
Answers

1 (a) ALPHA – Consolidated Income Statement for the Year Ended 30 September 2006
[all numbers in \$'000 unless otherwise stated]

Revenue ($125,000 + 100,000 + 8/12 \times 90,000 - 13,000$)	272,000
Cost of sales (balancing figure)	<u>(153,560)</u>
Gross profit (working 1)	118,440
Other operating expenses ($20,000 + 15,000 + 8/12 \times 15,000$)	(45,000)
Income from investments (working 2)	11,933
Finance costs (working 3)	<u>(22,933)</u>
Profit before tax	62,440
Income tax expense ($9,000 + 6,000 + 8/12 \times 5,400$)	<u>(18,600)</u>
Profit for the year	<u>43,840</u>
Attributable to:	
Equity shareholders of Alpha	38,540
Minority interest (working 4)	<u>5,300</u>
	<u>43,840</u>
Working 1 – Gross Profit:	
Alpha + Beta + $8/12 \times$ Gamma	121,000
Provision for unrealised profit:	
– Beta $25/125 [2,000 - 1,200]$	(160)
– Gamma $25/125 \times 1,000$	(200)
Extra depreciation:	
– Beta plant [$1/4 \times [16,000 - 12,000]$]	(1,000)
– Gamma brand [$1/15 \times 27,000 \times 8/12$]	<u>(1,200)</u>
	<u>118,440</u>
Working 2 – Income from investments	
Alpha + Beta + $8/12 \times$ Gamma	17,000
Dividend from Beta to Alpha ($80\% \times 5,000$)	(4,000)
Interest from Beta to Alpha ($20,000 \times 8/12 \times 8\%$)	<u>(1,067)</u>
	<u>11,933</u>
Working 3 – Finance costs	
Alpha + Beta + $8/12 \times$ Gamma	24,000
Interest from Beta to Alpha (working 2)	<u>(1,067)</u>
	<u>22,933</u>
Working 4 – Minority Interest	
– Beta $20\% \times (16,000 - 1,000)$	3,000
– Gamma $25\% \times ((15,600 \times 8/12) - 1,200)$	<u>2,300</u>
	<u>5,300</u>

ALPHA – Summarised Consolidated Statement of Changes in Equity for the Year Ended 30 September 2006
[all numbers in \$'000 unless otherwise stated]

	Group	Minority Shareholders	Total
Balance at 1 October 2005 (W1 & W2)	138,560	14,200	152,760
Profit for the year	38,540	5,300	43,840
Dividends paid	(14,000)	(1,000)	(15,000)
Increase due to acquisition (W3)	<u> </u>	<u>22,050</u>	<u>22,050</u>
Balance at 30 September 2006	<u>163,100</u>	<u>40,550</u>	<u>203,650</u>

Working 1 – Group equity at 1 October 2005	
Alpha – per financial statements	110,000
Beta:	
– group share of post-acquisition movement per financial statements (80% (60,000 – 35,000))	20,000
– group share of fair value adjustment on land (80% (35,000 – 25,000))	8,000
– group share of net fair value adjustment on plant (80% (16,000 – 12,000) x 1/4)	800
Opening PURP (25/125 x 1,200)	(240)
	<u>138,560</u>

Working 2 – MI in equity at 1 October 2005	
As per financial statements (20% x 60,000)	12,000
In fair value adjustment on land (20% (35,000 – 25,000))	2,000
In net fair value adjustment on plant	200
(20% (16,000 – 12,000) x 1/4)	<u>14,200</u>

Working 3 – MI in equity of Gamma at 1 February 2006	
Equity of Gamma per financial statements at 1 October 2005	56,000
Increase per financial statements to 31 January 2006 (15,600 x 4/12)	5,200
Fair value adjustment	<u>27,000</u>
	<u>88,200</u>
25% thereof	<u>22,050</u>

- (b) Taking account of deferred tax would create two types of temporary difference that would affect the consolidated income statement:

The recognition of the assets and liabilities of Gamma (acquired during the period) at fair value would create taxable temporary differences that, under the provisions of IAS 12 – *Income Taxes* – would create a deferred tax liability that would increase goodwill on consolidation. This would not have an immediate impact on the consolidated income statement but as the deferred tax liability is reduced with the consumption of the assets causing the liability then this reduction in liability affects the consolidated income statement. Since the liability is in respect of Gamma there is also a minority interest effect.

The elimination of unrealised profit on inventory would create a deductible temporary difference that would be recognised as long as there was reasonable assurance that suitable taxable profits would arise in future periods to absorb the difference. The impact on the consolidated income statement for the year would be in respect of the increase in the deferred tax asset caused by the increase in the provision for unrealised profit.

In both cases the change in the reported income would affect the consolidated statement of changes in equity in the form of a different reported profit for the period.

2 (a) Delta – income statement for the year ended 30 September 2006 (all numbers in \$'000 unless otherwise stated)

Revenue (W1)	246,750
Cost of sales (W2)	<u>(176,820)</u>
Gross profit	69,930
Other income (W5)	1,000
Distribution costs (W2)	<u>(12,260)</u>
Administrative expenses (W2)	<u>(24,520)</u>
Finance costs	<u>(3,000)</u>
Profit before tax	31,150
Income tax expense (W6)	<u>(6,340)</u>
Profit for the year	<u>24,810</u>

(b) Delta – statement of changes in equity for the year ended 30 September 2006 (all numbers in \$'000 unless otherwise stated)

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Total
Balance at 30.09.05	50,000	40,000		30,000	120,000
Revaluation gain (W7)			8,320		8,320
Profit for the period				24,810	24,810
Dividend paid				<u>(5,000)</u>	<u>(5,000)</u>
Balance at 30.9.06	<u>50,000</u>	<u>40,000</u>	<u>8,320</u>	<u>49,810</u>	<u>148,130</u>

(c) Delta – balance sheet as at 30 September 2006 (all numbers in \$'000 unless otherwise stated)

Assets

Non-current assets	
Property, plant and equipment (W8)	70,050
Current assets	
Inventories	40,000
Amounts due from customers under construction contracts (working 4)	5,250
Financial asset at fair value through profit and loss	13,000
Trade receivables	50,000
Cash and cash equivalents	43,300
	<u>151,550</u>
Total assets	<u><u>221,600</u></u>

Equity and Liabilities

Equity	
Share capital	50,000
Share premium account	40,000
Revaluation reserve	8,320
Retained earnings	49,810
Total equity	<u>148,130</u>
Non-current liabilities	
Long term borrowings	30,000
Deferred tax (W9)	6,220
Total non-current liabilities	<u>36,220</u>
Current liabilities	
Trade payables	30,000
Current tax payable	6,000
Deferred revenue (W1)	1,250
Total current liabilities	<u>37,250</u>
Total equity and liabilities	<u><u>221,600</u></u>

Workings (all numbers in \$'000 unless otherwise stated)

1. Revenue	
As shown in TB	240,000
Revenue deferred (1,000 x 100/80)	(1,250)
25% of contract revenue	8,000
	<u>246,750</u>

Where the sale of a product includes terms for after sales servicing then under the provisions of IAS 18 – *Revenue* – a portion of the revenue is deferred and amortised over the period of performance of the service. The amount deferred is that which will cover the expected costs of the services, together with a reasonable profit on these services.

2. Operating costs

	Cost of Sales	Distribution Costs	Administrative Expenses
Opening inventory	35,000		
Purchases	90,000		
Closing inventory (not construction contract)	(40,000)		
Employment costs	42,000	6,000	12,000
Operating overheads	31,500	4,500	9,000
Depreciation:			
Plant (not construction contract)	10,500	1,500	3,000
Properties	560	80	160
Impairment (W3)	1,260	180	360
Construction contract (W4)	6,000		
	<u>176,820</u>	<u>12,260</u>	<u>24,520</u>

3. Revaluation of properties			
	Property A	Property B	Property C
Cost at 30/09/06	15,000	15,000	10,000
Accumulated depreciation:			
At 01/10/05	(1,500)	(300)	(2,000)
Charge for year	(300)	(300)	(200)
Book value before revaluation	13,200	14,400	7,800
Valuation difference	6,800	3,600	(1,800)
Market value at 30/09/06	20,000	18,000	6,000

Under the provisions of IAS 16 – *Property, plant and equipment* – valuation surpluses are credited to equity and valuation deficits are debited to income (unless they have been revalued previously and a balance is already included in the revaluation reserve in respect of that asset).

4. Construction contract		
(i) Total expected costs on the contract are 8,000 (materials) + 6,000 (plant) + 10,000 (overheads) = 24,000.		
(ii) Since the contract price is 32,000 the anticipated profit is 8,000. 2,000 (25%) is recognised in the income statement for the current period. 8,000 is taken to revenue and 6,000 to cost of sales.		
(iii) Costs incurred to date are 5,000 (materials) + 6,000 x 9/24 (depreciation of plant) + 4,000 (overheads) = 11,250.		
(iv) The balance sheet figure for gross amounts due from customers is 11,250 (costs to date) + 2,000 (recognised profits) – 8,000 (progress payments) = 5,250.		
5. Other income		
Interest received on loan investment		500
Increase in fair value of loan investment (13,000 – 12,500)		500
		<u>1,000</u>
6. Income tax expense		
Estimate for the current year		6,000
Underestimate for last year (5,200 – 5,000)		200
Transfer to deferred tax per question		500
Deferred tax relating to impairment of property C (20% x 1,800 (W3))		(360)
		<u>6,340</u>
7. Revaluation gain		
Gross gains on properties A and B (W3)		10,400
Related deferred tax (20%)		(2,080)
		<u>8,320</u>
8. Property, plant and equipment		
Plant at cost per TB		60,000
Plant purchased for construction contract		6,000
Opening depreciation provision on plant		(22,700)
Depreciation for the other:		
– on construction contract plant (W4)		(2,250)
– on other plant (W2)		(15,000)
Property at revalued amounts		44,000
		<u>70,050</u>
9. Deferred tax		
Balance per TB		4,000
Transfer from income statement per question		500
Relating to impairment of property C (W6)		(360)
Relating to revaluation gains (W7)		2,080
		<u>6,220</u>

Tutorial note

This answer shows the financial asset at fair value through profit and loss as a current asset. It is possible that an asset given this designation would be non-current and candidates who presented the amount as a non-current asset received equal credit.

- 3 1. The reason our entity recognises purchased goodwill but not internally generated goodwill is that IAS 38 – *Intangible assets* – specifically prohibits the recognition of internally generated goodwill. IAS 38 requires that an intangible asset be identifiable before it can be recognised. For an asset to be identifiable it needs to be separable (that is, capable of being disposed of without disposing of the entire entity) or to arise from contractual or other legal rights. Internally generated goodwill does not meet either of these criteria. In addition it cannot be reliably measured.

The reason purchased goodwill is recognised as an asset is because it is essentially an accounting difference that arises on a business combination. IFRS 3 – *Business combinations* – states that such goodwill is initially measured as the difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity.

Accounting for asset impairments is dealt with in IAS 36 – *Impairment of assets*. An asset (including goodwill) is impaired if its carrying amount is higher than its recoverable amount. Recoverable amount is either fair value less costs to sell (where the asset can be sold separately) or value in use, whichever is the higher. In the case of purchased goodwill the recoverable amount must be measured on the basis of value in use, since goodwill cannot be sold separately.

The value in use of an asset is the present value of the estimated future cash flows derivable from the asset. The estimated cash flows are projections of:

- Cash inflows from the continuing use of the asset.
- Cash outflows that are necessarily incurred to generate the above cash inflows.
- Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Unless the asset is such that cash flows can be specifically attributed to it, impairment reviews need to be performed on groups of assets, known as cash-generating units. If the carrying value of a cash-generating unit is higher than its value in use then the unit has suffered an impairment loss and this loss is first allocated to any goodwill relating to the unit.

2. Investments in shares of other enterprises are regarded as financial instruments and recognition and measurement of such instruments is dealt with by IAS 39 – *Financial instruments: recognition and measurement*. IAS 39 states that the measurement basis for financial instruments depends on their initial classification.

Investments in the equity shares of other entities could potentially be classified in one of two ways. One possibility is that investment is classified as fair value through profit and loss. This classification essentially means that the investment is held for trading. Such investments are measured at their fair value, with value changes being recognised in the income statement. The other possibility is that the investment is recognised as an available for sale financial asset. Such assets are measured at fair value, but value changes are normally taken directly to retained earnings, via the statement of changes in equity, being recycled through the income statement only when the investment is sold. This is what appears to be appropriate for our particular equity investment. What effectively happens is that the value changes are taken to the income statement if and when they are realised in the form of a sale of the investment.

Investments in redeemable preferred shares could also in theory be classified as fair value through profit and loss. If so the accounting treatment would be as described above. The alternative classification is that the investment could be regarded as a held to maturity investment since it has a fixed maturity date (which investments in equity shares do not have). IAS 39 requires that investments classified in this way should be measured at amortised cost. This, therefore, is the classification used for these particular investments.

The amortised cost of a financial asset is the amount initially invested, minus any interim amounts receivable from the investment, plus or minus the amortisation of any difference between the initial amount invested and the amount receivable on maturity. Any amortisation is recognised over the term of the investment using the 'effective interest method'. This method applies an effective interest rate to the opening carrying amount of the investment for each period. The effective interest rate is the discount rate that exactly discounts the expected future cash receipts from the investment over its whole term to the amount initially invested.

3. The accounting treatment of post-employment employee benefits that are provided via a separate plan depends on the terms and conditions underlying the benefits. IAS 19 – *Employee benefits* – states that the treatment of such benefits depends on whether or not the plan is a defined contribution plan or a defined benefit plan.

Defined contribution plans are plans where the benefits are a function of the value of the contributions made on behalf of the relevant employee at the date of retirement. For such plans the obligation of the employing entity ends when the contributions are paid and therefore the contributions are an expense in the income statements.

Plans that are not defined contribution plans are defined benefit plans. Under such plans the value of the benefits is a function of factors such as the final salary of the employee and the length of service. For such plans the employing entity has a legal or constructive obligation to support the plan to the extent that the assets might be insufficient to fund the benefits. Therefore in these circumstances IAS 19 requires that employing entities show a net pension liability or asset on the balance sheet. The amount shown is basically the difference between the present value of the benefits earned by existing and former employees based on service provided up to the balance sheet date and the market value of any assets in the plan. It would appear that our entity has established a defined benefit plan and this would explain the relevant entries.

4

	\$'000
Revenue (as before)	90,000
Cost of sales (35,000 + 1,500 (2) + 6,000 (4))	(42,500)
Gross profit	47,500
Other income (7,000 – 2,000 (2) – 5,000 (3))	–
Distribution costs (as before)	(9,000)
Administrative expenses (15,000 + 600 (1) – 500 (5))	(15,100)
Finance costs (10,000 + 700 (3) + 750 (6))	(11,450)
Profit before tax	11,950
Income tax expense (7,000 – 25%(28,000 – 11,950))	(2,988)
Profit for the year	8,962

Summary of adjustments

- Accounting for provisions is dealt with in IAS 37 – *Provisions, contingent liabilities and contingent assets*. Based on the facts presented it is more likely than not that an outflow of economic benefits will occur, so a provision is required. Where a single obligation is being measured then IAS 37 states that the individual most likely outcome is usually the most appropriate measure for the provision. The problem with using the expected value approach is that it produces a provision that would never represent the actual outflow of benefits. The most likely outcome is a payment of \$3 million so this is the amount that should be recognised. A further charge of \$600,000 is required to be made to administrative expenses.
 - Accounting for development costs is dealt with in IAS 38 – *Intangible assets*. IAS 38 does indeed allow entities to capitalise development costs provided certain key criteria are satisfied but only from the date those criteria are satisfied. Therefore expenditure incurred up to 31 March 2006 needs to be taken to the income statement as an expense. This means that the 'other income' of \$2 million should be reversed out and \$1.5 million added to cost of sales.
 - IAS 18 – *Revenue* – requires that revenue for the sale of goods is recognised when, *inter alia*, the risks and rewards of ownership of the goods have been transferred from the seller to the buyer. The appendix to the standard states that, in the case of a sale and repurchasing transaction where the analysis is that risks and rewards remain with the buyer, the transaction is a financing arrangement. Given the existence of a call option for Kappa and a put option for the bank Kappa is bound to repurchase the land on 31 March 2007 so the profit on 'sale' should be removed and a finance cost included. The interest rate payable on the loan is 10% ($15.4/14 = 1.1$). Therefore an interest accrual is needed of \$700,000 (\$14 million x $1.10 \times 6/12$).
 - IAS 16 – *Property, plant and equipment* – requires that entities regularly reassess their estimates of the useful economic lives of assets, making changes where necessary. Such changes should be treated as changes in accounting estimates and dealt with prospectively, rather than as adjustments to opening equity. A further \$6 million needs to be charged to cost of sales.
 - Accounting for post-balance sheet changes in the dollar value of foreign currency denominated amounts is dealt with in IAS 10 – *Events after the balance sheet date*. Changes caused by post-balance sheet changes in exchange rates would be regarded as non-adjusting events. Non-adjusting events should not be reflected in the primary financial statements and so the charge of \$500,000 to administrative expenses should be reversed out.
 - IAS 23 – *Borrowing costs* – allows entities to capitalise borrowing costs if they relate to the acquisition, construction or production of a qualifying asset. Where this option is taken up, capitalisation commences when activities that are necessary to prepare the asset for its intended use are in progress and should cease when substantially all such activities are complete. This means that:
 - Interest on the \$20 million borrowing can be capitalised for the seven month period; 1 December 2005 to 30 June 2006 (\$20 million x 9% x $7/12 = \$1.05$ million).
 - Interest on the \$15 million borrowing can be capitalised for the three month period; 1 April 2006 to 30 June 2006 (\$15 million x 9% x $6/12 = \$0.675$ million).
 - The total borrowing costs that can be capitalised are \$1.725 million (\$1.05 million + \$0.675 million) so an additional finance cost of \$0.75 million (\$2.475 million – \$1.725 million) needs to be charged in the income statement.
- 5 (a) The issue of depreciation of properties is dealt with in IAS 16 – *Property, plant and equipment* – and IAS 40 – *Investment property*. IAS 16 states that all property, plant and equipment with finite useful economic lives should be depreciated over those estimated lives. IAS 16 further states that land generally has an infinite useful economic life but that buildings have finite useful economic lives. IAS 16 requires that properties be split into components for depreciation purposes, the buildings component being depreciated but the land component not being depreciated. Therefore, where properties are subject to IAS 16 (properties 1 and 2) the policy of non-depreciation is not appropriate even if their market values are expected to increase.

Property 3 is being held for investment purposes and so is governed by the provisions of IAS 40. IAS 40 gives entities a choice regarding the accounting treatment of investment properties. One possibility is to use the 'cost model'. If this model is used then the properties are dealt with in accordance with IAS 16. In this case, then as already explained, a depreciation charge would be required. The other possibility is to use the fair value model. Under this model investment properties are measured at their fair values at each balance sheet date, with changes in fair value being reflected in the income statement. Therefore if the entity chooses the fair value model it would be appropriate not to depreciate property 3.

- (b) All three properties can either be valued using the cost model or using the fair value model. Under IAS 16 (applicable for properties 1 and 2) a model is applied to property, plant and equipment on a class by class basis. Properties would be regarded as a separate class of property, plant and equipment. As stated in part (a), under IAS 40 (applicable for property 3) either model would be applied to all investment properties.

Property 1

Where the cost model is used, upward changes in market value would be ignored. Where the fair value model is used, surpluses should be credited directly to equity. Therefore for the both years a surplus of \$1 million would be credited to equity in respect of property 1.

Property 2

Where the cost model is used, the increase in the year to 30 September 2005 would be ignored and the carrying amount retained at \$10 million. The fact that the market value had declined to \$9 million by 30 September 2006 may well indicate that the property has suffered impairment and an impairment review would certainly be appropriate.

If the fair value model is used, the surplus of \$1 million in respect of property 2 in the year to 30 September 2005 is taken to equity as already explained for property 1. Where a revaluation results in a deficit then the appropriate treatment depends on whether or not there is an existing surplus in the revaluation reserve relating to the same asset. To the extent that there is, then the deficit is deducted from the revaluation reserve as a movement in equity. Any other deficit is charged to the income statement as it arises. Therefore the treatment of the deficit of \$2 million arising in the year to 30 September 2006 is to deduct \$1 million from equity (the revaluation reserve) and \$1 million from income.

Property 3

As already explained in part (a) the appropriate treatment of the surpluses (\$1.5 million in the year to 30 September 2005 and \$1 million in the year to 30 September 2006) depends on whether the cost model or the fair value model is used for investment properties. Where the cost model is used then the surpluses would be ignored but where the fair value model is used they would be taken to the income statement.

- (c) The \$50 million cost of the site is debited to property, plant and equipment and depreciated over its 10 year useful economic life in accordance with IAS 16 – *Property, plant and equipment*. The obligation to restore the site to its original condition must be recognised at 1 October 2005. This is because, under the principles outlined in IAS 37 – *Provisions, contingent liabilities and contingent assets* – the entity has a present obligation arising out of a past event that will entail a probable outflow of future economic benefits. Where the effect is material, IAS 37 requires that the provision be discounted. This means that, at 1 October 2005, the provision will be for \$15 million \times 0.463 = \$6.945 million. Where the future expenditure relates to the initial estimate of the cost of restoring an asset then IAS 16 requires that the debit entry for the creation of such a provision is to property, plant and equipment. Therefore the amounts relating to the asset in the financial statements for the year ended 30 September 2006 are:

- Depreciation $1/10 \times (\$50 \text{ million} + \$6.945 \text{ million}) = \5.6945 million . This will be presented as an operating cost.
- Property, plant and equipment $9/10 \times \$56.945 \text{ million} = \51.2505 million . This will be presented as part of non-current assets.

The provision needs to be increased over time as the discount unwinds. For the year ended 30 September 2006:

- The unwinding of the discount is $8\% \times \$6.945 \text{ million} = \0.556 million . This will be recognised as an interest expense.
- The closing provision is $\$6.945 \text{ million} + \$0.556 \text{ million} = \7.501 million . This will be presented as a non-current liability.

- (d) This transaction is an example of an equity settled share based payment transaction that is accounted for in accordance with IFRS 2 – *Share-based payment*. Such transactions are measured using the market value of the relevant equity instrument at the date of granting. In this case the relevant market value is the \$2 market value of the share option on 1 October 2005. The cost of the grant is taken to income over the two-year vesting period. Where the grant is subject to future employment or performance conditions then the latest known estimates of the extent of performance is used to determine the total cost. This means that in this case the total charge to the income statement will be:

$50 \times 500 \times 0.96 \times 0.96 \times \$2 = \$46,080$. In the year ended 30 September 2006 $1/2$ of this amount (\$23,040) is debited to income as an operating cost and credited to equity.

	Marks
1 (a) Revenue	2
Cost of sales is bal figure	$\frac{1}{2}$
Gross profit (including W1)	3
Other operating expenses	$\frac{1}{2}$
Investment income	$2\frac{1}{2}$
Finance costs	1
Income tax expense	$\frac{1}{2}$
Equity s/h of Alpha profit (bal figure)	1
Minority interest	2
Opening balances in SOCE	4
Profit agree to CIS	1
Dividends	2
Increase due to acquisition	3
	<hr/>
Available	23
Maximum	20
	<hr/>
(b) Discussion re: fair value adjustments	3
Discussion re: unrealised profit	3
Appropriate mention of SOCE	2
	<hr/>
Available	8
Maximum	5
	<hr/>
2 (a) Revenue	2
Operating costs (not W3 or W4)	4
Impairment (W3)	1
Attributable profit on contract and related income statement entries (W4)	2
Other income (W5)	1
Finance costs	$\frac{1}{2}$
Income tax expense (W6)	2
	<hr/>
Available	$12\frac{1}{2}$
Maximum	11
	<hr/>
(b) Opening balances	1
Revaluation gain (W7)	$1\frac{1}{2}$
Profit and dividends	1
	<hr/>
Available	$3\frac{1}{2}$
Maximum	3
	<hr/>
(c) PPE (W8)	$3\frac{1}{2}$
Construction contract (W4)	$1\frac{1}{2}$
Other current assets ($\frac{1}{2}$ each)	$1\frac{1}{2}$
Equity balances agree to SOCE	1
Long term borrowings	$\frac{1}{2}$
Deferred tax (W8)	2
Current liabilities ($\frac{1}{2}$ each)	$1\frac{1}{2}$
	<hr/>
Available	$11\frac{1}{2}$
Maximum	11
	<hr/>

		Marks
3	(1) Explain why internally generated goodwill not recognised (under IAS 38)	3
	Explain IFRS 3 requirements for initial recognition of purchased goodwill	3
	Explain the meaning and mechanics of impairment	5
		<hr/>
		Available 11
		<hr/>
		Maximum 9
		<hr/>
	(2) General appreciation of classification issue	2
	Describe 2 classifications for equity investments	3
Describe 2 classifications for investments in preferred shares	3	
Describe the meaning of amortised cost	3	
	<hr/>	
	Available 11	
	<hr/>	
	Maximum 9	
	<hr/>	
(3) Distinguish between defined contribution and defined benefit plans	3	
Explain accounting treatment for defined contribution plan	2	
Ditto for defined benefit plan	3	
So conclude on treatment adopted	1	
	<hr/>	
	Available 9	
	<hr/>	
	Maximum 7	
	<hr/>	
4	Adjustment 1	4
	Adjustment 2	3
	Adjustment 3	4
	Adjustment 4	3
	Adjustment 5	3
	Adjustment 6	4
	Adjustment 7	2
	General for revised I/S	2
		<hr/>
	25	
	<hr/>	

		Marks
5 (a)	Identify IAS 16 appropriate standard for properties 1 and 2.	1
	General IAS 16 requirement re: depreciation	1
	Comment re: need for component depreciation	2
	Comment re: non-depreciation of land	1
	Comment re: depreciation of buildings	1
	Discussion of IAS 40 for property 3	3
		<hr/>
	Available	9
	Maximum	7
		<hr/>
(b)	Treatment of property 1	2
	Treatment of property 2	3
	Treatment of property 3	3
		<hr/>
	Available	8
	Maximum	6
	<hr/>	
(c)	\$50 million to PPE	1
	\$ obligation to restore covered by IAS37	1
	Conclude provision appropriate	2
	Measure at discounted present value	1
	Resulting treatment of PPE	2
	Resulting treatment of provision	2
		<hr/>
	Available	9
Maximum	7	
	<hr/>	
(d)	Explain basic principles of IFRS 2	2
	Compute total cost of transaction	3
	So show entries to year to September 2006	2
		<hr/>
	Available	7
	Maximum	5
	<hr/>	