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# Answers

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## 1 (a) Consolidated balance sheet of Alpha at 31 March 2005

|   | \$'000 | \$'000              |
|---|--------|---------------------|
| <b>ASSETS</b>   |        |                     |
| <b>Non-current assets:</b>                                    |        |                     |
| Property, plant and equipment (28,000 + 25,000 + 20,000)      | 73,000 |                     |
| Goodwill (W2)   | 720    |                     |
| Financial assets (W4)   | 1,600  |                     |
|   | <hr/>  | 75,320              |
| <b>Current assets:</b>  |        |                     |
| Inventories (18,000 + 12,000 + 11,000 – 450 (W5))             | 40,550 |                     |
| Inventory in transit (600 – 100 (W5))                         | 500    |                     |
| Receivables (15,000 + 10,000 + 9,000 – 1,200 – 800)           | 32,000 |                     |
|   | <hr/>  | 73,050              |
| <b>Total assets</b>   |        | <hr/> <hr/> 148,370 |
| <b>EQUITY AND LIABILITIES</b>                                 |        |                     |
| <b>Capital and reserves:</b>                                  |        |                     |
| Issued capital (Alpha only)                                   |        | 25,000              |
| Share premium (Alpha only)                                    |        | 10,000              |
| Accumulated profits (W6)                                      |        | 40,410              |
|   |        | <hr/>               |
|   |        | 75,410              |
| Minority interest (W7)  |        | 4,660               |
| <b>Non-current liabilities</b>                                |        |                     |
| Interest bearing borrowings (20,000 + 4,000)                  | 24,000 |                     |
| Deferred tax (2,000 + 1,000 + 1,500)                          | 4,500  |                     |
|   | <hr/>  | 28,500              |
| <b>Current liabilities</b>                                    |        |                     |
| Trade and other payables (12,000 + 9,000 + 7,000 – 600 – 800) | 26,600 |                     |
| Short term borrowings (5,000 + 4,000 + 4,200)                 | 13,200 |                     |
|   | <hr/>  | 39,800              |
| <b>Total equity and liabilities</b>                           |        | <hr/> <hr/> 148,370 |

**WORKINGS (ALL FIGURES IN \$'000)****Working 1 – group structure**

- Alpha has owned 100% of the issued capital of Beta since Beta's incorporation.
- Alpha has owned 80% of the issued capital of Gamma since 31 December 2002.

**Working 2 – goodwill**

- No goodwill for Beta since shares subscribed for on incorporation at par.
- Total goodwill for Gamma is  $8,000 \times \$2.80 - 80\% (10,000 + 4,000 + 12,000) = 1,600$ .
- $1/20 (80)$  was amortised in the year to 31 March 2004 leaving  $19/20 (1,520)$  unamortised.
- Impairment of 800 (W3) is required as a result of the review at 31 March 2005.
- Therefore the unamortised goodwill at 31 March 2005 is  $1,520 - 800 = 720$ .

**Working 3 – impairment**

- The carrying value of Gamma (the cash generating unit) at 31 March 2005 in the consolidated financial statements is 23,300 (the equity of Gamma at 31 March 2005) – 200 (the unrealised profit in the inventory of Gamma – see working 5 below) = 23,100.
- The value in use of Gamma at 31 March 2005 is 24,000.
- So the goodwill attaching to Gamma at 31 March 2005 is  $24,000 - 23,100 = 900$
- Alpha holds an 80% investment in Gamma so the amount that relates to Alpha's investment is  $80\% \times 900 = 720$ .
- The unamortised goodwill before the impairment review was 1,520 (see working 2 above).
- Therefore the impairment that is needed is  $800 (1,520 - 720)$ .

**Working 4 – financial assets**

|  |          |
|--|----------|
| Total in Balance Sheet of Alpha        | 49,000   |
| Investment in Beta                     | (25,000) |
| Investment in Gamma (W2)               | (22,400) |
|  | <hr/>    |
| Included in Consolidated Balance Sheet | 1,600    |

**Working 5 – unrealised profit**

Included in inventory of Beta (1,500 x 20/120) = 250.

Included in inventory of Gamma (1,200 x 20/120) = 200.

Included in inventory in transit (600 x 20/120) = 100.

**Working 6 – consolidated accumulated profits**

|                              |         |
|------------------------------|---------|
| Alpha                        | 36,000  |
| Beta                         | 8,000   |
| Gamma (80% (9,300 – 12,000)) | (2,160) |
| Goodwill amortised (W2)      | (80)    |
| Goodwill impaired (W3)       | (800)   |
| Unrealised profit (W4)       | (550)   |
|                              | <hr/>   |
|                              | 40,410  |
|                              | <hr/>   |

**Working 7 – minority interest in Gamma**

23,300 x 20% = \$4,660.

**(b) Memorandum to directors of Alpha regarding exclusion of Beta**

The only circumstances in which the income and net assets of individual subsidiaries are not line by line consolidated is where the parent's control is intended to be temporary, because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future. This means that the decision to dispose of the subsidiary must have been taken prior to the date of acquisition. Such a scenario could occur if the parent acquires a group of entities with the intention of disposing of one of the subsidiaries of that group. In such circumstances an excluded subsidiary is accounted for as a financial asset in accordance with the provisions of IAS 39 – Financial Instruments: Recognition and Measurement.

The basic requirement of IAS 27 – Consolidated and Separate Financial Statements – is that the income and net assets of all group members [parent and subsidiary entities] should be included in the consolidated financial statements [CFS]. The rationale for this requirement is that the CFS should include the resources that are under the control of the parent and the return generated by those resources. Where a particular subsidiary makes losses then the return generated by those resources is negative but this does not alter the basic principle that this amount should be reflected in the CFS. There is an argument that, where the business of an individual subsidiary is different from the core business of the group, line by line consolidation is misleading. However IAS 27 states that this issue should be addressed by the provision of additional disclosure in the notes to the CFS – for example the information required by IAS 14 – Segment Reporting.

**2 (a) Delta income statement for the year ending 31 March 2005**

|                              |               |
|------------------------------|---------------|
|                              | <b>\$'000</b> |
| Revenue                      | 132,000       |
| Cost of sales (W3)           | (96,120)      |
|                              | <hr/>         |
| Gross profit                 | 35,880        |
| Distribution costs (W3)      | (8,000)       |
| Administrative expenses (W3) | (13,600)      |
|                              | <hr/>         |
| Profit from operations       | 14,280        |
| Finance cost (W5 & W6)       | (4,980)       |
|                              | <hr/>         |
| Profit before tax            | 9,300         |
| Income tax expense (W7)      | (2,800)       |
|                              | <hr/>         |
| Net profit for the period    | 6,500         |
|                              | <hr/>         |

**(b) Delta statement of changes in equity for the year ending 31 March 2005**

|   | Share<br>capital | Revaluation<br>Reserve | Accumulated<br>Profit | Total   |
|---|------------------|------------------------|-----------------------|---------|
|   | \$'000           | \$'000                 | \$'000                | \$'000  |
| Balance at 1 April 2004                 | 40,000           | 4,000                  | 39,000                | 83,000  |
| Surplus on revaluation of property (W8) |                  | 8,450                  |                       | 8,450   |
| Net profit for the period               |                  |                        | 6,500                 | 6,500   |
| Dividends paid                          |                  |                        | (2,000)               | (2,000) |
|   | <hr/>            | <hr/>                  | <hr/>                 | <hr/>   |
| Balance at 31 March 2005                | 40,000           | 12,450                 | 43,500                | 95,950  |
|   | <hr/>            | <hr/>                  | <hr/>                 | <hr/>   |

(c) Delta balance sheet as at 31 March 2005

|                                    | \$'000 | \$'000         |
|------------------------------------|--------|----------------|
| <b>ASSETS</b>                      |        |                |
| <b>Non-current assets:</b>         |        |                |
| Property, plant and equipment (W9) | 72,700 | 72,700         |
| <b>Current assets:</b>             |        |                |
| Inventories (W2)                   | 20,000 |                |
| Trade receivables                  | 44,000 |                |
| Bank balances                      | 28,560 | 92,560         |
|                                    |        | <u>165,260</u> |
| <b>EQUITY AND LIABILITIES</b>      |        |                |
| <b>Capital and Reserves:</b>       |        |                |
| Issued capital                     | 40,000 |                |
| Revaluation reserve                | 12,450 |                |
| Accumulated profits                | 43,500 | 95,950         |
| <b>Non-current liabilities:</b>    |        |                |
| Interest bearing borrowings        | 30,000 |                |
| Preferred shares (W6)              | 21,780 |                |
| Deferred tax (W10)                 | 5,250  | 57,030         |
| <b>Current liabilities:</b>        |        |                |
| Trade and other payables (W11)     | 12,280 | 12,280         |
|                                    |        | <u>165,260</u> |

**WORKINGS – ALL FIGURES IN \$'000**

**1. Inventory purchased in Euros**

- Under the principles of IAS 21 – The Effects of Changes in Foreign Exchange Rates – the inventory is translated into \$ at the rate of exchange prevailing at the date of purchase and so is correctly treated.
- The trade payable in Euros should be retranslated using the rate of exchange in force at the balance sheet date (€1 = \$1.3) and included in the balance sheet at \$1,040.
- The loss on exchange of \$80 should be shown as an operating expense.

**2. Inventory damaged after the year end**

IAS 10 – Events after the Balance Sheet Date – states that such events need to be classified as adjusting or non-adjusting. Adjusting events provide additional evidence regarding conditions at the balance sheet date, whilst non-adjusting events provide no such evidence. Since the inventory was damaged after the balance sheet date this event would be regarded as non-adjusting. Consequently no adjustment would be appropriate.

**3. Allocation of operating expenses**

|                                    | Cost of sales | Distribution costs | Administrative expenses |
|------------------------------------|---------------|--------------------|-------------------------|
| Opening inventory                  | 18,200        |                    |                         |
| Expenses per TB                    | 90,000        | 8,000              | 12,000                  |
| Closing inventory                  | (20,000)      |                    |                         |
| Exchange loss on Euro payable (W1) | 80            |                    |                         |
| Depreciation (W4)                  |               |                    |                         |
| Buildings                          | 840           |                    |                         |
| Plant                              | 7,000         |                    |                         |
| Fixtures                           |               |                    | 1,800                   |
| Issue costs reversed out (W5)      |               |                    | (200)                   |
| Total in income statement          | <u>96,120</u> | <u>8,000</u>       | <u>13,600</u>           |

#### 4. Depreciation of non-current assets

|                                   |              |
|-----------------------------------|--------------|
| Buildings – 3% x 28,000           | 840          |
| Plant – 25% x 28,000              | 7,000        |
| Fixtures – 20% x 9,000            | 1,800        |
| Total depreciation for the period | <u>9,640</u> |

#### 5. Finance cost

|  |              |
|--|--------------|
| Interest payable on long term borrowings | 3,000        |
| Relating to preferred shares (W6)        | 1,980        |
|  | <u>4,980</u> |

#### 6. Preferred share

- Under the principles of IAS 32 – Financial Instruments: Presentation and Disclosure – the preferred share is in substance a liability and should be presented in payables.
- Under the principles of IAS 39 – Financial Instruments: Recognition and Measurement – the preferred share is a financial liability that is not a derivative and is not held for trading. Therefore it should be measured under the amortised cost method, with the year end payable being  $20,000 - 200 + 10\% (20,000 - 200) = 21,780$ .

#### 7. Income tax expense

|   |              |
|---|--------------|
| Estimate on the profits of the current year | 2,200        |
| Underprovided in the previous year          | 100          |
| Deferred tax ((25% x 18,000) – 4,000)       | 500          |
|   | <u>2,800</u> |

#### 8. Surplus on revaluation of property

|  |              |
|--|--------------|
| Revalued amount as given               | 55,000       |
| Carrying value prior to revaluation:   |              |
| At start of year (50,000 – 3,360)      | (46,640)     |
| Depreciation for the period (W4)       | 840          |
|  | <u>9,200</u> |
| Gross surplus for period               | 9,200        |
| Related deferred tax (25% x 3,000)     | (750)        |
|  | <u>8,450</u> |
| Movement on surplus included in equity | 8,450        |

#### 9. Property, plant and equipment

|  | Property      | Plant and<br>Fixtures | Total         |
|--|---------------|-----------------------|---------------|
| Cost/revalued amount at 31 March 2005 as given | 50,000        | 37,000                | 87,000        |
| Provision for depreciation:                    |               |                       |               |
| At start of the year                           | (3,360)       | (10,500)              | (13,860)      |
| Income statement for this year (W4)            | (840)         | (8,800)               | (9,640)       |
| Revaluation surplus (W8)                       | 9,200         |                       | 9,200         |
|  | <u>55,000</u> | <u>17,700</u>         | <u>72,700</u> |
| NBV 31 March 2005                              | 55,000        | 17,700                | 72,700        |

#### 10. Deferred tax

|                              |              |
|------------------------------|--------------|
| As per TB                    | 4,000        |
| Transfers for the period:    |              |
| Income statement (W7)        | 500          |
| Equity (W8)                  | 750          |
|                              | <u>5,250</u> |
| As per closing balance sheet | 5,250        |

#### 11. Trade and other payables

|                              |               |
|------------------------------|---------------|
| Trade payables per TB        | 10,000        |
| Exchange difference (W1)     | 80            |
| Income tax estimate          | 2,200         |
|                              | <u>12,280</u> |
| As per closing balance sheet | 12,280        |

- 3 (a)** You are incorrect not to have made any accounting entries in respect of the granting of the options. IFRS 2 – Share Based Payment – requires entities to recognise obligations that will be settled in shares – equity settled share based payments – at either the market value of the goods or services provided by the recipients of the payment or at the market value of the share based payment, whichever is the easier to ascertain. In the case of share based payments to employees the market value of the share based payment is to be used. The market value should be measured at the date the award is granted, not the date the amounts [in this case share options] vest.

The market value of a share option at 1 April 2004 was \$2 and so the market value of the expected award is  $\$2 \times 50 \times 5,000 \times 90\% = \$450,000$ . The option has a market value even though it has no intrinsic value either at granting date or currently. This is so because of expectations regarding the future share price. Since the award is based on service over a two year period then the charge to income for the current year is  $\frac{1}{2} \times \$450,000 = \$225,000$ . An equivalent amount will be credited to equity and will be included in the future proceeds of issue of the shares, assuming the options are exercised.

- (b)** Your decision to make a provision for the consequences of the reorganisation is correct in principle. This is because the decision to close was communicated to those affected before the year end and so, under the principles of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets – there is a constructive obligation to restructure at 31 March 2005. However the amount you have provided is incorrect for three reasons:
- The provision should be for the direct consequences of the decision to close and should not include items relating to the ongoing operations of the business. Therefore the redeployment costs should not be included.
  - The provision should not include any amounts relating to future operating losses unless they arise under an onerous contract.
  - The provision should not be reduced by potential gains on future asset sales but the estimated losses on the sale of plant should be recognised. IFRS 5 – Disposal of Non-current Assets and Reporting of Discontinued Operations states that assets held for sale should be measured at the lower of carrying amount and fair value less costs to sell. An asset is classified as held for sale if its value will be recovered principally through sale as opposed to continuing use. The assets of the two outlets would appear to satisfy this definition. The potential loss on sale of plant is not part of the restructuring provision as such but will need to be reflected in a lower carrying value for the plant. This means that the provision will be for \$1 million, with an impairment loss on plant of \$150,000.

Under the principles of IFRS 5 it would be correct to show the results separately if the retail outlets can be regarded as a discontinued operation. However it is unclear whether the retail outlets could be regarded as a discontinued operation. In order for this to be the case the outlets would have to be:

- (i) A component of the entity (operations and cash flows that 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
- (ii) – A separate major line of business or geographical area of operation; or
  - Part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
  - A subsidiary acquired exclusively with a view to resale.

It is unclear from the information given whether this definition is satisfied. The conclusion probably depends on whether or not the markets served by the two outlets are lost to Lambda or are going to be supplied by the remaining outlets.

Whether or not the retail outlets are regarded as discontinued operations IFRS 5 requires assets or groups of assets held for sale to be separately presented on the balance sheet. Therefore you are incorrect to leave these assets in their existing balance sheet captions without separate disclosure.

- (c)** You are incorrect in your approach to this issue. Under the principles of IAS 32 – Financial Instruments: Disclosure and Presentation this is a compound financial instrument with characteristics of equity and debt. The instrument needs to be classified in two different places in line with this principle. In this case the best approach is to compute the loan element by discounting the cash flows at the true borrowing rate of 9%. This gives a loan element of:

$$\$60,000 \times 0.917 + \$60,000 \times 0.842 + \$1,060,000 \times 0.772 = \$923,860$$

The equity element would be \$76,140. As far as the income statement goes the debt financial instrument should be measured at amortised cost, which means a finance charge of  $9\% \times \$923,860 = \$83,147$ . The closing liability will be  $\$923,860 + \$83,147 - \$60,000 = \$947,007$ .

4 (a) Cash flow statement of Omicron for the year ended 31 March 2005

|  | \$'000       | \$'000     |
|--|--------------|------------|
| <b>Cash flows from operating activities:</b>         |              |            |
| Profit before tax                                    | 110          |            |
| Adjustments for:                                     |              |            |
| Depreciation   | 58           |            |
| Amortisation   | 10           |            |
| Profit on sale of property                           | (10)         |            |
| Investment income                                    | (6)          |            |
| Finance cost   | 50           |            |
|  | <u>212</u>   |            |
| Increase in inventories                              | (15)         |            |
| Increase in trade and other receivables              | (20)         |            |
| Increase in trade payables                           | 7            |            |
|  | <u>184</u>   |            |
| Cash generated from operations                       | 184          |            |
| Interest paid (W1)                                   | (47)         |            |
| Income taxes paid (W2)                               | (26)         |            |
|  | <u>111</u>   | 111        |
| <b>Cash flows from investing activities</b>          |              |            |
| Purchase of property, plant and equipment (W3)       | (68)         |            |
| Proceeds of sale of equipment (10 + 90)              | 100          |            |
| Development expenditure (W4)                         | (16)         |            |
| Investment income                                    | 6            |            |
|  | <u>22</u>    | 22         |
| <b>Cash flows from financing activities:</b>         |              |            |
| Capital repayment of finance lease obligations (W5)  | (25)         |            |
| Repayment of interest bearing borrowings             | (60)         |            |
| Dividends paid                                       | (25)         |            |
|  | <u>(110)</u> | (110)      |
| Net increase in cash and cash equivalents            |              | 23         |
| Cash and cash equivalents at 1 April 2004 (75 – 80)  |              | <u>(5)</u> |
| Cash and cash equivalents at 31 March 2005 (30 – 12) |              | <u>18</u>  |

**Working 1 – interest paid**

This is the finance cost reduced by the increase in the interest accrual.

**Working 2 – income tax paid**

|                            | \$'000    |
|----------------------------|-----------|
| Charge in income statement | 33        |
| Movement in liability:     |           |
| – Current tax              | (2)       |
| – Deferred tax             | (5)       |
|                            | <u>26</u> |
| So paid                    | 26        |

**Working 3 – purchase of property, plant and equipment**

|                                   | \$'000    |
|-----------------------------------|-----------|
| Movement in assets:               |           |
| – Owned plant                     | 30        |
| – Leased plant                    | 20        |
| Acquisitions under finance leases | (40)      |
| Depreciation                      | 58        |
|                                   | <u>68</u> |
| So purchased for cash             | 68        |



#### Working 4 – development expenditure

|                   | \$'000    |
|-------------------|-----------|
| Movement in asset | 6         |
| Amortisation      | 10        |
| So spend          | <u>16</u> |

#### Working 5 – capital element of finance lease rentals

|                        | \$'000      |
|------------------------|-------------|
| Increase in liability: |             |
| – Non-current          | 10          |
| – Current              | 5           |
| New debt               | <u>(40)</u> |
| So capital repayments  | <u>(25)</u> |

- (b) The direct method of reporting the operating cash flows shows the major classes of gross cash receipts and payments by type. Typical examples would be:
- Cash received from customers.
  - Cash paid to suppliers and employees.

These amounts can either be arrived at directly from the accounting records or by adjusting appropriate items in the financial statements (e.g. adjusting revenues for movements in trade receivables will derive the cash received from customers).

The objective of IAS 7 is to provide users with information about movements in cash and cash equivalents that will enable them to assess the ability of an entity to generate cash flows and the timing and certainty of their generation. The IASB encourages entities to use the direct method because this provides information that will assist in estimating future cash flows and which is not available under the indirect method.

- 5 (a) IAS 19 requires different methods of accounting for the two types of plan because of the different risks they present to the employer. The benefits payable under a defined contribution plan depend on the value of the assets of the plan at the date the employee retires. Therefore the risks associated with such a plan are primarily with the employees not the employer. Since the burden of risk is with the employee the obligations of the employer are fully discharged when the employer makes contributions to the plan. Therefore such contributions are charged as a cost in the income statement on an accruals basis. In contrast benefits payable under a defined benefits plan are based on factors such as salary at retirement and length of service. In such circumstances there is a risk that the assets of the plan at the date of retirement will be insufficient to pay the promised benefits. This risk rests with the plan and so usually rests (legally or constructively) with the employer.
- (b) With a defined benefits plan the liability of the employer is more open ended than a defined contributions plan and so IAS 19 requires inclusion of the net liability (or asset) in the balance sheet of the employer. This will basically be the present value of expected future payments based on past service less the market value of any assets of the plan. The income statement will show three actuarially determined estimates:
- The current service cost.
  - The unwinding of the discount on the liabilities of the plan.
  - The expected return on the plan's assets.
  - Actuarial gains and losses are not included in the income statement unless they fall outside a 'corridor limit'. This limit is the **higher** of:
    - 10% of the market value of the plan assets at the start of the year.
    - 10% of the present value of the plan liabilities at the start of the year.If the cumulative net unrecognised gains or losses brought forward exceed this limit then the excess is charged to income. The excess is charged over the average remaining service lives of current employees in the plan but employers can choose to take the excess to income over a shorter period.
  - Unrecognised actuarial gains or losses are shown in the balance sheet as part of the net balance relating to the plan.

(c) 1. Extracts from balance sheet

|  | 2003     | At 31 March | 2005      |
|--|----------|-------------|-----------|
|  | \$'000   | 2004        | \$'000    |
|  |          | \$'000      | \$'000    |
| Market value of plan assets                | 62,000   | 64,000      | 66,000    |
| Present value of plan liabilities          | (84,000) | (96,000)    | (108,000) |
| Unrecognised actuarial (gains)/losses (W1) | 11,000   | 11,140      | 13,320    |
| Total                                      | (11,000) | (20,860)    | (28,680)  |

2. Extracts from the income statement

|  | 2003     | Year ended 31 March | 2005     |
|--|----------|---------------------|----------|
|  | \$'000   | 2004                | \$'000   |
|  |          | \$'000              | \$'000   |
| Current service cost                                 | (6,000)  | (6,400)             | (6,500)  |
| Unwinding of discount (W4)                           | (7,000)  | (7,560)             | (7,680)  |
| Expected return on assets                            | 3,000    | 3,200               | 3,500    |
| Net charge before actuarial adjustments              | (10,000) | (10,760)            | (10,680) |
| Actuarial gains/(losses) recognised in the year (W1) | Nil      | (3,400)             | (1,540)  |
| Overall amount included in income statement          | (10,000) | (14,160)            | (12,220) |

Working 1 – Actuarial adjustments

|  | 2003   | Year ended 31 March | 2005    |
|--|--------|---------------------|---------|
|  | \$'000 | 2004                | \$'000  |
|  |        | \$'000              | \$'000  |
| Corridor limit (W2)                                  | 7,000  | 8,400               | 9,600   |
| Net unrecognised (gains)/losses at start of the year | 5,000  | 11,000              | 11,140  |
| So excess over corridor limit recognised in income   | Nil    | (3,400)             | (1,540) |
| Actuarial (gains)/losses arising in the year (W3)    | 6,000  | 3,540               | 3,720   |
| Net unrecognised (gains)/losses at end of the year   | 11,000 | 11,140              | 13,320  |

Working 2 – corridor limit

This is 10% of the **greater** of:

- The **opening** plan liabilities.
- The **opening** plan assets.

Working 3 – Total actuarial gains/losses

|  | 2003     | Year ended 31 March | 2005     |
|--|----------|---------------------|----------|
|  | \$'000   | 2004                | \$'000   |
|  |          | \$'000              | \$'000   |
| Opening net liability (excluding actuarial gains/losses)                       | (10,000) | (22,000)            | (32,000) |
| Net charge to income (excluding actuarial gains/losses) (see income statement) | (10,000) | (10,760)            | (10,680) |
| Contributions to plan  | 4,000    | 4,300               | 4,400    |
| Actuarial gain/(loss) – balancing figure                                       | (6,000)  | (3,540)             | (3,720)  |
| Closing net liability (excluding actuarial gains/losses)                       | (22,000) | (32,000)            | (42,000) |

Working 4 – unwinding of the discount

This is the opening liability multiplied by the discount rate in force at the start of the year.

|  |   | Marks            |
|--|---|------------------|
| <b>1</b>                               | <b>(a)</b> Group structure  | 1                |
|  | PPE   | $\frac{1}{2}$    |
|  | Goodwill (including workings 2&3)   | 5                |
|  | Financial assets (including working 3)  | 2                |
|  | Inventory (including working 5)   | 2                |
|  | Inventory in transit (including working 5)  | 2                |
|  | Receivables [only $\frac{1}{2}$ for basic aggregation]  | $1\frac{1}{2}$   |
|  | Issued capital – Alpha only   | 1                |
|  | Share premium – Alpha only  | 1                |
|  | Accumulated profits (including working 6)   | 5                |
|  | Minority interest (including working 7)   | 2                |
|  | Non-current liabilities ( $\frac{1}{2}$ each)   | 1                |
|  | Trade payables (only $\frac{1}{2}$ for aggregation)   | $1\frac{1}{2}$   |
|  | Short term borrowings   | $\frac{1}{2}$    |
| <b>Total for part (a) – maximum 20</b> | <b><u>26</u></b>  |                  |
| <b>(b)</b>                             | Basic principles of IAS 27 – up to  | 2                |
|  | So explain why can't exclude when making losses – up to   | 2                |
|  | Explain why can't exclude when businesses different, with explanation of additional disclosures – up to | 3                |
|  | Explain IAS 27 requirements re: exclusion when control temporary – up to                                | 3                |
| <b>Total for part (b) – maximum 5</b>  | <b><u>10</u></b>  |                  |
| <b>2</b>                               | <b>(a)</b> Revenue  | 1                |
|  | Operating costs [including workings 1–4]  | $6\frac{1}{2}$   |
|  | Finance cost [including workings 5–6]   | 3                |
|  | Tax [including working 7]   | $2\frac{1}{2}$   |
|  | <b>Total for part (a) – maximum 12</b>  | <b><u>13</u></b> |
| <b>(b)</b>                             | Basic layout  | 2                |
|  | Revaluation surplus [including working 8]   | 2                |
|  | Profit and dividend correctly included  | 2                |
| <b>Total for part (b) – maximum 5</b>  | <b><u>6</u></b>   |                  |
| <b>(c)</b>                             | PPE (including working 9)   | 3                |
|  | Current assets – $\frac{1}{2}$ each   | $1\frac{1}{2}$   |
|  | Capital and reserves are as per part (b)  | 1                |
|  | Long term borrowings  | $\frac{1}{2}$    |
|  | Preferred capital   | 1                |
|  | Deferred tax [including working 10]   | 2                |
|  | Trade and other payables [including working 11]   | 2                |
| <b>Total for part (c) – maximum 8</b>  | <b><u>11</u></b>  |                  |

|   | <b>Marks</b> |
|---|--------------|
| <b>3 (a)</b> Describe relevant provisions of IFRS 2 – up to           | 4            |
| Compute overall market value and current year income statement charge | 4            |
| Explain credit entry in equity  | 2            |
| <b>Total for part (a) – maximum 8</b>                                 | <b>10</b>    |
| <b>(b)</b> Correct to make provision – constructive obligation        | 3            |
| Disallow three components – 1 each                                    | 3            |
| Discussion of IFRS 5 – up to  | 6            |
| <b>Total for part (b) – maximum 9</b>                                 | <b>12</b>    |
| <b>(c)</b> Explain a compound instrument and resulting treatment      | 3            |
| Compute loan element – up to  | 3            |
| So compute equity element   | 1            |
| Compute finance cost  | 2            |
| So compute loan   | 1            |
| <b>Total for part (c) – maximum 8</b>                                 | <b>10</b>    |
| <b>4 (a)</b> Overall format – up to                                   | 2            |
| Derive figure of \$212,000  | 3            |
| Adjust for working capital movements – 1 each                         | 3            |
| Compute and adjust for interest paid                                  | 1            |
| As above for tax paid   | 2            |
| Purchase of PPE   | 3            |
| Equipment proceeds  | 1            |
| Development expenditure   | 2            |
| Investment income   | 1            |
| Capital repayment of finance leases                                   | 3            |
| Loan repayment  | 2            |
| Opening cash and cash equivalents                                     | 2            |
| <b>Total for part (a) – maximum 20</b>                                | <b>25</b>    |
| <b>(b)</b> Explain principle of direct method                         | 2            |
| Explain derivation of figures   | 2            |
| Explain IASB preference for direct method                             | 3            |
| <b>Total for part (b) – maximum 5</b>                                 | <b>7</b>     |
| <b>5 (a)</b> Adequate explanation of risk issues – up to              | 4            |
| <b>Total for part (a) – maximum 4</b>                                 | <b>4</b>     |
| <b>(b)</b> Defined contribution plan                                  | 2            |
| Defined benefit plan  | 6            |
| <b>Total for part (b) – maximum 6</b>                                 | <b>8</b>     |
| <b>(c)</b> BS shows market value of assets                            | 1            |
| Less present value of liabilities                                     | 1            |
| And unrecognised actuarial gains/losses                               | 1            |
| Income statement shows current service cost                           | 1            |
| And expected return on assets   | 1            |
| And unwinding of discount – including computation                     | 2            |
| But not contributions   | 1            |
| Principle apply corridor test and take residue to income              | 1            |
| Work out limit  | 2            |
| Principle gains arising are a balancing figure                        | 1            |
| Include appropriate calculation – up to                               | 5            |
| <b>Total for part (c) – maximum 15</b>                                | <b>17</b>    |