrying values in the books of Neagh. The 40% non-controlling interest had a fair value of £50 million on 1 August 2016. No impairment of goodwill had occurred by 31 July 2017. The directors of Allen wish to use the fair value method for all acquisitions.

(iii) On 1 December 2016, the fair value of certain plant & equipment held by Corrib was €3 million more than its carrying value. This plant & equipment had a useful economic life of 5 years from the date of acquisition. The revised values have not been incorporated into the books of Corrib and depreciation was accounted for based on the original carrying values.

(iv) During the post-acquisition period Corrib sold goods to Allen for €4 million. These goods were sold at a gross margin of 25% of transfer price. 30% of the goods remained in the inventory of Allen at 31 July 2017.

(v) Corrib declared a dividend of €6 million during the year from post-acquisition profits. Allen has recognised its share of this dividend within 'investment income'.

(vi) All workings may be taken to the nearest €0.1 million. The £ / € exchange rate was as follows during the relevant period:

Date	£ per €1
1 August 2016	0.89
31 July 2017	0.81
Average for period	0.85

REQUIREMENT:

(a) Calculate the following:

(i) the goodwill arising on the acquisition of Neagh at the date of acquisition; and
(ii) the goodwill figure in respect of Neagh to be reported in the group accounts for the Allen Group at 31 July 2017.

Explain clearly the accounting treatment of any difference between the two figures. (5 marks)

(b) Prepare a consolidated Statement of Profit or Loss and Other Comprehensive Income for the Allen Group for year ended 31 July 2017 in accordance with IFRS. Your answer should show clearly the amount of any exchange gains or losses recognised during the period.

(20 marks)

(c) Discuss what is meant by the concept of an entity's functional currency and how it may be determined in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.

(5 marks)

[Total: 30 Marks]

2. The following trial balance was extracted from the books of Eaglesmount Plc on 31 July 2017.

	Note	Dr €'000	Cr €'000
Cost of sales		76.8	
Distribution costs		24.4	
Administration expenses		12.0	
Provision for warranty claim	(i)		12.0
Land and buildings at cost (including land €24,000)	(ii)	160.0	
Accumulated depreciation 1 August 2016 – land & buildings	(ii)		8.0
Revaluation surplus 1 August 2016	(ii)		24.0
Plant and equipment at cost	(iii)	260.0	
Accumulated depreciation 1 August 2016 - plant and equip	(iii)		124.0
Revenue	(iii)		240.8
Investment property	(iv)	128.0	
Equity investments	(v)	33.6	
Trade receivables		27.6	
Inventory at 31 July 2017		24.8	
Cash and bank		35.2	
Trade payables			18.4
Corporation tax	(vi)	1.6	
Equity shares of 10c each	(viii)		80.0
Share premium account	(viii)		140.0
Equity investment reserve	(v)		5.6
6% Debenture (issued on 1 March 2017)	(vii)		80.0
Equity dividend paid		9.4	
Retained earnings reserve 1 August 2016			60.6
		793.4	793.4

The following notes are relevant to your answer:

(i) Eaglesmount Plc maintains a provision for warranty claims expected to arise in the future on goods sold. At the reporting date this provision was carried at €12,000. It has been agreed that this provision should be increased to €17,500.

(ii) Land and buildings are carried under the revaluation model, as permitted by IAS 16. The most recent valuation took place on 31 July 2015, resulting in the values included in the trial balance above. The revaluation surplus of €24,000 resulted solely from these land and buildings. The buildings were estimated to have a useful economic life of 17 years as at that date and zero residual value. On 31 July 2017, the land was revalued to €20,000 and the buildings to €90,000. There was no change to the useful life estimates of the buildings. Depreciation is recognised on a straight line basis through cost of sales, and no depreciation has yet been charged for the year ended 31 July 2017.

(iii) Plant & equipment is being depreciated through cost of sales at 20% per annum reducing balance. On 31 July 2017, a piece of plant which cost €40,000 on 1 August 2015 was sold for €22,000. The only entries made to record this transaction were to debit cash and credit sales revenue with €22,000.

(iv) Investment properties are accounted for under the fair value model of IAS 40. The figure included in the trial balance above represents the fair value of these properties at 1 August 2016. The fair value of these properties at 31 July 2017 was €140,000.

(v) The figure for equity investments represents the fair value of equities held at 1 August 2016 plus the cost of equities purchased during the year. As permitted by IFRS 9, 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'. Eaglesmount Plc takes such gains and losses to a separate component of equity. The fair value of the equity investments at 31 July 2017 was €25,000.

(vi) Corporation tax for the year was estimated at €22,000. The balance in the trial balance is a residual amount following the payment of corporation tax for year ended 31 July 2016 and its offset against the provision made that year.

(vii) The debentures were issued during the year. Interest is payable annually in arrears. No interest has been provided for or paid as at 31 July 2017.

(viii) €40,000 was raised on 31 July 2017 through the issue of equity shares. This was correctly accounted for by crediting €16,000 to equity share capital and €24,000 to share premium.

REQUIREMENT:
Prepare, in a form suitable for publication to the shareholders of Eaglesmount Plc:

(a) Statement of Profit or Loss and Other Comprehensive Income of Eaglesmount Plc for the year to 31 July 2017;

(12 marks)

(b) Statement of Changes in Equity for year ended 31 July 2017; (4 marks)

(c) Statement of Financial Position as at 31 July 2017. (12 marks)

(d) Calculate basic earnings per share for the year. (2 marks)

[Total: 30 Marks]

Note: *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. On the answer sheet provided indicate for each question, which of the options you think is the correct answer. Marks will not be awarded where you select more than one answer for any question.**

REQUIREMENT:
Give your answer to each section in the answer sheet provided.

1. On 1 August 2016, Potato Plc purchased 80% of the equity shares of another entity, Turnip Plc. At the date of acquisition, Turnip Plc had a research project in progress on which it had spent €12 million to date. None of this had been capitalised as the project did not meet the criteria laid down by IAS 38 *Intangible Assets* for recognition as an intangible asset. However, the directors of Potato Plc saw great potential in the project and took it into account in deciding to buy a controlling interest in Turnip Plc. Independent experts assigned the research project a fair value of €25 million on 1 August 2016, and €30 million at 31 July 2017.

   At what value should the research project be carried in the consolidated statement of financial position of Potato Plc at its reporting date 31 July 2017?

   (a) €NIL
   (b) €12 million
   (c) €25 million
   (d) €30 million.

2. Carrot Plc purchased a 6% €50 million bond on 1 August 2016 at a 10% discount to par value. Expenses of purchase were €500,000. The bond is due for redemption on 31 July 2026 at par. The effective annual interest rate to maturity is 7.3%. Carrot Plc intends to hold the bond until its maturity date. At 31 July 2017, the fair market value of the bond was €48 million.

   How much should be recognised in Carrot Plc's profit or loss in respect of the above transaction for year ended 31 July 2017 (to two decimal places)?

   (a) €2.5 million
   (b) €3.32 million
   (c) €3.0 million
   (d) €3.65 million.

3. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* sets out guidance for recording grants received to assist with the purchase of capital assets (capital grants). Which of the following is true?

   (i) Capital grants are credited to the asset account, thus reducing the carrying value of the asset to the cost net of grant aid; or
   (ii) Capital grants are credited to a separate deferred income account, the balance on which is amortised to profit or loss over the period the related asset is expensed to profit or loss.

   (a) (i) only
   (b) (ii) only
   (c) Either (i) or (ii) is permitted
   (d) Neither (i) nor (ii) is permitted.

4. On 31 August 2017, the taxation liability account in the books of Cabbage Plc showed a debit balance of €17,500 after paying the 2016 liability. The estimated liability for 2017 is €84,500 and no entry has yet been made to record this.

   Which journal entry is required to record the above?

	Debit	Credit
(a)	Profit or loss (taxation) €102,000	Taxation liability €84,500
(b)	Profit or loss (taxation) €84,500	Taxation liability €84,500
(c)	Profit or loss (taxation) €67,000	Taxation liability €67,500
(d)	Profit or loss (taxation) €102,000	Taxation liability €102,000

5. Companies often use industry average ratios to judge performance against their peers. This can yield useful information, but must be used with care to avoid drawing unreasonable conclusions.

   Which one of the following factors would most undermine any comparison of an entity's accounting ratios with industry averages?

   (a) Companies have widely varying year-end dates
   (b) The market for the industry's products has become very competitive due to online retailers
   (c) Many staff members in the industry have become independent contractors rather than employees
   (d) Accounting policies vary widely across the industry.

6. The following information has been calculated following an analysis of the financial statements of Mangetout Plc for year ended 31 July 2017:

Operating cycle	50 days
Inventory turnover	10 times
Trade payables	€12 million
Credit purchases	€150 million

   What is the figure for trade receivables collection period in days? (Rounded to the nearest day)

   (a) 37
   (b) 29
   (c) 43
   (d) Impossible to determine from the above information.

7. The following information has been calculated following an analysis of the financial statements of Broccoli Plc for year ended 31 July 2017:

Gross margin	24%
Net margin	8%
Return on capital employed	14%
Return on equity	6%

   Which one of the following statements is most likely to be true based only on the above information?

   (a) Operating expenses are 16% of revenue
   (b) 8% of revenue is lost on interest and taxation
   (c) Capital employed is less than equity
   (d) Asset turnover is 200%.

8. On 31 July 2016, "trade and other receivables" of Onion Plc stood at €245,000 including an amount of €25,000 in respect of the sale of an equity investment. The equivalent figure on 31 July 2017 was €472,000, all of which related to trade receivables.

   How should the increase in trade receivables appear in the "operating activities" section of the statement of cash flows for year ended 31 July 2017?

   (a) €252,000 – added to profit before tax
   (b) €252,000 – deducted from profit before tax
   (c) €227,000 – added to profit before tax
   (d) €227,000 – deducted from profit before tax.

[Total: 20 marks]

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

4. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* sets out the accounting treatment and disclosures for these transactions and events. The standard discusses general principles of recognition, measurement and presentation as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying IAS 37.

The following situations have arisen during the preparation of the draft financial statements of Haywood Plc for year ended 31 July 2017:

(i) On 1 August 2016, Haywood Plc acquired a nuclear power plant at a cost of €200 million. Part of the arrangement was that the plant be dismantled and the site restored after its useful economic life of 20 years had passed. The cost of restoration was estimated on 1 August 2016, after discounting to present value, to be €40 million. This amount reflected an appropriate discount rate of 6%, (75% of this estimate related to the dismantling of the plant, and 25% to the removal of waste fuel). At 31 July 2017, due to regulatory and other obstacles, no power had yet been produced, hence no waste fuel had been generated.

(ii) During the year ended 31 July 2017, Haywood Plc decided to close both its coal burning power generating plants in October 2017. This decision has been announced publicly, and a detailed formal plan prepared. The plan proposes to make 75 employees redundant, retrain 25 other staff to work in the nuclear plant, and sell the coal-fired plants in their current condition. It is anticipated that the redundancy costs will amount to €7.5 million, and the retraining will cost €1 million. The coal plants will be disposed of for zero consideration as the new owner will be expected to dismantle the plants and clean up the sites. The carrying value of these plants is €12 million at 31 July 2017.

REQUIREMENT:

(a) Discuss the accounting treatment in relation to provisions, contingent liabilities and contingent assets required by IAS 37.

(8 marks)

(b) In the case of (i) and (ii) above, set out the appropriate accounting treatment as at 31 July 2017, applying IAS 37 and other relevant standards.

(12 marks)

[Total: 20 Marks]

<u>OR</u>

Should you choose to attempt Question 5, then you will be required to attempt both Part A and Part B

5.

Part A:

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* sets out the principles governing the measurement and presentation of non-current assets that are expected to be realised through sale rather than through continuing use. The standard also deals with reporting the results of operations that qualify as discontinued.

REQUIREMENT:

Discuss the conditions which must be present in order to classify a non-current asset as being “held for sale” and explain the accounting treatment that applies when such a classification is deemed appropriate.

(7 marks)

Part B:

Strawboy Plc is a long-established travel agent, operating through a network of retail outlets and an online store. In recent years, the business has seen its revenue from the online store grow strongly, and that from retail outlets decline significantly. On 25 January 2017, the board decided to close the retail network at the financial year end of 31 July 2017, and put the buildings up for sale on that date. The directors are seeking advice regarding the treatment of the buildings in the statement of financial position, as well as the treatment of the trading results of the retail division for the year. The following figures are available at 31 July 2017:

Carrying value of buildings	€20.0 million
Fair value less costs to sell of buildings	€17.2 million
Other expected costs of closure	€3.9 million

Trading results:

	Year ended 31 July 2017		Year ended 31 July 2016	
	Online Store €m	**Retail Outlet €m**	**Online Store €m**	**Retail Outlet €m**
Revenue	39	9	32	12
Cost of Sales	(13)	(7)	(11)	(9)
Gross profit	26	2	21	3
Operating costs	(10)	(5)	(8)	(5)
Profit before tax	16	(3)	13	(2)

REQUIREMENT:

(a) Outline the conditions which must be present in order to present the results of an operation as “discontinued” and the accounting treatment that applies when such a classification is deemed appropriate.

(5 marks)

(b) Draft the Statement of Profit or Loss for Strawboy Plc for year ended 31 July 2017, together with the comparative for 2016, taking the above information into account.

(8 marks)

[Total: 20 Marks]

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

CORPORATE REPORTING

PROFESSIONAL 1 EXAMINATION – AUGUST 2017

SOLUTION 1

Marking Scheme:

(a)	Calculation of goodwill on acquisition	2
	Retranslation of goodwill at reporting date	1
	Treatment of exchange gain	2
	Subtotal	5
(b)	Statement	
	Basic consolidation plan (100% Allen + 100% Corrib * 8/12 + 100% Neagh)	5
	Translation of Neagh's SPLOCI	3
	Goodwill impairment (inclusion in expenses)	1
	Depreciation on FVA (calculation and inclusion in expenses)	1
	Intra-group revenue and purchases (exclusion)	2
	Unrealised profit (calculation and addition to cost of sales)	1
	Intragroup dividend (exclusion)	1
	Calculation of exchange gain on net assets	3
	Calculation and attribution of results to NCI and owners of parent	3
	Presentation	1
	Subtotal 21	max 20
(c)	Written question	
	Define functional currency	2
	Factors in determining functional currency (3 X 1 mark)	3
	Subtotal	5

SUGGESTED SOLUTION

(a) Group structure:
Allen plc – Parent
Corrib plc – 70% subsidiary of Allen for 8 months therefore include 100% of results * 8/12.
Neagh plc – 60% subsidiary, acquired at beginning of year. Hence, include 100% of translated results for full year.

Requirement (a) – Goodwill on acquisition of Neagh 1 August 2016

	£ m	**rate**	**€ m**
Cost of Investment	80	0.89	89.9
Value of NCI	50	0.89	56.2
Fair value of net assets at acquisition	(100)	0.89	(112.4)
Goodwill at acquisition	30		33.7
Impairment losses to 31 July 2017	NIL		
Exchange gain (balancing figure)			3.3
Goodwill at 31 July 2017	30	0.81	37.0

The exchange gain of €3.3 million is recognised as other comprehensive income for the year. It is attributable to both the parent and the NCI as the goodwill was calculated using the fair value method.

(b) Allen plc: Consolidated statement of comprehensive income for year ended 31 July 2017

	(100% Allen + 100% Corrib * 8/12 + 100% Neagh)	**€ million**
Revenue	(225 +240 * 8/12 + 70.6 (i) -4 (v))	451.6
Cost of Sales	(130 +123 * 8/12 + 21.2 (i) -4 +0.4 (iv) +0.3 (v))	(229.9)
Gross Profit		221.7
Operating expenses	(27 +75 * 8/12 +21.2 (i) +10 (iii))	(108.2)
Finance costs	(12 +21 * 8/12 + 2.8 (i))	(28.8)
Other income	(8)	8.0
Investment income	(14 -4.2 (vi))	9.8
Profit before taxation		102.9
Taxation	(10 + 3 * 8/12 +4.7 (i)	(16.7)
Profit for the year		85.8
Other comprehensive income:		
Gains on revaluation of property	(24 + 6 * 8/12	28.0
Exchange gain on translation of goodwill	(see part (a) above)	3.3
Exchange gain on translation of other net assets (vii)	12.1	
Other Comprehensive Income for the year		43.4
Total comprehensive income for the year		129.2
Profit for the year attributable to:		
Owners of the parent (balancing figure)		77.1
Non-controlling interest (0.4 + 8.3) (ii)		8.7
		85.8
Total comprehensive income attributable to:		
Owners of the parent (balancing figure)		113.2
Non-controlling interest (1.6 + 14.4) (ii)		16.0
		129.2

Working (i) – Translate Neagh's SPLOCI (use average rate for year)		**€ million**
Revenue	(60 / 0.85)	70.6
Cost of Sales	(18 / 0.85)	(21.2)
Gross Profit		49.4
Operating expenses	(18 / 0.85)	(21.2)
Finance costs	(2.4 / 0.85)	(2.8)
Profit before taxation		25.4
Taxation	(4 / 0.85)	(4.7)
Profit for the year		20.7
Total comprehensive income for the year		20.7

Working (ii) – non-controlling interest

	Corrib		**Neagh**	
	Profit €m	**TCI €m**	**Profit €m**	**TCI €m**
per SPLOCI as given / translated (Corrib * 8/12)	12	16	20.7	20.7
Exchange gain on goodwill (from part (a))				3.3
Goodwill impairment (iii)	(10)	(10)		
Depreciation of FVA (iv)	(0.4)	(0.4)		
Unrealised profit in inventory (v)	(0.3)	(0.3)		
Exchange gain on other net assets (vii)				12.1
Adjusted figures	1.3	5.3	20.7	36.1
NCI percentage	30%	30%	40%	40%
NCI amount	0.4	1.6	8.3	14.4

Working (iii) – goodwill impairment

Impairment loss on consolidated goodwill €10m is included as operating expense in year of recognition. NCI is affected as goodwill was calculated using the fair value method.

Working (iv) – consequences of fair value adjustment

Additional depreciation from fair value adjustment 3m / 5 years * 8/12 = €0.4m
Current year's amount included as cost of sales expense this year.
NCI is affected as it is Corrib's asset that is being adjusted.

Working (v) – Intra-group trading
Eliminate intra-group sales and purchases (€4m) in full from group revenue and group cost of sales.
Closing unrealised profit provision required = 4m * 25/100 * 30% = €0.3m
Corrib's NCI is affected as Corrib was the internal selling company which recorded the gain.

Working (vi) – Intra-group dividend
Eliminate intragroup dividend from investment income 6m * 70% = €4.2m. No effect on NCI.

Working (vii) - Exchange gain (loss) on other net assets of Neagh (excl goodwill)

	€M	€M
Net assets of Neagh at acquisition:		
As translated at acquisition date (100 / 0.89) (from part (a))		112.4
As translated at reporting date (100 / 0.81) (at closing rate)		123.5
Gain		11.1
Net assets earned during year ended 31 July 2017 (TCI):		
As translated per SPLOCI (17.6 / 0.85) (W(i))	20.7	
As translated at reporting date (17.6 / 0.81) (at closing rate)	21.7	
Gain		1.0
Total gain		12.1

Gain is recognised as OCI for the year. NCI shares in this gain as they are 40% shareholders in Neagh.

(c) Functional currency:
The functional currency of an entity can be understood literally as the currency in which the entity functions. The choice of functional currency is a judgment which must be made under IAS 21. The judgment involves assessing the facts, and deciding the currency on which the entity is most dependent economically. For most entities, the functional currency is a clear judgment, in that most entities operate primarily within a single economy or currency zone.

However IAS 21 does offer some guidance should the judgment prove difficult. This can happen if more than one currency is important to the entity and it is not clear which is the most significant. IAS 21 requires that the entity consider:

Primary considerations:
- The currency which most affects sales prices; and
- The currency in which purchases and other costs are incurred.

Secondary considerations:
- The currency of the most significant providers of capital; and
- The currency in which operating receipts are retained.

SOLUTION 2

Marking scheme:

(a)	Statement of profit or loss and other comprehensive income	
	Transfer of figures from trial balance to appropriate headings	2
	Eliminate sale proceeds of plant from revenue	1
	Revaluation loss on land (calculation and inclusion in OCI and profit or loss	2
	Depreciation on buildings (calculation and inclusion in cost of sales)	1
	Depreciation on plant & equipment	1
	Finance cost (calculation and inclusion in expenses)	1
	Gain on investment property (calculation and inclusion in P/L)	1
	Adjustment to admin expenses re warranty provision	1
	Loss on disposal of plant	1
	Tax (recognition in P/L)	1
	Loss on equity investments (calculation and recognition in OCI)	1
	Presentation	1
	Subtotal 14 -	**Max 12**
(b)	Statement of Changes in Equity	
	Transfer of figures from trial balance to appropriate headings	1
	Calculate opening share capital and share premium	1
	Transfer of SPLOCI figures to correct equity account	2
	Subtotal	**4**
(c)	Statement of Financial Position	
	Transfer of figures from trial balance to appropriate headings	2
	Depreciation & disposal of plant	2
	Depreciation & revaluation of land & buildings	2
	Loss on investment property (calculation and inclusion in NCA)	1
	Gain on equity investments (calculation and recognition in NCA)	1
	Transfer of figures from SOCIE	1
	Tax (recognition as liability net of existing balance)	1
	Debenture interest (calculation and recognition as liability)	1
	Warranty provision (calculation and inclusion of correct amount in liabilities	1
	Presentation	1
	Subtotal 13 -	**Max 12**
(d)	Basic earnings per share	
	Use of correct earnings figure	1
	Use of correct number of equity shares	1
	Subtotal	**2**
	Total	**30**

Suggested solution

(a) Eaglesmount plc: Statement of Profit or Loss and Other Comprehensive Income for year ended 31 July 2017

		€ '000
Revenue	(240.8 – 22 (iii)	218.8
Cost of Sales	(76.8 +8 (ii) +27.2 (iii)	(112.0)
Gross profit		106.8
Distribution costs	(24.4)	(24.4)
Administration expenses	(12.0 + 5.5 (i))	(17.5)
Finance costs	(vii)	(2.0)
Loss on disposal of plant	(iii)	(3.6)
Loss on revaluation of land & buildings (ii)		(10.0)
Gain on revaluation of investment properties (iv)		12.0
Profit before tax		61.3
Tax	(vi)	(23.6)
Profit for the year		37.7

Other comprehensive income:	
Loss on revaluation of land & buildings (ii)	(24)
Loss on revaluation of equity investments (v)	(8.6)
Other comprehensive income for the year	(32.6)
Total comprehensive income for the year	5.1

(b) Eaglesmount plc Statement of Changes in Equity for year ended 31 July 2017

	Share Capital €'000	Share Premium €'000	Revaluation Surplus €'000	Equity Investments €'000	Retained Earnings €'000	Total Equity €'000
Balance 1 August 2016	64	116	24	5.6	60.6	270.2
Issue of share capital (viii)	16	24				40
Total comprehensive income			(24)	(8.6)	37.7	5.1
Dividends paid					(9.4)	(9.4)
Balance 31 July 2017	80	140	0.0	(3.0)	88.9	305.9

(c) Eaglesmount plc Statement of Financial Position as at 31 July 2017
€ '000

Non-current assets:		
Land & buildings,	(160 – 50 - (8 +8 -16) (ii)	110.0
Plant & equipment	(260 – 40 - (124+27.2 -14.4)) (iii)	83.2
Investment property	(128 + 12 (iv))	140.0
Equity investments	(33.6 – 8.6 (v))	25.0
		358.2
Current assets:		
Inventory		24.8
Trade receivables		27.6
Cash & bank		35.2
		87.6
Total assets:		€445.8
Equity:		
Equity share capital	(b)	80
Share premium	(b)	140
Equity investment reserve	(b)	(3)
Retained earnings	(b)	88.9
		305.9
Non-current liabilities:		
6% debenture		80
Current liabilities:		
Trade payables		18.4
Provision for warranty claim	(12 + 5.5 (i))	17.5
Corporation tax due	(-1.6 +23.6 (vi))	22.0
Debenture interest accrued	(vii)	2.0
		59.9
Total equity & liabilities		€445.8

(d) Basic Earnings per Share

Basic earnings per share is calculated as the profit for the year divided by the weighted average number of equity shares in issue for the period.

Here, the profit for the year is €37,700
The number of equity shares excludes the shares issued, as these were only issued on the last day of the year. Hence they have no impact on the weighted average calculation. Hence the number of shares is 640,000 [(80,000 – 16,000) / €0.10]

Basic EPS therefore is 37,700 / 640,000 = 5.89c

Working (i) – Provision for warranty claims
Increase administration expenses and provision for warranty by €5,500.

Working (ii) – Land & Buildings
Depreciation for the year ended 31 July 2017 must be charged. As the revaluation occurs on the last day of the year, depreciation for the year is based on the carrying values pre-revaluation.

Buildings amount = €160,000 – 24,000 = 136,000 at date of last revaluation
UEL at date of last revaluation = 17 years
Annual depreciation = 136 / 17 = €8,000
Charge to Cost of Sales and added to accumulated depreciation

Revaluation 31 July 2017:

		Land	Buildings
Carrying value 31 July 2017	(Buildings €136,000 – 8,000 – 8,000)	€24,000	€120,000
Revalued amount 31 July 2017		20,000	90,000
Revaluation loss		4,000	30,000

The total revaluation loss (€34,000) exceeds the balance on the revaluation reserve (€24,000). Hence the reserve is written off through OCI, and the additional loss (€10,000) taken to profit or loss. Accumulated depreciation is reset to zero. It is easier to illustrate this through a journal entry:

	DR €'000	CR €'000
Dr OCI / Revaluation reserve	24	
Dr Profit or loss / Retained earnings	10	
Dr Accumulated depreciation (land & buildings)	16	
Cr Land & Buildings (brings valuation from 160,000 to 110,000)		50

Working (iii) – Plant & equipment

Depreciation for year ended 31 July 2017:	**€ '000**
Cost	260
Accumulated Depreciation to 1 August 2016	(124)
Carrying value	136
Depreciation at 20%	27.2

Charge €27,200 to cost of sales and increase accumulated depreciation accordingly.

Note: Depreciation for the year includes depreciation on the plant disposed of as it was in use for the full year.

Recognise gain (loss) on disposal as follows:	**€ '000**	**€ '000**
Proceeds		22.0
Carrying value:		
Cost	40.0	
Less depreciation year 1 (to 31 August 2016)	(8)	
Less depreciation year 2 (current year) [20% * (40-8)]	(6.4)	
NBV at date of sale		(25.6)
Loss on disposal (separate line if considered a material amount)		(3.6)

Eliminate the NBV at disposal €25,600 from the plant & equipment accounts, eliminate €22,000 from revenue, and charge €3,600 as a loss to profit or loss.

Working (iv) – Investment properties
Increase the investment properties balance by €12,000. Include the gain within profit or loss as per IAS 40.

Working (v) – Equity investments
Decrease the investment in equity instruments by €8,600 to bring the balance to its fair value of €25,000. Recognise the loss in OCI and reduce the equity investments reserve as instructed.

Working (vi) - Taxation

Required taxation liability	€22,000 (cr)
Existing taxation liability	1,600 (dr)
Required adjustment	23,600 (Cr)

Corporation tax due is charged to P/L and recognised as a liability. There is an existing balance of €1,600 debit. Hence the total charge to be recognised is €23,200, to offset the debit and create the required credit balance. Charge this amount to profit or loss and credit to current liabilities.

Working (vii) – Debenture interest
The debentures were issued on 1 March 2017. Therefore 5 months' interest should be accrued. €80,000 * 6% * 5/12 = €2,000. This is charged to P/L and recognised as a liability.

Working (viii) – Issue of shares
This is correctly accounted for. However, it is important to take this into account when completing the statement of changes in equity.

SOLUTION 3

Marking scheme:
2.5 marks per correct answer – Total 20 marks

Suggested solution (plus tutorial notes)

1. Answer **(c)**

In the consolidated financial statements, assets are capitalized at their fair value at the date of acquisition, even if they do not qualify for capitalization in the individual statements of the acquired entity. The fair value of this asset is €25 million on 1 August 2016.

As the project is still a research project at 31 July 2017, any additional expenditure incurred post-acquisition will not be capitalized, as only development costs may be capitalized under IAS 38.

Revaluation of intangible assets is only permitted under IAS 38 if an active market exists in identical assets, from which a market value can be obtained. That cannot be the case here as the research project is certainly unique.

2. Answer **(b)**

The initial carrying value of the bond will be as follows:

	€m
Purchase price	45
Add: Purchase costs	0.5
Total cost recognised	45.5
Finance income will be recognized @ 7.3% of the opening carrying value	3.32

This bond meets the criteria for classifying it as Amortised Cost. These are (1) the cash flows to be derived from the instrument are solely interest and principal, and (2) the entity intends to hold the instrument to draw the contractual cash flows.

Hence the amortised cost method is appropriate. Fair value is irrelevant.

3. Answer **(c)**
IAS 20 permits either approach.

4. Answer **(d)**
The taxation liability needs to go from €17,500 debit to €84,500 credit. This means we must credit the account with €102,000 to offset the existing debit and create the required credit balance.

As with any provision, the increase is taken to profit or loss as an expense, hence debit profit or loss.

5. Answer **(d)**
The first three factors are common across all companies in the industry. Hence, with limited exceptions, any comparison should remain valid. However, the last point is hugely significant. As accounting numbers are being used to calculate ratios, any variation in how these numbers are calculated will have serious implications for the quality of information resulting from comparing these ratios across different entities.

6. Answer **(c)**

Operating cycle = Inventory days + Trade receivables days – Trade payables days.

Inventory days = 365 / 10 = 36.5 days
Payables days = 12 / 150 * 365 = 29.2 days

Hence Operating Cycle = 42.7 days such that 36.5 + 42.7 – 29.2 = 50 days

7. Answer **(a)**

As gross margin is based on gross profit (GP / Revenue); and net margin on profit before interest and tax (PBIT / Revenue), the difference between them is likely to be the expenses incurred, mainly operating expenses as interest and tax are excluded.

The remaining statements are nonsense.

8. Answer **(b)**

The movement in trade receivables for adjustment to operating cash flow should not include amounts relating non-trading items. Hence these need to be excluded.

Opening trade receivables	(245,000 – 25,000)	€220,000
Closing trade receivables		€472,000
Increase over the year		€252,000

An increase in trade receivables is cash negative, as it implies the non-receipt of cash in respect of revenue already included in the profit before tax figure. Therefore, it is deducted from profit before tax.

SOLUTION 4

Marking scheme:

(a)	Accounting treatment:	
	Provisions	4
	Contingent liabilities	2
	Contingent assets	2
	Subtotal	8
(b)	Application: 2 scenarios @ 6 marks each	12
	Total	**20**

Suggested solution

(a) The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

IAS 37 prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets, except:

- those resulting from executory contracts, except where the contract is onerous. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent (example employment contracts);
- those covered by another Standard.

Provision:
A provision is a liability of uncertain timing or amount.

Contingent liability:
a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
a present obligation that arises from past events but is not recognised because:
it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset:
is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Accounting treatment
A provision should be recognised when, and only when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable (ie more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation. The Standard notes that it is only in extremely rare cases that a reliable estimate will not be possible.

Recognition of a provision involves creating a liability and an expense in the financial statements.

An entity should not recognise a contingent liability. An entity should disclose a contingent liability in the notes, unless the possibility of an outflow of resources embodying economic benefits is remote, in which case it should be ignored.

An entity shall not recognise a contingent asset. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

(b)

(i) The present value of the restoration cost should be capitalized as part of the cost of acquiring the asset if the obligating event causing the liability has occurred. Here, the obligating event causing the obligation to dismantle the plant has occurred, as the plant is built. However, the obligating event for the 25% relating to the removal of waste fuel has not, as no waste fuel yet exists.

Hence a provision should be recognized for €30 million (€40 million * 75%) at 1 August 2016. This will be added to the purchase cost of the plant, capitalizing a total of €230 million.

At 31 July 2017, this amount will be depreciated over 20 years, being the useful economic life of the plant. Accordingly, €11.5 million will be charged to profit or loss in respect of depreciation.

Finally, the provision will be remeasured due to the unwinding of the discount as time passes. An amount of €1.8 million (€30 million * 6%) will be charged to finance costs and credited to the provision.

(ii) IAS 37 requires the recognition of a restructuring provision only when (1) a detailed formal plan has been prepared and it is unlikely that it will be withdrawn, and (2) this plan has been communicated to those affected. Both these conditions appear to be met in this case.

Provision should be made on 31 July 2017 for the redundancy costs of €7.5 million, and the loss on disposal of the plants €12 million. The retraining costs should not be provided for as these are not direct costs of the closure. No obligating event has yet occurred to justify a provision for these costs.

SOLUTION 5

Marking scheme:

Part A	IFRS 5 requirements for an asset to be classified as "held for sale" Any 7 relevant points from the solution or otherwise @ 1 mark per point.	7
Part B		
(a)	IFRS 5 requirements for an operation to be reported as "discontinued" Any 5 relevant points from the solution or otherwise @ 1 mark per point.	5
(b)	Application: Draft statement of profit or loss and other comprehensive income	8
	Total	**20**

Suggested Solution:

Part A

A non-current asset is classified as "held for sale" if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case,

(1) the asset must be available for immediate sale in its present condition and

(2) the sale must be highly probable. IFRS 5 lists the conditions which must be met if a sale is to be considered highly probable.

- Management is committed to a plan to sell the asset;
- An active programme has been initiated to locate a buyer and complete the plan;
- The asset is being actively marketed at a sale price that is reasonable in relation to its current value;
- A completed sale is expected within one year from the date of classification (may be extended if any delay is caused by circumstances beyond entity's control); and
- It is unlikely that there will be any significant changes to the plan or that the plan will be withdrawn.

If these criteria are not satisfied at the end of the reporting period, the asset should not be classified as held for sale. If the criteria are satisfied after the reporting period but before the financial statements are authorised for issue, the fact that the asset is now classified as held for sale should be disclosed in the notes to the financial statements.

Part B

(a) A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

- o represents a separate major line of business or geographical area of operations,
- o is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or
- o is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are presented separately at the end of profit or loss by including the profit after tax generated by discontinued operations. This figure should include the post tax gain or loss on disposal of the assets of the operation or the gain or loss on remeasurement following transfer to "held for sale".

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. In other words, a component of an entity will have been a cash-generating unit or a group of cash-generating units while being held for use.

An entity shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because its carrying amount will be recovered principally through continuing use.

(b) Strawboy plc : Statement of Profit or Loss and Other Comprehensive Income for year ended:

	31 July 2017 € million	31 July 2016 € million
Continuing operations:		
Revenue	39	32
Cost of Sales	(13)	(11)
Gross profit	26	21
Operating costs	(10)	(8)
Profit for the year from continuing operations	16	13
Profit for the year from discontinued operations (see notes)	(9.7)	(2)
	6.3	11

Notes:

The retail operation appears to meet the IFRS 5 criteria for recognition as a discontinued operation. Hence the continuing and discontinued results should be separated in the SPLOCI.

The buildings would appear to meet the IFRS criteria for classification as "held for sale". Hence they should be recorded at their fair value less costs to sell, and the loss on transfer taken to profit or loss. This amount of €2.8 million is included with the loss from discontinued operations.

The other expected costs of closure should be provided for as the IAS 37 conditions for recognizing provisions for restructuring costs appear to be met. These are:

(1) a detailed formal plan has been prepared and it is unlikely that it will be withdrawn, and
(2) this plan has been communicated to those affected.

Hence a provision of €3.9 million should be recognised within the loss for the year from discontinued operations.

Hence the total loss recognised in 2017 is:

Trading loss	€3 million
Loss on transfer of buildings to "held for sale"	€2.8 million
Provision for costs of closure	€3.9 million
Total	€9.7 million