Answers

1 (a) 1. Consolidated income statement for the year ended 30 September 2005

	$'000
Revenue (W1)	241,200
Cost of sales (balancing figure)	(176,068)
Gross profit (W2)	65,132
Distribution costs (7,000 + 6,000 + (6,000 x 35% x 4/12))	(13,700)
Administrative expenses (8,000 + 7,000 + (7,200 x 35% x 4/12))	(15,840)
Operating profit	35,592
Investment income (W3)	1,000
Finance cost (W4)	(6,890)
Profit before tax	29,702
Income tax expense (7,000 + 1,800 + (3,600 x 35% x 4/12))	(9,220)
Profit for the period	20,482
Attributable to	
Minority interest (4,200 x 20%)	840
Alpha shareholders (balance)	19,642
Net profit for the period	20,482

2. Consolidated statement of changes in equity for the year ended 30 September 2005

	Parent $'000	Minority $'000	Total $'000
Balance at 1 October 2004 (W5)	194,400	18,200	212,600
Net profit for the period	19,642	840	20,482
Dividends	(6,500)	(500)	(7,000)
Balance at 30 September 2005	207,542	18,540	226,082

Working 1 – revenue

	$'000
Alpha + Beta	250,000
Gamma (96,000 x 35% x 4/12)	11,200
Sales from Alpha–Beta	(20,000)
	241,200

Working 2 – gross profit

	$'000
Alpha + Beta	62,000
Gamma (30,000 x 35% x 4/12)	3,500
Unrealised profit adjustments (Beta) (1/5(3,000 – 2,000))	(200)
Fair value adjustment (Gamma) (7,200 x 1/5 x 35% x 4/12)	(168)
	65,132

Working 3 – investment income

	$'000
As per Alpha income statement	6,280
Intra-group dividends received:	
– Beta (80% x 2,500)	(2,000)
– Gamma (35% x 4,800)	(1,680)
Intra-group interest receivable (8% x 20,000)	(1,600)
Residue in consolidated income statement	1,000

Working 4 – finance cost

	$'000
Alpha + Beta	8,000
Gamma (35% x 4,200 x 4/12)	490
Intra-group interest payable (W4)	(1,600)
	6,890

Working 5 – consolidated equity at 1 January 2005

	$'000
Alpha	122,000
Beta (80% x 91,000)	72,800
Unrealised profit on opening inventory (1/5 x 2,000)	(400)
	194,400

(b) The basic principle underlying the treatment of Beta in the consolidated financial statements is that of control. IAS 27 – *Consolidated and Separate Financial Statements* – defines a subsidiary as an entity that is controlled by its parent. IAS 27 states that control is presumed to exist when the parent owns more than half of the voting power of another entity, but in exceptional circumstances such ownership may not constitute control and so Beta is not automatically a subsidiary just because Alpha owns more than half of the equity shares. In this case however, there is no reason to suppose that voting control does not give Alpha control over the operating and financial policies of Beta, so Beta is correctly treated as a subsidiary.

An associate is defined in IAS 28 – *Investments in Associates* – as an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. IAS 28 goes on to say that a shareholding of 20% or more by the investor indicates, but does not guarantee, that significant influence exists. However the overriding issue here is that Gamma would be regarded as a joint venture of Alpha. IAS 31 – *Interests in Joint Ventures* – defines a joint venture as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Where the joint venture is carried out through a separate entity, that entity is regarded as a jointly controlled entity. IAS 31 requires that such joint ventures are either proportionally consolidated or equity accounted. However the practice of Alpha is to use proportional consolidation in such circumstances. In this case because the contractual arrangement that gave Alpha joint control over Gamma did not begin until 1 June 2005, it is only from this date that the profits of Gamma will be proportionally consolidated.

2 (a) Delta income statement for the year ending 30 September 2005

	$'000
Revenue	130,000
Cost of sales (W3)	(88,128)
Gross profit	41,872
Distribution costs (W3)	(7,591)
Administrative expenses (W3)	(22,591)
Profit from operations	11,690
Finance cost (W6)	(5,978)
Profit before tax	5,712
Income tax expense (W7)	(2,300)
Net profit for the period	3,412

(b) Delta statement of changes in equity for the year ending 30 September 2005

	Share capital $'000	Accumulated Profit $'000	Total $'000
Balance at 1 October 2004	50,000	27,000	77,000
Net profit for the period		3,412	3,412
Dividends paid		(2,000)	(2,000)
Balance at 30 September 2004 (W8)	50,000	28,412	78,412

(c) Delta balance sheet as at 30 September 2005

	$'000	$'000
ASSETS		
Non-current assets:		
Property, plant and equipment (W9)	59,100	
Development costs (12,000 – 6,000)	6,000	
		65,100
Current assets:		
Inventories	22,000	
Trade receivables	44,000	
Cash and cash equivalents	33,790	
		99,790
		164,890
EQUITY AND LIABILITIES		
Capital and Reserves:		
Issued capital	50,000	
Accumulated profits	28,412	
		78,412
Non-current liabilities:		
Interest bearing borrowings	40,000	
Deferred tax (W10)	7,000	
Lease liabilities (W5)	20,441	
		67,441
Current liabilities:		
Trade and other payables (W11)	13,500	
Lease liabilities (25,978 (W5) – 20,441)	5,537	
		19,037
		164,890

Workings – all figures in $'000

1. Development costs

IAS 38 – *Intangible assets* – allows costs incurred in the development phase of a project to be capitalised provided the project is technically feasible, commercially viable, and likely to produce net cash flows that are in excess of the development costs. It appears that these conditions are satisfied from 1 July 2005. However IAS 38 states quite clearly that costs incurred in the research phase of a project can never be capitalised, even if the project subsequently results in a successful outcome. Therefore the $6m costs incurred before 30 June 2005 will be taken to the income statement, probably being most appropriately included under costs of sales. Amortisation of the capitalised amount ($12m – $6m = $6m) will begin when the product is commercially produced.

2. Provision for legal costs

The $10m sought by the customer is only a present obligation arising out of a past event if the case goes against Delta. Based on the scenario in the question it is improbable that the case will be lost so the recognition criteria laid down in IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* – are not met. It is not appropriate to include a provision on an 'expected value' basis where a single issue is being considered.

3. Allocation of operating expenses

	Cost of sales	Distribution costs	Administrative expenses
Opening inventory	18,200		
Expenses per TB	75,000	7,000	26,000
Closing inventory	(22,000)		
Development costs (W1)	6,000		
Legal provision reversed (W2)			(4,000)
Depreciation (W4):			
Buildings	288	36	36
Plant	4,200	525	525
Leased asset	6,200		
Loss on sale of plant	240	30	30
Total in income statement	88,128	7,591	22,591

4. Depreciation of non-current assets

Buildings – 1/50 x 18,000	360
Purchased plant and equipment – 1/4 x (27,000 – 6,000)	5,250
Leased asset – 1/5 x 31,000 (W5)	6,200
Loss on sale of plant (1,200 – (6,000 – 4,500))	300
Intangible asset (W1)	–
Total depreciation for the period	12,110

5. Leased asset

The lease is a finance lease. This means that on initial recognition $31m is included in assets and borrowings. The borrowing is treated as shown below:

Period ended	Opening balance	Finance cost	Cash paid	Closing balance
31 March 2005	31,000	1,550	(4,000)	28,550
30 September 2005	28,550	1,428	(4,000)	25,978
31 March 2006	25,978	1,299	(4,000)	23,277
30 September 2006	23,277	1,164	(4,000)	20,441

– The finance cost for the current year is 2,978 (1,550 + 1,428)
– The closing borrowing is 25,978, of which 20,441 is a non-current liability.

6. Finance cost

Interest payable on long term borrowings	3,000
Relating to finance lease (W5)	2,978
	5,978

7. Income tax expense

Estimate on the profits of the current year	1,500
Overprovision in the previous year	(200)
Deferred tax (25% x 28,000 – 6,000)	1,000
	2,300

8. Share issue

The share issue took place after the balance sheet date but before the accounts are authorised for issue. Therefore it is an event occurring after the balance sheet date under the principles laid down in IAS 10 – *Events After the Balance Sheet Date*. However it is a non-adjusting event so no entry is made in the statement of movement in equity.

9. Property, plant and equipment

	Property	Plant and equipment		Total
		Purchased	Leased	
Cost				
As per TB	30,000	27,000	–	57,000
Leased asset included			31,000	31,000
Disposal of plant		(6,000)		(6,000)
As at 30 September 2005	30,000	21,000	31,000	82,000
Provision for depreciation:				
As per TB	4,500	11,090	–	15,590
Income statement for this year	360	5,250	6,200	11,810
On disposals	–	(4,500)	–	(4,500)
As at 30 September 2005	4,860	11,840	6,200	22,900
NBV 30 September 2005	25,140	9,160	24,800	59,100

10. Deferred tax

As per TB	6,000
Transfer for the period (W7)	1,000
As per closing balance sheet	7,000

11. Trade and other payables

Trade payables per TB	12,000
Income tax estimate	1,500
As per closing balance sheet	13,500

3 **First issue**

Two key financial reporting standards inform the correct treatment of this issue. IFRS 5 – *Disposal of Non-current Assets and Reporting of Discontinued Operations* – states that non-current assets that are held for sale should be separately classified on the balance sheet and measured at the lower of existing carrying value and fair value less costs to sell. IFRS 5 further states that the results of discontinued operations should be separately disclosed in the income statement. IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* – requires that provisions should be made for the unavoidable consequences of events occurring before the balance sheet date.

As far as the issue of a provision is concerned the steps taken before the balance sheet date have effectively committed the entity to the closure. The basic principle laid down in IAS 37 is that provision should be made for the direct costs associated with the closure. On this basis the expected redundancy costs and the contract termination costs (items (a) and (d) – total $20m + $5m = $25m) should be provided for. A further cost associated with the closure is the cost of terminating the pension rights of the employees who accept redundancy (item (b) $10m). IAS 19 – *Employee Benefits* – requires that the costs of settlement or curtailment of pension rights are a one-off amount that should be recognised in the income statement of a contributing entity. Given that a provision is appropriate, then this cost should be recognised.

The cost of redeployment and retraining (item (c)) is an ongoing cost associated with the continuing business and IAS 37 specifically states that restructuring provisions should not include those items.

The treatment of expected operating losses (item (g)) is also dealt with in IAS 37. IAS 37 states that a provision is inappropriate unless the losses are anticipated to arise on an onerous contract.

Therefore the total provision for closure should be $35m ($25m + $10m).

As far as the non-current assets of the segment are concerned these satisfy the IFRS 5 criteria for assets held for sale. An asset is classified as held for sale if its value will be recovered principally through sale as opposed to continuing use. The implications of this classification is that the plant and property will be classified as held for sale on the balance sheet and measured at the lower of existing carrying value and fair value less costs to sell. This means that the plant and equipment will be written down by $11m to $1m but that the property will continue to be carried at $10m.

Under the principles of IFRS 5 it would be correct to show the results separately if the segment can be regarded as a discontinued operation. In order for this to be the case the segment would have to be:
A *component* of the entity (where operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity) that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations; or
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

In this case it appears that the segment would be regarded as a discontinued operation. This means that Epsilon needs to disclose a single amount on the face of the income statement comprising the total of:

- The post-tax profit or loss of the discontinued operation and
- The post-tax gain or loss recognised on the measurement to fair value less costs to sell of the assets of the discontinued operation.

Second issue

It is not yet appropriate to record the planned investment that is due to take place in 2005 unless the entity has entered into irrevocable obligations by the balance sheet date. Based on the evidence provided this does not appear to be the case. The only commitment that the entity has entered into prior to the balance sheet date is to purchase 40m euros for $45m. This is a derivative financial instrument and under the provisions of IAS 39 – *Financial Instruments: Recognition and Measurement* – the derivative needs to be recognised at fair value. Fair value changes to derivatives are normally recognised in the income statement but in this case the derivative seems to be an instrument that is hedging a net investment in a foreign entity. It qualifies for treatment under the hedge accounting rules of IAS 39 provided:

- The contract is designated as a hedge of the investment at its outset.
- The hedge is 'effective', meaning that the value changes of the hedged item and the value changes of the hedging instrument should be such that the smaller change is at least 80% of the larger change.

Given the close relationship between the hedging instrument and the hedged item in this case the IAS 39 conditions are almost certain to be satisfied.

Under the hedge accounting rules exchange differences on hedging instruments are taken to equity if hedge accounting is used (which is optional under IAS 39). IAS 21 – *The effects of changes in foreign exchange rates* – states that the exchange differences will be recognised as income when the relevant investment is disposed of. In addition IAS 32 – *Financial Instruments – Disclosure and Presentation* – requires disclosure of the use of derivatives as a risk management tool.

Third issue

The unrealised profit of $1m would need to be eliminated from the consolidated inventory figure and charged against the ownership interests in the consolidated balance sheet. Since the profit is made by a subsidiary the charge to ownership interests would be allocated between the parent and the minority unless the subsidiary is wholly owned.

The adjustment for unrealised profit creates a temporary difference because the current tax position of the group is unaffected by the provision or by its reversal when the inventory is sold outside the group. The temporary difference would be regarded as a deferred tax asset.

The same applies to the tax loss because no tax relief has yet been given but relief will be available in the future against taxable profits. The total temporary difference is \$5m (\$1m + \$4m) and the potential deferred tax is \$1·5m (30% x \$5m).

Since the deferred tax amount is a deferred tax asset then the question of recoverability arises. IAS 12 – *Income Taxes* – states that deferred tax assets can be carried forward where recovery is assured beyond reasonable doubt. In this case recoverability depends on the availability of taxable profits in the future to absorb the temporary differences. It would appear from the information given that these will be available for the subsidiary. The deferred tax asset will be shown in current assets and should not be offset against deferred tax credit balances unless they relate to the same tax jurisdiction.

4 **(a)** The IASB Framework defines income as '*increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that results in increases in equity, other than those relating to contributions from equity participants*'. Furthermore the framework defines assets, liabilities and equity as follows:

Assets are resources controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise.

Liabilities are present obligations of the enterprise arising from past events, the settlement of which is expected to result in an outflow of economic benefits from the enterprise.

Equity is the residual interest in the assets of the enterprise after deducting all its liabilities.

IAS 18 defines revenue as '*the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants*'. This effectively represents the income of an enterprise that arises in the course of its ordinary activities.

(b) Recognition

Revenue from the sale of goods should be recognised when all of the following conditions are satisfied:

(a) The enterprise has transferred to the buyer the significant risks and rewards of the ownership of the goods.
(b) The enterprise retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
(c) The amount of revenue can be measured reliably.
(d) It is probable that the economic benefits associated with the transaction will flow to the enterprise.
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services can be estimated reliably revenue associated with the transaction should be recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

(a) The amount of revenue can be measured reliably.
(b) It is probable that the economic benefits associated with the transaction will flow to the enterprise.
(c) The stage of completion of the transaction at the balance sheet date can be measured reliably.
(d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably revenue should be recognised only to the extent of the expenses recognised that are recoverable.

Revenue arising from the use of enterprise assets should be recognised when:

(a) It is probable that the economic benefits associated with the transaction will flow to the enterprise.
(b) The amount of revenue can be measured reliably.

Measurement

Revenue should be measured at the fair value of the consideration received or receivable. In most cases this means the amount of cash or cash equivalents received or receivable. However where the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. In such cases the fair value of the consideration is determined by discounting the future receipts using an imputed rate of interest. This rate is the more clearly determinable of:

– The prevailing rate for a similar instrument of an issuer with a similar credit rating.
– A rate of interest that discounts the nominal amount of the instruments to the current cash sales prices of the goods or services.

(c) 1. In order for Iota to recognise revenue from this transaction, it is necessary for the risks and rewards of ownership of the land to have been transferred to the bank. There are three factors here that suggest this transfer has not taken place:

(a) The 'sales price' of the land is less than its market value.
(b) Iota is continuing to develop the land.
(c) There is the certainity (with the existence of a call and a put option) that the land will be repurchased by Iota at the end of September 2006.

Therefore revenue recognition is inappropriate. The receipt of \$10m should be shown as a financial liability and the difference between the \$10m sales price and the \$12m repurchase price should be shown as a finance cost over the two year period of the effective loan.

2. Where the selling price of a product includes an identifiable amount for subsequent servicing then the transaction is effectively divided into two:
   – The sale of the product – recognised immediately.
   – The rendering of the services – deferred and recognised over the period of the service warranty.

   In this case the annual revenue attributable to the servicing is $62,500 ($50,000 x 100/80). Therefore revenue of $125,000 ($62,500 x 2) is deferred and the balance of the revenue of $375,000 ($500,000 – $125,000) recognised immediately. The deferred revenue is recognised in the years ended 30 September 2006 and 2007.

3. Where the consideration receivable is deferred, revenue attributable to the sales price, exclusive of interest, is recognised immediately. In this case the sales price is the present value of the consideration discounted by the imputed rate of interest (8%). Therefore the revenue recognised on 1 October 2004 will be $514,403 ($600,000/1·08)^2). The balance of the cash receivable from the customer ($600,000 – $514,403 = $85,597) will be recognised as interest income. $41,152 ($514,403 x 8%) will be recognised in the year ended 30 September 2005, with the balance recognised in the year to 30 September 2006.

5 **(a)** The goodwill on consolidation is the difference between the fair value of the consideration given and the fair value of the identifiable net assets acquired. The fair value of the consideration given is $270m (50m x $5·40).

The fair value of the identifiable net assets acquired is $190m ($180m + $10m). IAS 38 – *Intangible Assets* – states that most intangibles that satisfy the definition of assets will be regarded as identifiable when acquired as part of the acquisition of a business. This would certainly apply to brands which, from the perspective of Kappa, have been acquired as part of the acquisition of Lambda. However the estimated value of future services of employees could not be regarded as an identifiable asset because enterprises do not normally have sufficient control over the potential benefits derivable from those services – the employees can normally leave.

Therefore the goodwill on consolidation is $80m ($270m – $190m). Under the provisions of IFRS 3 – *Business Combinations* – the goodwill is not amortised but reviewed annually for impairment. Thus at 30 September 2005 goodwill will be measured at its cost of $80m less any necessary impairment. It can never be revalued.

(b) An impairment review involves comparing the carrying value of a non-current asset with its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs to sell. Many non-current assets either do not have an identifiable net resale value or if they do the net resale value is very low because the asset is held for use in the business rather than for sale. Therefore an impairment review often involves computing value in use and this is certainly required when reviewing goodwill for impairment.

In practice very few assets can be said to generate cash flows in isolation. What normally happens is that the cash flows are generated by a group of assets. A cash-generating unit is the smallest grouping of assets that can be said to generate cash flows that are independent of those generated by other units. A meaningful calculation of value in use usually involves identifying cash generating units and the attributable cash flows. It is inevitable that goodwill is treated in this way since it clearly cannot generate cash flows in isolation.

(c) The total impairment loss in unit A is $13m ($85m – $72m). This is allocated in the following order:
– To any assets that have suffered obvious impairment – none indicated here.
– To any goodwill in the unit – none specifically allocated here.
– To other assets in the unit, on a pro-rata basis. In this case the 'other assets' are patents (carrying value $5m) and property, plant and equipment (carrying value $60m) and net current assets (carrying value $20m). The net current assets cannot be written down because no current assets have a resale value that is below carrying value. This means that the impairment loss of $13m is allocated:
  – 5/65 x $13m = $1m to the patent.
  – 60/65 x $13m = $12m to the property, plant and equipment.

(d) Because goodwill on consolidation cannot be allocated to individual units the impairment review needs to be performed in two parts. The first stage is to review the individual units for impairment. In this case we see that the assets in unit A have suffered impairment. After providing for this loss the intermediate carrying value of the net assets of Lambda, including goodwill, is as follows:

	$m	
Goodwill	80	See part (a)
Unit A	72	
Unit B	55	
Unit C	60	
Total	267	

Since the value in use of the whole business is only $205m there is an additional impairment loss of $62m that needs to be provided for. This is first allocated to goodwill and so the carrying value of the goodwill is reduced to $18m.

			Marks
1	**(a)**	Basic computation of revenue	1
		Adjust revenue by sales from Alpha to Beta in full	1
		Basic computation of gross profit	1
		Principle adjust for unrealised profit	1
		Take movement on URP on sales to Beta	1
		Use $^1/_5$ in URP calculations	1
		Compute fair value adjustment for Gamma	2
		Distribution costs	1
		Admin expenses	1
		Adjust investment income for inter-company dividends and interest [$^1/_2$ only if just left out]	2
		Adjust finance cost for intra-group interest	1
		Interest and tax figures for Gamma treated consistently with other figures [$^1/_2$ each]	1
		Minority interest in Beta calculated correctly and presented in accordance with IAS1 (revised)	2
		Opening equity includes:	1
		– Alpha	1
		– 80% of Beta – post acquisition	1
		– Opening URP adjustment for Beta	1
		– And 20% of Beta's total in MI column	1
		Profit split appropriately between group and MI	1
		Dividends is Alpha only in group and share of Beta in MI	1
		Available	23
		Maximum	**20**
	(b)	Appropriate comments regarding Beta – up to	4
		Appropriate comments regarding Gamma – up to	5
		Available	9
		Maximum	**5**
		Maximum for question	**25**
2	**(a)**	Revenue	$^1/_2$
		Conclusion on development costs (W1)	2
		Conclusion on provision (W2)	2
		Allocation of operating expenses including calculation of depreciation (W3&W4)	5
		Treatment of leased asset (W5)	4
		Finance cost (W6)	1
		Income tax expense (W7)	2
		Available	$16^1/_2$
		Maximum	**12**
	(b)	Opening balances ($^1/_2$ each)	$1^1/_2$
		Profit for period from income statement	1
		Dividend paid	1
		Appropriate comment on share issue (W10)	2
		Available	$5^1/_2$
		Maximum	**4**
	(c)	Intangible non-current assets	1
		PPE (W9)	4
		Current assets ($^1/_2$ each)	$1^1/_2$
		equity and liabilities is as part (b) ($^1/_2$ each)	1
		Non-current liabilities (1 for deferred tax, $^1/_2$ each for others)	2
		Current liabilities (1 for lease liability, $^1/_2$ each for others)	2
		Available	$11^1/_2$
		Maximum	**9**
		Maximum for question	**25**

			Marks
3	(1)	Obligating event has occurred by BS date – up to	2
		Principle for inclusion of redundancy costs and contract termination costs	2
		Ditto pension costs	2
		Explain why redeployment excluded	2
		Impairment issue with plant [IFRS5]	2
		Exclude profit on sale	1
		Present results for current period as discontinued operation	2
		Discussion of operating losses	2
		Charge in income statement reported separately	2
		Available	17
		Maximum	**12**
	(2)	Inappropriate to record future investment	2
		Forward purchase is a derivative financial instrument	1
		IAS39 requires measurement at fair value	2
		Discuss hedging issues [up to]	3
		Available	8
		Maximum	**5**
	(3)	Eliminate unrealised profit from consolidated inventory	1
		Charge to MI if not wholly owned	1
		Appreciate URP a temporary difference	1
		And is a deferred tax asset	1
		Appreciate tax loss a temporary difference	1
		And is a deferred tax asset	1
		Amount of asset is $1·5 million	1
		Sensible discussion of carry forward	2
		Sensible discussion of BS disclosure	2
		Available	11
		Maximum	**8**
		Maximum for question	**25**

			Marks
4	(a)	Define income	2
		Define assets, liabilities and equity – up to	3
		Revenue	1
		Available	6
		Maximum	**4**
	(b)	Recognition – sale of goods	3
		Recognition – rendering of services	4
		Recognition – use of enterprise assets	2
		Measurement	3
		Available	12
		Maximum	**9**
	(c)	Revenue from sale and repurchase	5
		Revenue from sale with warranty	5
		Revenue from sale with deferred consideration	5
		Available	15
		Maximum	**12**
		Maximum for question	**25**

			Marks
5	**(a)**	Compute purchase consideration	2
		Explanation re: brand – up to	3
		Explanation re: employees – up to	3
		Computation of goodwill	1
		IFRS 3 comment – up to	2
		Available	11
		Maximum	**8**
	(b)	Impairment review means comparing carrying value with recoverable amount	1
		For non-current assets recoverable amount is often value in use	1
		Means computing cash flows	1
		So define cash generating units	2
		Goodwill only of value as part of a cash generating unit or cash generating units	1
		So needed to review related cash generating units for impairment	1
		Available	7
		Maximum	**5**
	(c)	Total loss is $13m	1
		No write down of current assets because all have market value > carrying value	2
		Write $13m off other assets – pro rata	2
		Calculation of write downs	2
		Available	7
		Maximum	**5**
	(d)	Principle impairment review in two parts	1
		Carrying value of goodwill before impairment review is $80m	1
		Intermediate carrying value of three units plus goodwill is $267 million	2
		So additional impairment loss $62 million	1
		Allocate to goodwill – with reason	2
		So new carrying value is $18m	1
		Available	8
		Maximum	**7**
		Maximum for question	**25**