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# Answers

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1 (a) Consolidated balance sheet of Alpha at 31 March 2007

	\$'000
<b>Assets</b>	
<b>Non-current assets:</b>	
Property, plant and equipment (125,000 + 85,000 + 10,000 (W2) + 6,000 (W2))	226,000
Goodwill (W3)	28,600
Other intangible assets (W2)	16,000
Equity accounted investments (W6)	35,920
	306,520
<b>Current assets:</b>	
Inventories (33,000 + 30,000 – 4,000)	59,000
Trade receivables (43,000 + 30,000 – 5,000)	68,000
Cash and cash equivalents (11,000 + 10,000)	21,000
	148,000
<b>Total assets</b>	<b>454,520</b>
<b>Equity and liabilities</b>	
<b>Equity attributable to equity holders of the parent</b>	
Share capital (70,000 + 20,000)	90,000
Share premium ((20,000 x \$5) – 800)	99,200
Retained earnings (W5)	58,740
	247,940
Minority interest (W4)	23,600
<b>Total equity</b>	<b>271,540</b>
<b>Non-current liabilities:</b>	
Long term borrowings (50,000 + 25,000)	75,000
Deferred tax (35,000 + 12,000 + 7,980 (W7))	54,980
<b>Total non-current liabilities</b>	<b>129,980</b>
<b>Current liabilities:</b>	
Trade and other payables (25,000 + 17,000 – 5,000)	37,000
Current tax payable (9,000 + 7,000)	16,000
<b>Total current liabilities</b>	<b>53,000</b>
<b>Total equity and liabilities</b>	<b>454,520</b>

Workings – Unless stated all figures in \$'000

Working 1 – Group structure

- (i) Alpha owns 80% of the equity shares of Beta and this gives Alpha control over the operating and financial policies of Beta. Therefore under the provisions of IAS 27 – *Consolidated and Separate Financial Statements* – Alpha will consolidate Beta as a subsidiary. Alpha has issued 20 million shares in order to achieve this purchase at a premium of \$5 (\$6 – \$1) per share.
- (ii) Alpha owns 40% of the equity shares of Gamma. Since this shareholding gives Alpha significant influence over the operating and financial policies of Gamma the investment is accounted for as an associate and consolidated using the equity method of consolidation.

**Working 2 – Net assets tables:****Beta**

	Acquisition Date	Balance sheet Date
Share capital	50,000	50,000
Retained earnings:		
Per accounts of Beta	35,000	44,000
Land adjustment	10,000	10,000
Plant and equipment adjustment	8,000	6,000
Contingencies adjustment	3,000	—
Customer relationships adjustment	20,000	16,000
Deferred tax on temporary differences (W7)	(10,250)	(8,000)
<b>Net assets for consolidation</b>	<b><u>115,750</u></b>	<b><u>118,000</u></b>

**Gamma**

Share capital	50,000	50,000
Retained earnings	15,000	28,000
<b>Net assets for consolidation</b>	<b><u>65,000</u></b>	<b><u>78,000</u></b>

**Tutorial note**

No account has been taken of the fair value of the workforce because this does not satisfy the recognition criteria for assets acquired as part of a business combination as laid down in IAS 38 – *Intangible Assets*.

**Working 3 – Goodwill on consolidation (Beta)**

Cost of investment	121,200
80% of net assets at date of acquisition (W2)	(92,600)
	<b><u>28,600</u></b>

**Tutorial note**

The cost of the investment is the fair value of the shares issued – 20 million at \$6 plus the incremental costs of acquisition – \$1.2 million. The \$800,000 cost of issuing own shares is deducted from the share premium account.

**Working 4 – Minority interest (Beta)**

20% x 118,000 (W2)	<b><u>23,600</u></b>
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**Working 5 – Retained earnings**

Alpha – per own financial statements	55,000
Acquisition costs added back	2,000
Beta (80% (118,000 – 115,750))	1,800
Gamma (40% (78,000 – 65,000) – W2)	5,200
Related deferred tax (W7)	(1,300)
Unrealised profit in inventories:	
Alpha (25/125 x 20,000)	(4,000)
Beta (25/125 x 16,000 x 40%)	(1,280)
Related deferred tax (5,280 x 25%)	1,320
	<b><u>58,740</u></b>

**Working 6 – Investment in Gamma (equity method)**

Cost (20,000 x \$1.60)	32,000
Share of post-acquisition profits (W5)	5,200
Unrealised profit (W5)	(1,280)
	<b><u>35,920</u></b>

**Working 7 – Deferred tax on temporary differences:**

**Fair value adjustments:**

	Acquisition Date	Balance Sheet Date
Land	10,000	10,000
Plant and equipment	8,000	6,000
Contingency	3,000	—
Customer relationships	20,000	16,000
	<u>41,000</u>	<u>32,000</u>
Deferred tax at 25%	<b>10,250</b>	<b>8,000</b>

A deferred tax liability of 1,300 (5,200 x 25%) is also recognised on the undistributed profits of Gamma since Alpha is unable to control their distribution and deferred tax assets are recognised on the unrealised profits in inventory. The total adjustment to deferred tax as at 31 March 2007 is **7,980** (8,000 + 1,300 – 1,320) (W5).

- (b) The additional cash payment of \$20 million (40 million x 50 cents) is contingent consideration. At the date of acquisition the directors of Alpha would need to assess the likelihood of the cash being payable. If payment was considered likely then the amount would need to be included in the purchase consideration, thus increasing goodwill on consolidation. In these circumstances the directors of Alpha would need to include \$20 million as a payable. If the effect of discounting were material, both the additional cost of investment and the initial payable would be shown at their present value. In these circumstances the unwinding of the discount would be shown as a finance cost over the two years ending 31 March 2008. If payment were considered unlikely then the contingency would be disclosed in the notes to the financial statements. If the assessment originally made by the directors of Alpha on 1 April 2006 subsequently turned out to be incorrect then goodwill would be adjusted retrospectively.

**2 (a) Income statement of Delta for the year ended 31 March 2007**

	\$'000
Revenue (265,000 – 3,750 (W1))	261,250
Cost of sales (W3)	(183,680)
Gross profit	<u>77,570</u>
Distribution costs (W3)	(13,960)
Administrative expenses (W3)	(23,960)
Finance costs (W5)	(13,140)
Profit before tax	<u>26,510</u>
Income tax expense (W6)	(12,000)
<b>Profit for the period</b>	<u><b>14,510</b></u>

**(b) Statement of changes in equity of Delta for the year ended 31 March 2007**

	Share Capital \$'000	Revaluation Reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 31 March 2006	100,000	—	40,000	140,000
Profit for the period			14,510	14,510
Dividend paid			(20,000)	(20,000)
Revaluation surplus (W7)		<u>52,500</u>		<u>52,500</u>
Balance at 31 March 2007	<u>100,000</u>	<u>52,500</u>	<u>34,510</u>	<u>187,010</u>

(c) Balance sheet of Delta as at 31 March 2007

	\$'000
<b>Assets</b>	
<b>Non-current assets</b>	
Property, plant and equipment (W8)	250,400
	<u>250,400</u>
<b>Current assets</b>	
Inventories	40,000
Trade receivables	86,000
Cash and cash equivalents	48,000
	<u>174,000</u>
<b>Total assets</b>	<b><u>424,400</u></b>
<b>Equity and liabilities</b>	
<b>Equity</b>	
Share capital	100,000
Revaluation reserve	52,500
Retained earnings	34,510
<b>Total equity</b>	<b><u>187,010</u></b>
<b>Non-current liabilities</b>	
Deferred income (W1)	1,250
Long-term borrowings (W9)	131,140
Deferred tax (W10)	34,500
<b>Total non-current liabilities</b>	<b><u>166,890</u></b>
<b>Current liabilities</b>	
Deferred income (W1)	2,500
Trade payables	35,000
Current tax payable	8,000
Short term borrowings (W4)	25,000
<b>Total current liabilities</b>	<b><u>70,500</u></b>
<b>Total equity and liabilities</b>	<b><u>424,400</u></b>

Workings – Unless stated all figures \$'000

**Working 1 – Revenue**

Under the principles of IAS 18 – *Revenue* – the after-sales service commitments of Delta require the entity to defer a proportion of the total revenue receivable under the contract. The amount deferred should cover the expected costs to be incurred by Delta plus a reasonable profit allowance on the servicing.

The total expected costs of the servicing are \$4 million and at a margin of 20% this equates to a revenue figure of \$4 million x 100/80 = \$5 million. Since six months of the service period has elapsed then 6/24 of this revenue (\$1.25 million) is capable of being recognised in the current period. Therefore \$3.75 million is deferred and included as deferred income. \$2.5 million of this deferred income is included as a current liability and the balance of \$1.25 million as a non-current liability.

**Working 2 – Depreciation**

Property (40,000/20)	2,000
Plant and equipment:	
– owned (80,000/5)	16,000
– leased (108,000/5)	21,600
	<u>39,600</u>

**Tutorial note**

15/25 (or 60%) of the useful economic life of the depreciable element of the property has expired so the remaining useful economic life of the property at the date of revaluation is 40% x 50 years = 20 years.

### Working 3 – operating costs

	Cost of Sales	Distribution Costs	Administration Expenses
Per trial balance	—	10,000	20,000
Opening inventories	35,000		
Purchases	107,000		
Production costs	50,000		
Closing inventories	(40,000)		
Depreciation (W2)	31,680	3,960	3,960
To income statement	<u>183,680</u>	<u>13,960</u>	<u>23,960</u>

### Working 4 – lease of machines

- The terms of the lease make this lease a finance lease.
- Therefore the leased asset will be included in property, plant and equipment from 1 April 2006 at fair value of \$108 million and depreciated over five years.
- \$108 million will be credited to payables and the loan profile over the first two years of the lease (years ended 31 March 2007 and 2008 respectively) will be as follows:

Opening Balance	Repayment	New balance	Finance Charge	Closing Balance
108,000	(25,000)	83,000	6,640	89,640
89,640	(25,000)	64,640	5,171	69,811

25,000 of the payable at 31 March 2007 is a current liability and the balance (89,640 – 25,000 = 64,640) a non-current liability.

### Working 5 – finance costs

– Interest on long-term borrowing	5,000
– Finance cost on preferred shares (10% x 15,000)	1,500
– On finance lease (W4)	6,640
	<u>13,140</u>

### Working 6 – tax charge

This year's estimate	8,000
Last year's under-provision	1,000
Transfer to deferred tax	3,000
	<u>12,000</u>

### Working 7 – revaluation surplus

Carrying value before revaluation	45,000
Carrying value after revaluation	120,000
	<u>75,000</u>
So revaluation surplus before tax	75,000
Deferred tax at 30%	(22,500)
Net surplus	<u>52,500</u>

### Working 8 – property plant and equipment

As per trial balance:	
– Cost	140,000
– Accumulated depreciation	(33,000)
Depreciation charged for the year (W2)	(39,600)
Leased asset (W4)	108,000
Revaluation surplus (W7)	75,000
	<u>250,400</u>

### Working 9 – long term borrowings

As per trial balance	50,000
Preferred shares (15,000 x 1.1)	16,500
Lease payable (W4)	64,640
	<u>131,140</u>

### Working 10 – deferred tax

As per trial balance	9,000
Charge to income statement	3,000
On revaluation surplus (W7)	22,500
	<u>34,500</u>

### 3 Transaction (a)

The consolidated balance sheet at 31 March will include the assets and liabilities of the subsidiary and the consolidated income statement will include its income and expenses. However the non-current assets of the subsidiary will need to be reduced by \$4 million to reflect the destruction and consequent loss of value. This will lead to a charge of \$4 million in the consolidated income statement.

The original goodwill on acquisition of the subsidiary was \$8 million (\$80 million – 80% x \$90 million). IFRS 3 – *Business combinations* – requires that purchased goodwill be reviewed annually for impairment using the principles of IAS 36 – *Impairment of assets*. This involves computing the recoverable amount of the asset. This is the higher of the net selling price of the asset (not applicable in the case of goodwill since it cannot be sold separately) and its value in use – the present value of the future cash flows derivable from the asset. For many assets – including goodwill – it is not possible to attribute cash flows to individual assets but rather to groups of assets – referred to in IAS 36 as cash generating units. In this case the goodwill is located in a cash-generating unit together with the non-current assets. The calculation of the impairment loss is as follows:

	\$m
Carrying value of non-current assets	100
Related goodwill – group share	8
Notionally allocated to minority interest	2
	<hr/>
	110
Value in use	(97)
	<hr/>
So total impairment	13

\$4 million of this impairment is allocated to the specifically impaired non-current asset and the balance of \$9 million to goodwill. Since the goodwill relates to an 80% share the impairment will be 80% x \$9 million = \$7.2 million. This means that the new carrying value of the goodwill will be \$0.8 million (\$8 million – \$7.2 million).

### Transaction (b)

Accounting for leased assets is governed by IAS 17 – *Leases*. IAS 17 requires lessees to classify leased assets in their financial statements based on the terms of the lease. Leases that transfer substantially all the risks and rewards of ownership of the asset to the lessee are finance leases. Other leases are operating leases.

The assistant has determined the classification of the lease as a single decision. Where the lease is of a property IAS 17 requires that separate determinations be made for the land and buildings components.

Unless the lease terms contain a provision for passage of legal title at the end of the lease then the fact that land has an infinite useful economic life almost certainly makes the 'land lease' an operating lease. The buildings element will require further analysis but where the lease is as long as this one there is a good chance the lease will be regarded as a finance lease.

For the purposes of lease accounting the lease rentals will be apportioned between the land and buildings elements based on the market values of the respective leasehold interests in those elements. Therefore only a proportion of the lease rental of \$250,000 should have been taken to the income statement as a cost.

If the leasehold interest in the buildings were classified as a finance lease then the fair value of the leasehold interest (or the present value of the minimum lease payments if lower) would be debited to property, plant and equipment on 1 April 2006 and accounted for in accordance with IAS 16. This means that the leased building would be depreciated over the 100 year lease term, unless the useful economic life of the building were considered to be less than this.

The rentals attributable to the buildings element would be regarded as loan repayments at an effective rate of interest that equates to the rate of interest implicit in the lease. Therefore the income statement would contain a finance charge and the balance sheet a borrowing, separated into its current and non-current components. IAS 17 requires separate disclosure of that part of the non-current liability that is payable more than five years after the balance sheet date.

### Transaction (c)

The decision to recognise all finance costs as an expense rather than include relevant amounts in the carrying value of property, plant and equipment represents a change in accounting policy. IAS 8 – *Accounting policies, changes in accounting estimates and errors* – states that an entity should change its accounting policy only if the change is either required by an accounting standard or if it results in the financial statements providing reliable and more relevant information. Capitalisation of borrowing costs is dealt with by IAS 23 – *Borrowing costs*. The previously followed treatment was an allowed treatment under IAS 23 but the benchmark treatment is the one that is now applied. It could be argued that moving to the benchmark treatment results in more relevant information for the user so the change would in theory be appropriate.

Where an entity changes its accounting policy then IAS 8 requires that the change be applied retrospectively. This means that the impact of the change on prior periods should be reported as a change in equity rather than through the income statement. \$500,000 should therefore be added back to profits for the period and reported directly in the Statement of Changes in Equity.

#### 4 (a) Reply to board

Salaries paid in cash would of course have an immediate impact on liquidity.

It is true that payment of salaries to employees in the form of cash would have an immediate impact on profitability as well as liquidity. The payment of a salary would be an employee benefit as defined in IAS 19 – *Employee benefits*. IAS 19 gives such a payment as a specific example of a short-term employee benefit and states that it should be recognised as an expense when the related services have been provided by the employee. Therefore, provided the salary payments are not made in advance (and this is uncommon) there will normally be an immediate impact on profitability. The only exception to this principle would be if the salary cost could be included in the carrying amount of another asset of the entity, such as inventory, or property, plant and equipment.

Accounting for the potential issue of share options to employees is governed by the provisions of IFRS 2 – *Share based payment*. IFRS 2 deals with share based payments that are made in the form of cash (cash settled share based payments) and those made by the issue of equity instruments of the entity (equity settled share based payments). Equity settled share based payments include the granting of share options. The basic principle is that the cost of the share based payment should be treated in just the same way as if the payment were made in cash. In other words, the cost will normally be recognised as an expense in the income statement, although it may occasionally be included in the carrying amount of another asset. Therefore although such payments do not have the same immediate impact on liquidity as salary payments they do affect earnings per share as they are charged to the income statement. If the share options vest and are exercised there is a double impact on earnings per share since the additional shares issued will increase the denominator of the earnings per share calculation.

Where the payment is in the form of equity instruments two other issues arise. The first is how the cost of the payment should be measured. Where the payment is made in return for employee services then IFRS 2 requires that it be measured using the fair value of the instruments actually issued. In the case of share options, unless the options are listed this means estimating their fair value using an option pricing model. The fair value estimate is made at the grant date and is not revised subsequently.

The second issue is when the instruments do not vest immediately, and the vesting is subject to future conditions. The basic principle is that the estimated cost of the options that are expected to vest is recognised in the income statement on a straight-line basis over the vesting period. Unless the vesting condition is related to the future share price of the entity (a market condition) then the estimate is initially made at the date the option is granted and then revised over the vesting period if the expected outcome of the vesting conditions changes.

Where the vesting condition is a market condition then the likelihood (or otherwise) of the shares vesting is factored into the fair value of the option. Therefore no account is taken of changed perceptions in this area since this would result in double counting.

Given that no cash is paid to the employees over the vesting period, the credit entry that corresponds to the debit to the income statement or to assets is directly to equity as a separate component. Once the entry is made, the balance in this component is transferred to share capital or retained earnings as an equity transfer when the options are exercised or lapse.

#### (b) Extracts from financial statements for year ended 31 March 2007

##### Estimate of total cost of award:

- 250,000 share options (50 x 5000) can potentially be awarded.
- Based on estimates of employee retention at the latest balance sheet date it is likely that 220,000 (44 x 5,000) will actually be awarded. It is appropriate to take account of changed estimates of this nature.
- The total expected cost of this award is \$990,000 (220,000 x \$4.50). This cost is estimated using the fair value of the option at the grant date and is not adjusted where the fair value of the option subsequently changes.
- The target share price is a market condition and so is ignored when assessing the amount vesting.

##### Treatment in financial statements for the year ended 31 March 2007

- $\frac{1}{2}$  of the total costs (\$495,000) is recognised in the financial statements.
- The debit entry is either to the income statement as an employment cost (taken to cost of sales, distribution costs or administrative expenses as appropriate) or to an asset like inventory or PPE on the balance sheet.
- The credit entry is to a share option account as a separate component of equity.

#### (c) Potential impact on financial statements for the years ended 31 March 2008 and 2009

##### Year ended 31 March 2008

- As per part (b) the total estimated cost of the award is \$990,000 and the estimates made previously have proved accurate.
- Therefore a further charge of \$495,000 is debited either to the income statement or to an asset account and credited to a separate component of equity.
- The closing balance on the separate equity component will be \$990,000.



#### Year ended 31 March 2009

- The number of options that are exercised will be 198,000 (220,000 x 90%).
- Kappa will receive cash of \$2,970,000 (198,000 x \$15).
- 891,000 (990,000 x 90%) will be transferred from the share options account within equity to the share premium account.
- \$198,000 will be included in the share capital account.
- \$3,663,000 (198,000 x (\$15 – \$1) + \$891,000) will be included in the share premium account.
- The remaining balance of \$99,000 on the share options account will be transferred directly to retained earnings when the options lapse.
- There will be no impact on the income statement.

#### 5 Transaction 1

Cost of production plant – NB: All reasons come from IAS 16 – *Property, Plant and Equipment*

Component	Amount \$'000	Reason
Basic costs	10,000	Purchase costs included
Sales taxes	—	Recoverable sales taxes not included
Employment costs	800	Employment costs in period of getting the plant <b>ready</b> for use.
Other overheads	600	Abnormal costs <b>excluded</b>
Payments to advisors	500	Directly attributable cost
Dismantling costs	1,360	Recognised at present value where an <b>obligation</b> exists
	<u>13,260</u>	

#### Depreciation charge (income statement – operating cost)

Per IAS 16 the asset is split into two depreciable components:

3,000 with a useful economic life (UEL) of four years

10,260 (the balance) with a UEL of eight years

So the charge for the year ended 31 March 2007 is  $3,000 \times 1/4 \times 10/12 + 10,260 \times 1/8 \times 10/12 = 1,694$

#### Carrying value of asset (balance sheet – non current assets)

$13,260 - 1,694 = 11,566$

#### Unwinding of discount (income statement – finance cost)

$1,360 \times 5\% \times 10/12 = 57$

#### Provision for dismantling (balance sheet – non-current liabilities)

$1,360 + 57 = 1,417$

#### Transaction 2

Under the provisions of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* – the property would be classified as held for sale at 31 December 2006. This is because the intention to sell the property is clear and active steps are being taken to locate a buyer, with the property being marketed at a reasonable price. In addition there is a clear expectation that the sale will be completed within 12 months.

Where non-current assets are held for sale they need to be initially measured using up-to-date values under the current measurement basis that is being applied. In this case this basis is the revaluation model. The carrying value based on the latest valuation is \$14.76 million (\$15 million – (\$8 million x 1/25 x 9/12)). This needs to be updated to market value at the date of classification as held for sale – \$16 million. Therefore \$1.24 million (\$16 million – \$14.76 million) is credited to the revaluation reserve.

When the asset is classified as held for sale it is removed from non-current assets and presented in a separate caption on the balance sheet. The (non-mandatory) guidance in IFRS 5 shows this immediately below the current assets section of the balance sheet.

The asset is measured at the lower of its existing carrying value (\$16 million) and its fair value less costs to sell (\$16 million – \$500,000 = \$15.5 million). In this case the asset is written down by \$500,000 and this is recognised as an impairment loss in the income statement. No further depreciation is charged.

At the year end the carrying value of the asset is the lower of the previously computed amount (\$15.5 million) and the latest estimate of fair value less costs to sell (\$15.55 million – the actual net proceeds). In this case no further impairment is necessary.

The sale is recognised (and the revaluation reserve realised) on 30 April 2007 and will therefore impact on next year's financial statements.

	Marks
<b>1 (a)</b> Principle line by line consolidate Beta and equity account Gamma	1
Basic principle of W2	1
Fair value adjustments (up to)	3
W3	2
W4	1
W5	3
W6	2
W7	3
Basic aggregation work – up to	2
Eliminate URP on inventory	2
Eliminate intra-group receivable and payable	1
Share capital and share premium	2
<b>Total for part (a) – maximum 21</b>	<b><u>23</u></b>
<b>(b)</b> Principle include if probable	1
Note impact on goodwill	1
Discuss payable	1
Discuss discounting (up to)	2
Discuss note disclosure (up to)	2
<b>Total for part (b) – maximum 4</b>	<b><u>7</u></b>
<b>TOTAL FOR QUESTION 1</b>	<b><u>25</u></b>
<b>2 (a)</b> Revenue	3
Cost of sales and operating costs	5
Finance costs	2
Tax charge	2
<b>Total for part (a) – maximum 11</b>	<b><u>12</u></b>
<b>(b)</b> Opening balances	1
Profit and dividend for period	1
Revaluation surplus	1
<b>Total for part (b) – maximum 3</b>	<b><u>3</u></b>
<b>(c)</b> PPE	3
Current assets	1
Equity as per SOCE	1
Non-current liabilities	4
Current liabilities	3
<b>Total for part (c) – maximum 11</b>	<b><u>12</u></b>
<b>TOTAL FOR QUESTION 2</b>	<b><u>25</u></b>

	<b>Marks</b>
<b>3 (a)</b> Basic comment about consolidation – up to	1
Treatment of loss of \$4 million – up to	2
Calculation of goodwill and IFRS 3	2
Explain principles of impairment – up to	2
Compute impairment loss on CGU	3
State allocated to goodwill and compute resulting value	2
<b>Total for question (a) – maximum 10</b>	<b><u>12</u></b>
<b>(b)</b> Explain overall distinction between types of lease	1
Appreciate IAS 17 requirement for two part decision	2
Explain why land element operating	1
Rational discussion of buildings element	2
Identify 'market value issue' for rental apportionment	2
So explain treatment of land element	1
Explain treatment of building element – up to	2
<b>Total for question (b) – maximum 10</b>	<b><u>11</u></b>
<b>(c)</b> Note a change in accounting policy – with justification	3
Apply retrospectively	1
So add back to profit and take to SOCE	2
<b>Total for question (c) – maximum 5</b>	<b><u>6</u></b>
<b>TOTAL FOR QUESTION 3</b>	<b><u>25</u></b>
<b>4 (a)</b> Mention IAS 19	1
Discuss treatment of short-term benefits in income statement	1
Discuss possible inclusion in inventory or non-current assets	1
Identify scenario as equity settled SBP	1
Principle treatment of debit entry as for normal salary payment	1
Conclude on impact on liquidity and EPS	2
Discuss issues re: measurement	2
Discuss vesting conditions – market and non-market – up to	3
<b>Total for part (a) – maximum 10</b>	<b><u>12</u></b>
<b>(b)</b> Measure overall expected cost of award	3
Compute amount recognised in year ended 31 March 2007	1
Discussion of debit entry	2
Discussion of credit entry	2
<b>Total for part (b) – maximum 7</b>	<b><u>8</u></b>
<b>(c)</b> Impact on income statement for 2008	1
Impact on balance sheet for 2008	1
Impact on income statement for 2009	1
Impact on share capital for 2009	1
Impact on cash for 2009	1
Balance on share premium account in 2009	2
Treatment of lapsed options in 2009	2
<b>Total for part (c) – maximum 8</b>	<b><u>9</u></b>
<b>TOTAL FOR QUESTION 4</b>	<b><u>25</u></b>

	<b>Marks</b>
<b>5 (1)</b> Compute cost of asset	6
Compute depreciation charge	3
Plant a non-current asset	1
Depreciation an operating cost	1
Compute unwinding of discount and state a finance cost	2
Compute closing provision and state a non-current liability	2
<b>Total for transaction 1 – maximum 13</b>	<u><b>15</b></u>
<b>(2)</b> Discuss why held for sale – up to	3
Compute current carrying value – up to	2
Appreciate issue re: revaluation update and calculate – up to	3
Explain where asset held in BS	1
Discuss new measurement basis	2
Reconsider above at year end	2
Sensible comment re: sale after BS date	2
<b>Total for transaction 2 – maximum 12</b>	<u><b>15</b></u>
<b>TOTAL FOR QUESTION 5</b>	<u><b>25</b></u>