CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

ADVANCED CORPORATE REPORTING

PROFESSIONAL 2 EXAMINATION - AUGUST 2016

NOTES:

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

Provided are pro-forma:

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

Time Allowed
3.5 hours plus **20 minutes** to read the paper.

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

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

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

Answers
Start your answer to each question on a new page.

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

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

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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

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

Case Study

It is July 2016 and you have recently returned to your home city of Galway after a year travelling the world in celebration of qualifying as a CPA accountant. You are delighted to have been offered the role of Financial Accountant with Galway Salt Mines Plc. (GSM), a local mining company producing and selling de-icing rock salt. The mine is located on the coast, a few miles outside Galway City, with direct access to a shipping berth.

On your first day Davy Jones, the Managing Director, meets with you and talks through the company's operations.

"We have an underground mine where we drill and blast rock salt. It is pretty cavernous down there and nice and dry so we carry out all of our processing below ground too. There are dumper trucks, crushing machines and even a fully functional garage down there, all working 24 hours a day, 365 days a year. We also have about half a dozen Landrovers down there for getting around. They stay below surface from purchase until we dispose of them two years later. When they are in the mine corrosion from the salt is not really an issue as it is so dry. Once they come to the surface though, and hit our damp climate, it really sets in. You wouldn't be interested in buying one would you? We have a couple we are about to dispose of. At disposal we get them professionally valued, but they are worth very little due to the corrosion problem, we then offer them to staff at this price. In most instances, a staff member will buy it and sell it on from their home, within a week or two. They tend to make a nice little profit as people are much happier buying a second hand vehicle from an individual than from a salt mine, but you know what they say, Caveat Emptor, Buyer Beware!

"We take about 1.5 million tonnes out of the mine each year, all via conveyors to our covered storage facility. From here it is loaded onto trucks for distribution throughout Ireland or onto another conveyor to our shipping berth for export to the UK or USA.

"Our salt has too high a clay content to ever be used in food, but has a higher salt to clay ratio than most salt mined in the USA. This makes our salt more effective in their harsh winters. With this in mind we have been expanding our USA operation, purchasing Boston Salt Supplies (BSS) in 2013, and more recently, investing in Atlantic Shipping Limited (ASL). Boston Salt Supplies purchases about 80% of its salt from North American suppliers and about 20% from us. Our salt is stored separately and sold at a premium during particularly cold spells.

"You have arrived at a good time, the year-end accounts are almost complete, it is just a shame Jason Pierce, your predecessor, could not stay to finish them off. He and John Mallock, the Finance Director, had some sort of falling out over inventories or accruals, apparently Jason was not seeing the bigger picture. Jason has left you with a file containing everything you should need to finish off the accounts. Once you have the accounts finalised could you draw me up a note around earnings per share? We issued some share options this year and apparently that impacts on what we need to report."

Davy shows you to your desk and presents you with a file containing a copy of the latest draft financial statements, (Appendix 1); a document detailing investments in other companies (Appendix 2); details of movements in share capital during the year (Appendix 3); relevant rates of exchange and present value rates (Appendix 4); and a list of current year accounting issues follows.

Current year accounting issues:

1. Sale in advance

On 30 June 2016, Galway Salt Mines agreed a sale of €2,800,000 at a mark-up of 40% to Cork City Council. The salt is a forward purchase for winter 2016/17 and will not be delivered until 1 October 2016. Cork City Council has entered into the agreement at this stage to fix the price per tonne of salt purchased. The Council has the right to cancel the order at any time up until 15 September 2016 with no penalty. However, it is only likely to do this if salt prices fall. The sale has been recorded in sales and accounts receivable, but no adjustment has been made to inventory.

2. Sale of cranes

In order to fund the investment in Atlantic Shipping Limited, Galway Salt Mines sold the cranes on their shipping berth to Bardlom Limited on 1 July 2015. Under the agreement, Galway Salt Mines retain exclusive rights to the use cranes for a period of five years. At the end of the five-year period, title to the cranes reverts to Galway Salt Mines.

The cranes cost Galway Salt Mines €5,000,000 in 2008 and were included in the 2015 financial statements at their net book value of €3,500,000, which equalled their fair value. They were sold to Bardlom Limited for €3,790,000. Galway Salt Mines makes a payment of €1,000,000 to Bardlom Limited on 30 June in each of the five years (included in cost of sales), the implicit interest rate is 10%. Discount factors are provided in Appendix 4.

This has been recorded in the accounts as a disposal of property, plant and equipment, with the profit on disposal credited to other income. At 1 July 2015, the cranes had an estimated useful life of 10 years.

3. Damaged crushing machine

One of Galway Salt Mines crushing machines was damaged when a large stone boulder was mistakenly deposited in it. (the machine is only designed to crush only the softer clay/rock salt material). Although damaged, the machine can still function at around 80% of original capacity, grinding at 60 tonnes per hour. This is in excess of the 50 tonnes per hour capacity of the attached conveyor belt. For this reason management has decided against repairing or replacing the grinder. The crusher has been assessed and the damage does not impact upon the safety of the machine.

The crusher was depreciated to a net book value of €5,000,000 at 30 June 2016. There is no active market for crushers such as this. It has therefore been written down by 20% of the net book value to €4,000,000. This reflects the 20% reduction in operating capacity, with the impairment loss posted to other expenses. Disposing of the crusher would incur costs of €100,000 as it would need to be disassembled by specialist operatives. No entry has been made to reflect the disposal costs as the crusher is to continue in use.

4. Provisions for damages

During the year an employee injured his arm while operating a drilling machine and has taken a legal case against Galway Salt Mines. The case is currently outstanding, but is expected to be settled within the next few weeks. Discussions with lawyers indicate the employee is likely to be successful. The damages payable and associated probabilities are shown below.

Damages payable €'000	Probability
0	20%
300	40%
600	20%
800	20%

Galway Salt Mines has made a provision of €400,000 for the claim above (The weighted average of the damages payable).

A number of miners called for the machine in question to be replaced as it is 10 years old and does not have the safety features of more modern drills. While the current machine is fully depreciated it could continue in use for another five years. If Galway Salt Mines continues to use the machine it is likely there will be another one or two accidents during this period. A replacement machine could prevent these accidents. It would cost €2m but would not improve efficiency. Given the Directors' duty to maximise the wealth of the shareholders, they have decided against replacement of the machine and have made a provision of €500,000 for future damages claims.

Both provisions have been posted against other expenses.

REQUIREMENT:

1. Prepare a memorandum for Davy Jones, the Managing Director, that includes:

(a) A justification and analysis of the required IFRS treatment of the accounting issues outlined in points 1 to 4 on Pages 1 & 2. Prepare relevant calculations and discuss the impact, where appropriate, on the Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Consolidated Statement of Financial Position for the Galway Salt Mines Group for the year ended 30 June 2016.

(40 Marks)

(b) The Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position of the Galway Salt Mines Group for the year ended 30 June 2016 in accordance with relevant IFRS (showing all relevant workings and justify your method of translation of Boston Salt Sales using appropriate IFRS).

(35 Marks)

(c) An outline of the treatment of goodwill on the basis of the accounts being prepared under FRS 102 rather than full IFRS.

(5 marks)

NOTE: THE IMPACT ON TAXATION MAY BE IGNORED FOR PART 1.

2. Assess any ethical issues arising in the case study, explaining why you consider these to be ethical issues and recommend appropriate steps to address them.

(10 Marks)

3. Write the requested note to Davy Jones providing a calculation of the basic earnings per share and diluted earnings per share for Galway Salt Mines for the year ended 31 July 2016.

(10 Marks)

NOTE: FOR THE PURPOSES OF PART 3 ABOVE ASSUME GALWAY SALT MINES REPORTS A PROFIT AFTER TAX, AFTER ADJUSTING FOR ALL CURRENT YEAR ACCOUNTING ISSUES, OF €1,850,000 AND THEIR EFFECTIVE RATE OF TAX IS 20%.

[Total: 100 Marks]

APPENDIX 1: Draft financial statements

Draft Statements of Profit or Loss and Other Comprehensive Income for the Year Ended 30/06/16

	Galway Salt Mines €'000	Boston Salt Sales $'000	Atlantic Shipping Ltd €'000
Revenue	32,617	15,274	4,234
Cost of sales	(22,095)	(12,143)	(2,444)
Gross profit	10,522	3,131	1,790
Other income	500	-	
Selling and distribution expenses	(3,562)	(623)	-
Administrative expenses	(1,442)	(951)	(176)
Other expenses	(1,825)	(250)	(124)
Finance costs	(225)	(23)	(36)
Profit before tax	3,968	1,284	1,454
Tax expense	(899)	(286)	(123)
Profit for the year	3,069	998	1,331
Total comprehensive income for the year	3,069	998	1,331

Draft Statements of Financial Position as at 30/06/2016

	Galway Salt Mines €'000	Boston Salt Sales $'000	Atlantic Shipping Ltd €'000
ASSETS			
Non-current assets			
Property, plant and equipment	33,216	6,433	6,177
Investment in BSS (See Appendix 2)	10,250	-	-
Investment in ASL (See Appendix 2)	4,000	-	-
	47,466	6,433	6,177
Current assets			
Inventories	3,696	1,321	27
Trade receivables	10,091	5,101	564
Prepayments	3	11	-
Cash	3,702	276	175
	17,492	6,709	766
Total assets	**64,958**	**13,142**	**6,943**
EQUITY and LIABILITIES			
Issued share capital €1.00/US$1ordinary shares	8,400	6,000	3,000
Share premium	1,900	-	-
Share option reserve	200		
Retained earnings	34,737	6,023	1,923
3% cumulative irredeemable preference shares	2,000	-	-
Revaluation surplus	8,560	-	-
Total equity	55,797	12,023	4,923
Provisions greater than 1 year	500	-	-
Other non-current liabilities	1,715	466	1,563
Non-current liabilities	2,215	466	1,563
Provisions less than 1 year	400	-	-
Other current liabilities	6,546	653	457
Current liabilities	6,946	653	457
	9,161	1,119	2,020
Total Equity and Liabilities	**64,958**	**13,142**	**6,943**

Appendix 2:
Investments in other companies
Investment in Boston Salt Sales (BSS)

Galway Salt Mines purchased all of the ordinary share capital in Boston Salt Supplies, an American private limited company, on 1 July 2013 for €10,250,000. At this time Boston Salt Supplies had retained earnings of US$3m. The fair value, of Boston Salt Supplies' net assets, on the date of acquisition, was the same as their book value. Galway Salt Mines functional currency is the Euro while Boston Salt Supplies functional currency is the US Dollar.

In June 2016, the Directors of Boston Salt Sales proposed a dividend of US$400,000 which the shareholders are expected to approve. No account has been taken of this dividend in the accounts of either Boston Salt Supplies or Galway Salt Mines.

Galway Salt Mines revenue includes €2m of sales to Boston Salt Sales. At 30 June 2016, Boston Salt Sales had sold all these goods to third parties. Galway Salt Mines trade receivables include an amount due in respect of some of these sales of €250k. The corresponding liability recorded in the books of Boston Salt Sales is US$350k.

An impairment review was carried out on 30 June 2016. It was decided goodwill on acquisition of Boston Salt Sales should be impaired by 20%.

Relevant information on exchange rates is provided in Appendix 4.

Investment in Atlantic Shipping Limited (ASL)

Atlantic Shipping Limited is a relatively small freight shipping company registered in the Republic of Ireland. Galway Salt Mines acquired 40% of the ordinary share capital of ASL on 30 September 2015. The fair values of Atlantic Shipping Limited's net assets at this date were the same as their book values.

An impairment review was carried out on 30 June 2016. It was decided goodwill on acquisition of Atlantic Shipping Limited should be impaired by 10%.

Appendix 3:
Movements in share capital

On 1 July 2015, Galway Salt Mines issued 1,000,000 ordinary shares and 400,000 share options. This is the first time Galway Salt Mines has granted share options. Their exercise price is the market price at the date of grant of €1.50 per share. Options cannot be exercised before 1 July 2018 and expire on 30 June 2020.

A rights issue of 1 for every 20 shares was issued on 31 May 2016 at a price of €1.30 per share. The market price at this date was €1.60 and the average price for the year to 30 June 2016 was €1.65. Galway Salt Mines has €1,000,000 of 6% convertible loans included in other non-current liabilities. These were in issue for the duration of the year and may be converted into 100,000 ordinary shares. No loans were converted during the year.

There are no dividends in arrears on the 3% preference shares.

NOTE: ALL ENTRIES REGARDING THE SHARE OPTIONS AND RIGHTS ISSUE MENTIONED ABOVE IN APPENDIX 3 HAVE ALREADY BEEN CORRECTLY ENTERED IN THE DRAFT FINANCIAL STATEMENTS. THE ABOVE INFORMATION IN APPENDIX 3 IS RELEVANT ONLY FOR CALCULATING THE BASIC AND DILUTED EARNINGS PER SHARE REQUIRED IN PART 3.

Appendix 4:
Other information

The relevant rates of exchange are:

	€	US$
30 June 2016	1	1.50
Average for year to 30 June 2016	1	1.25
From 1 July 2014 to 30 June 2015	1	1.20
From 1 July 2013 to 30 June 2014	1	1.10

The 10% relevant Present Value (PV) and annuity rates are as follows:

Year	PV	Annuity
1	0.909	0.909
2	0.826	1.736
3	0.751	2.487
4	0.683	3.170
5	0.621	3.791

END OF PAPER

SUGGESTED SOLUTIONS

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS IN IRELAND

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SOLUTION 1

Memorandum Confidential
To: Davy Jones
From: CPA
Subject: Galway Salt Mines Plc.: Explanation and analysis of adjustments required for year end and consolidation.
Date: July 2016

Davy

Further to our meeting, I have set out below the adjustments required to the consolidated financial statements, together with a justification for each based on the relevant IFRS. I have set out the treatment of the adjustments required to GSM's financial statements first, with the consolidation adjustments following.

Issue 1. Sale in advance
Revenue is governed by IAS 18 Revenue.
Revenue from the sale is recognised when all of the conditions below are satisfied:

- Seller has transferred to the buyer all of the significant risks and rewards of ownership.
- Seller retains neither continuing managerial involvement with the goods nor effective control over them.
- The amount of revenue can be reliably measured.
- It is probable that economic benefits associated with the transaction will flow to the seller.
- The costs incurred can be reliably measured.

As GSM retain the salt on their site and Cork City Council may cancel the order up until 15th September 2016 GSM has not transferred the risks and rewards of ownership and maintains effective control over the salt. The sale should therefore not be recognised.

The relevant adjustments to the financial statements are below:

	Dr	Cr	
	€000	€000	
Revenue	2,800		
Trade receivables		2,800	(6 marks)

Issue 2. Sale of cranes
This is a sale and leaseback transaction. GSM has sold the cranes to a third party but is leasing them back paying a rental for their use. In this instance the transaction should be treated as a finance lease as it meets the following indicators of a finance lease as per IAS 17 Leases:

- The lease transfers the ownership of the asset to the lessee at the end of the lease term.
- At the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. In this instance, at a discount rate of 10% the present value of the lease payments is just above the fair value of the leased asset, as illustrated below:

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
	€000	**€000**	**€000**	**€000**	**€000**
Payment	1,000	1,000	1,000	1,000	1,000
Discount factor 10%	0.909	0.826	0.751	0.683	0.621
	909	826	751	683	621
Total present value					3,790

(As the present value of the lease payments is greater than the fair value of the leased asset we recognise the fair value as an asset)

GSM must therefore correct the original entries disposing of the cranes and then recognise them as an asset. They must also recognise a liability equal to the fair value of the cranes. The finance charge will then be allocated each period ensuring a constant periodic rate of interest, in this instance 10%. The gain of €290k should be shown as a provision and released to the Statement of Profit or Loss and Other Comprehensive Income as a credit against the finance lease charge.

Depreciation must be charged on the cranes in accordance with IAS 16 *Property, Plant and Equipment.*

The calculation of the annual interest charges over the term of the lease is set out below:

Year	**Bal b/f**	**Interest**	**Repay**	**Closing bal**
	€000	**€000**	**€000**	**€000**
30/06/16	3,790	379	1,000	3,169
30/06/17	3,169	317	1,000	2,486
30/06/18	2,486	249	1,000	1,735
30/06/19	1,735	174	1,000	909
30/06/20	909	91	1,000	0

The amortisation of the gain is shown below:

Year	**Bal b/f**	**Amortisation**	**Closing bal**	**Current liabil**	**Non-current liabil**
	€000	**€000**	**€000**	**€000**	**€000**
30/06/16	290	58	232	58	174
30/06/17	232	58	174	58	116
30/06/18	174	58	116	58	58
30/06/19	116	58	58	58	0
30/06/20	58	58	0	0	0

A schedule of the lease liabilities split between current and non-current is set out below:

Year	**Bal b/f**	**Interest**	**Amor**	**Repay**	**Closing balance**	**Current liability**	**Non-current liability**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
30/06/16	3,500	379	58	1,000	2,937	1,000	1,937
30/06/17	2,937	317	58	1,000	2,312	1,000	1,312
30/06/18	2,312	249	58	1,000	1,619	1,000	619
30/06/19	1,619	174	58	1,000	851	851	0
30/06/20	851	91	58	1,000	0	0	0

Note: For the purposes of the question only the figures for 30/06/16 are required. It is good practice to calculate all figures for the duration of the lease however as these may be left on file and used to prepare journal entries in subsequent years.

As it is reasonably certain the cranes will transfer back to GSM The depreciation charge will be over the useful life of the machinery, rather than the term of the lease in this case ten years.

	€000
Fair Value	3,500
Depreciation	350
Net book value 30/06/16	3,150

The adjustments required to the financial statements are therefore:

	Dr	**Cr**
	€000	**€000**
Property plant & equipment	3,500	
Finance lease > 1 year		3,500
(Recognition of cranes as assets and corresponding lease liability)		
Other income	290	
Provision > 1 year		290
(transfer of profit on disposal to provision)		
Finance lease liabilities >1year	1,000	
Cost of sales		1,000
(Transfer of first lease payment from cost of sales)		
Finance costs	379	
Finance lease liabilities >1 year		379
(Finance lease interest charge)		
Provision >1year	58	
Finance lease >1 year		58
(Amortisation of provision)		
Finance lease >1year	1,000	
Finance lease <1 year		1,000
(Split of finance lease between current and non-current liabilities)		
Provision >1 year	58	
Provision <1 year		58
(Split of provision between current and non-current liabilities)		
Depreciation	350	
Property, plant and equipment		350
(Depreciation on leased asset)		

(20 marks)

Issue 3. Damaged crushing machine

The crushing machine has been impaired, that is, it has suffered a diminution in value. Impairments are governed by IAS36 *Impairment of assets*. The aim of IAS 36 is to ensure non-current assets or cash generating units are carried at no more than their recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and its value in use.

In this instance there is no method of assessing the fair value less costs of disposal, we should therefore use the value in use. The crushing machine does not generate cash inflows that are independent of cash inflows from other assets or groups of assets, we should therefore consider the value in use for the cash generating unit to which the crushing machine belongs.

In the case of a mine such as this, there are no activities which generate independent cash flows. The cash generating unit is therefore the mine as a whole. While the crushing machines capacity has been reduced by 20% it can still operate at faster speeds than the attached conveyor belt. The production line has therefore not been impaired and no impairment loss should be recognised for the machine.

The relevant adjustments to the financial statements are below:

	Dr	Cr
	€000	€000
Property plant & equipment	1,000	
Other expenses		1,000
(Reversal of impairment loss)		

(6 marks)

Issue 4. Provisions for damages
According to IAS37 *Provisions, contingent liabilities and contingent assets*, a provision exists and should be recognised when all of the following criteria are met:

- There is a present obligation
- As a result of a past event
- It is probable that a transfer of economic benefits will occur
- It can be reliably measured

In this instance the specific provision for damages relating to the court case fulfils all criteria and should be provided for. The general provision does not meet all four criteria and therefore cannot be provided for.

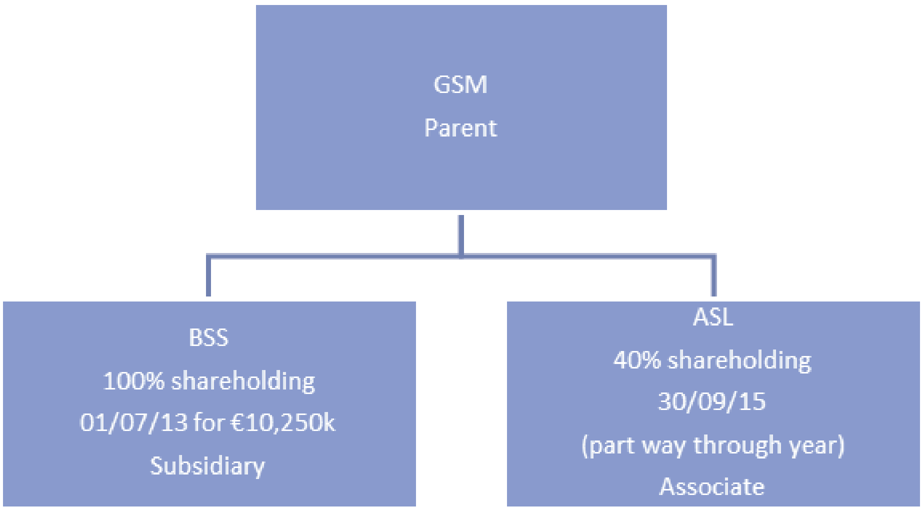
The amount of provision recognised should be based on the best estimate of the expenditure required to settle the present obligation at the reporting date. The best estimate at the reporting date is the level of damages payable with the highest probability, in this case €300,000 with a 40% probability. The current provision of €400,000 must therefore be reduced.

	Dr	Cr
	€000	**€000**
Provisions < 1 year	100	
Other expenses		100
(Reduction of specific provision for damages)		
Provisions > 1 year	500	
Other expenses		500
(Reduction of general provision for damages)		

(8 marks)

Consolidation adjustments

1. Group structure



2. Goodwill re subsidiary

	US$000	€000
Fair value of GSM's investment		10,250
Fair value of sub's net assets at acquisition	9,000	
Ex rate at acquisition	1.10	8,182
Goodwill at acquisition		2,068
Impairment		(414)
Goodwill at reporting date		1,654

(3 marks)

3. Boston Salt Sales Dividend

While a dividend has been proposed by Boston Salt Sales it has not been approved by the shareholders. There is therefore no legal obligation to pay the dividend and should not be recognised in the accounts of either Boston Salt Sales or Galway Salt Mines Group. As no account has been taken of this dividend no entries are required.

(2 marks)

4. Inter-company sales

All intercompany sales between GSM and BSS have been sold on to third parties. There is therefore no provision for unrealised profit adjustment required. BSS does however still owe GSM monies for these sales. As exchange rates have moved in the time between BSS purchasing the goods and the year end, there will be a difference on exchange which is calculated below. The financial statements of BSS must be adjusted for this difference on exchange before being translated into Euro for consolidation.

	US $000
Receivable in GSM books €250k @ 1.50	375
Payable in BSS books	350
Difference on exchange	25

According to IAS 21 *The effects of changes in foreign exchange rates*, any exchange difference on settlement of monetary items should be expensed in arriving at the profit or loss in the period in which they arise.
The adjustments required in the financial statements of BSS are therefore:

	US $000
Profit before tax	1,284
Currency adjustment	(25)
	1,259
Current liabilities	653
Currency adjustment	25
	678

Note: Adjustment not shown as journal entry as journal will be posted in the accounts of BSS NOT in the accounts of GSM.

(5 marks)

5. Translation of subsidiary

The translation of a foreign subsidiary is governed by IAS 21 The effects of changes in foreign exchange rates. Boston Salt Supplies functional currency (the currency of the primary economic environment in which Boston Salt Supplies operates) is the US$. Before consolidation we must translate Boston Salt Supplies financial statements from the US$ functional currency to the Euro€ presentational currency of the Galway Salt Mines Group.

According to IAS 21, if the presentational currency does not equal the functional currency (as in this case) we use the presentational currency / closing rate method. In this method the financial statements should be translated as follows:

1 Assets and liabilities at closing rate 1.50
2 Income and expenses at exchange rates at dates of transactions
Average rate may be adopted 1.25
3 All exchange differences recognised in equity as a separate component (through other comprehensive income)

Note: The financial statements of Boston Salt Supplies must be adjusted for the currency adjustment in point 3 above before translation.

The translation process is illustrated below:

	BSS DOLLAR		BSS Euro
Revenue	15,274	1.25	12,219
Cost of sales	- 12,143	1.25	- 9,714
Gross profit	3,131		2,505
Selling and distribution expenses	- 623	1.25	- 498
Administrative expenses	- 951	1.25	- 761
Other expenses (250 + 25 currency adjustment)	- 275	1.25	- 220
Finance costs	- 23	1.25	- 18
Profit before tax	1,259		1,008
Tax expense	- 286	1.25	- 229
Profit for the year	973		779
Foreign exchange losses			- 129
Total comprehensive income for the year	973		650

	BSS DOLLAR		BSS Euro
ASSETS			
Non-current assets			
Property, plant and equipment	6,433	1.50	4,289
	6,433		4,289
Current assets			
Inventories	1,321	1.50	881
Trade receivables	5,101	1.50	3,401
Prepayments	11	1.50	7
Cash	276	1.50	184
	6,709		4,473
Total assets	13,142		8,762
EQUITY and LIABILITIES			
Issued share capital €1 / US$1 ordinary shares	6,000	1.10	5,455
Retained earnings	5,998		4,511
Foreign currency translation reserve			- 1,967
Equity attributable to owners of company	11,998		7,999
Other non-current liabilities	466	1.50	311
Non-current liabilities	466		311
Other current liabilities (653 + 25 currency adj)	678	1.50	452
Current liabilities	678		452
	1,144		763
Total Equity and Liabilities	13,142		8,762

	BSS DOLLAR			BSS Euro
Share capital	6,000		1.10	5,455
Pre-acquisition reserves	3,000		1.10	2,727
Post Acquisition reserves (5,998-3,000-973)	2,025	Bal		1,006
	11,025		1.20	9,188
	11,025		1.50	7,350
				1,838
Translate current year				
Profit after tax - Statement of profit or loss rate	973		1.25	778
Profit after tax - Statement of financial position rate	973		1.50	649
FX Loss for year				129
Total FX loss				1,967
Retained earnings				
Pre-acquisition				2,727
Post-acquisition excluding current year				1,006
Post acquisiton - current year				778
				4,511

6. **Investment in associate**

Goodwill	**€000**	**€000**
Cost		4,000
Fair value of net assets		
Ordinary share capital	3,000	
Reserves at acquisition		
(1,923-(1,331*9/12))	925	
	3,925	
	45%	1,766
Goodwill on acquisition		2,234
Impairment at 10%		223
Goodwill at 30 June 2016		2,011

Share of profit of associate	**€000**
Profit after tax	1,331
Less pre acquisition profits	
(1,331 * 3/12)	333
	998
	45%
	449
Less goodwill impairment	223
	226

Investment in associate	**€000**
Initial investment	4,000
Add share of profit of associate	226
	4,226

OR

Investment in associate	**€000**
Net assets	4,923
	45%
	2,215
Add unimpaired goodwill	2,011
	4,226

Consolidated Accounts Workings

	GSM	Sale in advance	Sale of cranes	Cushing machine	Provisions for damages	GSM	BSS	Gwill	Gwill impair	Assoc	Consol
							€000				
Revenue	32,617	-2,800				29,817	12,219				42,036
Cost of sales	-22,095		650			-21,445	-9,714				-31,159
Gross profit	10,522	-2,800	650	-	-	8,372	2,505	-	-	-	10,877
Other income	500		-290			210					210
Selling and distribution expenses	-3,562					-3,562	-498				-4,060
Administrative expenses	-1,442					-1,442	-761				-2,203
Other expenses	-1,825			1,000	600	-225	-220				-445
Finance costs	-225		-379			-604	-18				-622
Share of profit of associate						-				226	226
Dividend income (Renew and Solar Flair)						-					-
Profit before tax	3,968	-2,800	-19	1,000	600	2,749	1,008	-	-	226	3,983
Tax expense	-899					-899	-229				-1,128
Profit for the year	3,069	-2,800	-19	1,000	600	1,850	779	-	-	226	2,855
Other comprehensive income						-					-
Foreign exchange losses						-	-129				-129
Net changes in fair value of available for sale financial assets						-					-
Re-measurement of net defined benefit liability						-					-
Total comprehensive income for the year	3,069	-2,800	-19	1,000	600	1,850	650	-	-	226	2,726

	GSM	Sale in advance	Sale of cranes	Cushing machine	Provisions for damages	GSM	BSS	Gwill	Gwill impair	Assoc	Consol
							€000				
ASSETS											
Non-current assets											
Property, plant and equipment	33,216		3,150	1,000		37,366	4,289				41,655
Goodwill						-		2,068	-414		1,654
Intangible assets						-					-
Investment property						-					-
Investment in BSS	10,250					10,250		-10,250			-
Investment in ASL	4,000					4,000				226	4,226
	47,466	-	3,150	1,000	-	51,616	4,289	-8,182	-414	226	47,535
Current assets											
Inventories	3,696					3,696	881				4,577
Trade receivables	10,091	-2,800				7,291	3,401				10,692
Prepayments	3					3	7				10
Cash	3,702					3,702	184				3,886
Assets held for sale						-					-
	17,492	-2,800	-	-	-	14,692	4,473	-	-	-	19,165
Total assets	64,958	-2,800	3,150	1,000	-	66,308	8,762	-8,182	-414	226	66,700
EQUITY and LIABILITIES											
Issued share capital 1€ ordinary shares	8,400					8,400	5,455	-5,455			8,400
Share premium	1,900					1,900					1,900
Share option reserve	200					200					200
Retained earnings	34,737	-2,800	-19	1,000	600	33,518	4,511	-2,727	-414	226	35,114
3% Cumulative irredeemable preference shares	2,000					2,000					2,000
Foreign currency translation reserve						-	-1,967				-1,967
Revaluation surplus	8,560					8,560					8,560
Equity attributable to owners of company	55,797	-2,800	-19	1,000	600	54,578	7,999	-8,182	-414	226	54,207
Non-controlling interests											
Total equity	55,797	-2,800	-19	1,000	600	54,578	7,999	-8,182	-414	226	54,207
Finance lease >1 year			1,937			1,937					1,937
Provisions > 1 year	500		174		-500	174					174
Other non-current liabilities	1,715					1,715	311				2,026
Non-current liabilities	2,215	-	2,111	-	-500	3,826	311	-	-	-	4,137
Finance lease <1 year			1,000			1,000					1,000
Provison < 1 year	400		58		-100	358					358
Other current liabilities	6,546					6,546	452				6,998
Current liabilities	6,946	-	1,058	-	-100	7,904	452	-	-	-	8,356
	9,161	-	3,169	-	-600	11,730	763	-	-	-	12,493
Total Equity and Liabilities	64,958	-2,800	3,150	1,000	-	66,308	8,762	-8,182	-414	226	66,700

(15 marks)

Galway Salt Mines Group
Consolidated Statement of Financial Position as at 30/06/16

	€000
ASSETS	
Non-current assets	
Property, plant and equipment	41,655
Goodwill	1,654
Investment in ASL	4,226
	47,535
Current assets	
Inventories	4,577
Trade receivables	10,692
Prepayments	10
Cash	3,886
	19,165
Total assets	66,700
EQUITY and LIABILITIES	
Issued share capital 1€ ordinary shares	8,400
Share premium	1,900
Retained earnings	35,314
3% cumulative irredeemable preference shares	2,000
Foreign currency translation reserve	(1,967)
Revaluation surplus	8,560
Total equity	54,207
Finance lease > 1 year	1,937
Provisions > 1 year	174
Other non-current liabilities	2,026
Non-current liabilities	4,137
Finance lease < 1 year	1,000
Provision < 1 year	358
Other current liabilities	6,998
Current liabilities	8,356
	12,493
Total Equity and Liabilities	66,700

(3 marks)

(iii) Under IFRS goodwill is not amortised but subject to an annual impairment review.

Under FRS102 goodwill is written off over its useful economic life. If there is no reliable estimate of the useful economic life it should be written off over a maximum of 10 years.

No reliable estimate is provided of the useful economic life, we will therefore write off over 10 years. (Other timescales would be acceptable).

	US$000	**€000**
Fair value of GSM's investment		10,250
Fair value of sub's net assets at acquisition	9,000	
Ex rate at acquisition	1.10	8,182
Goodwill at acquisition 01/07/2013		2,068
Amortisation		
YE 30/06/14	207	
YE 30/06/15	207	
YE 30/06/16	207	621
Goodwill at 30/06/16		1,447

(5 marks)

(b) Ethical Issue 1 : Sale of Landrovers to staff.

Ethical Issue 2: Continued use of dangerous drilling machine.

Ethical Issue 3: Circumstances of Jason Pierce leaving, may not be ethical issue but be aware.

Other acceptable ethical issues gained marks. In all instances it must be shown why the issue is ethical and how to address it.

(10 marks)

(c)
To: Davy Jones
From: CPA Accountant

Re: Earnings per share calculations

(i) The basic earnings per share is calculated below:

Timeline

Date	**Action**
01/07/15	400k share options issued
01/03/16	1,000k ordinary shares issued
31/05/16	1 for 20 rights issue

Opening Ordinary Share Capital

Ordinary shares at 30 June 2016	8,400
Less rights issue (8,400/21) * 20	(400)
Less ordinary shares issued	(1.000)
Ordinary shares at 01 July 2015	7,000

Basic Earnings per share

Theoretical Ex rights price	**€**
20 shares @ €1.60	32.00
1 share @ €1.30	1.30
21 shares	33.30
THERP 33.30/21	1.59

Deemed issue at THERP	**€**
Cash raised ((7,000+1,000)/20)*1.30	520k
THERP	1.59
Deemed number shares issued	327k

Bonus element

Total shares issued (700,000+1,000)/20	400
Deemed issued at THERP	327
Bonus element	73

Weighted average calculation			**€000**
Opening shares in issue	7,000		
Add bonus element	73		
Deemed shares before rights issue	7,072	8/12	4,715
Add issue of shares at full market price	1,000		
	8,073	3/12	2,018
Add Bonus issue less bonus element			
(400-72)	327		
	8,400	1/12	700
			7,433

Earnings per share	**€000**
Profit after tax	1,850
Less preference dividend (2,000k*0.03)	60
Earnings	1,790
Weighted average number of shares	7,433
EPS	€0.24

(i) The diluted earnings per share is calculated below:

Diluted earnings per share

Diluted earnings	**€000**
Basic earnings	1,790
Add interest saved (€1,000k * 6%)	60
Less additional tax (Higher profits due to lower interest charge) (60 * 20%)	(12)
Share options	0
	1,838
Diluted shares	
Basic shares	7,433
Add convertibles	100
Add share options	400
	7,933
Deemed issue from Share options	
Cash raised 400 *€1.50	600
Ave share price during year	1.65
Deemed number shares issued	364
Bonus element of share options	
Total shares issued	400
Deemed issued at ave share price	364
Bonus element	36
Diluted EPS	
Diluted earnings	1,838
Diluted shares	7,933
Diluted EPS	€0.23

Basic and diluted earnings per share must be disclosed as a footnote to the financial statements for the following reasons:

- Important ratio for analysts – distils performance in one figure
- Need to have consistency in calculation and presentation so need back up note as well
- Forms basis of the P/E ratio used by analysts – shows how long it takes to recover initial investment from current earnings
- Diluted EPS also essential as shows how worse off investors will be if potential investors exercise their rights
- Shows trend of performance over two years as it adjusts the capital structure to take into account the bonus element of both a rights and capitalisation of reserves and issue of shares

(10 marks)