PART I - MULTIPLE CHOICE QUESTIONS (30%)

1	A		11	D
2	B		12	B
3	D		13	A
4	D		14	A
5	C		15	C
6	A		16	A
7	D		17	B
8	D		18	A
9	A		19	D
10	A		20	C

PART II - EXERCISES
Treat THREE OUT OF THE FOUR Cases below (13 marks each)
Case 1
Required:
Explain and show with appropriate calculations how Delta would report those events in its financial statements (statement of financial position and statement of profit and loss) for the year ended 31 March 2019.

Answer:
When a customer has the right to return products, the transaction price contains a variable element. When this element can be reliably measured, it is taken account of in measuring the revenue.
The information regarding the change in likelihood of return after 31 March 2019 is an adjusting event as it gives more information about conditions existing at the reporting date.
Therefore the revenue in florins for the year ended 31 March 2019 will be 460,000 (500,000x92%).
This will be recognized in the financial statements of Delta using the rate of exchange in force at the date of the transaction (2 florins to $1). Therefore revenue of $230,000 will be recognized.
Delta will initially recognize a trade receivable of $500,000 florins. This will be initially recognized in $ as $250,000. At the year end, the trade receivable will be re-translated using the closing rate of 2.1 florins to $1 because it is a monetary item. The closing trade receivable will be $238,095 (500,000/2.1).
The loss on re-translation of the trade receivable of $11,905 ($250,000-$238,095) will be recognized in profit or loss.
The difference (in florins) of 40,000 between the revenue recognized (460,000) and the trade receivable (500,000) will be recognized as a refund liability. This liability will initially be included in the financial statements at $20,000 (40,000/2).
The refund liability is monetary so it will be re-translated to $19,048 (40,000/2.1).

The gain on re-translation of $952 ($20,000-$19,048) will be recognized in profit or loss.

Case 2:

Required:

Explain and show with appropriate calculations how Gamma would report those events in its financial statements (statement of financial position and statement of profit and loss) for the year ended 30 September 2019.

Answer:

The total number of share options that can be awarded is 250,000 (50x5,000). At 30 September 2019 it was estimated that only 44 employees (50-3-3) would actually receive options and therefore 220,000 options (44x5,000) will be awarded.

The transaction is measured using the fair value of the options at the grant date: $4.50. Therefore the total cost of awarding the options is $990,000 (220,000x$4.50).

The vesting period is two years. Therefore the cost to be recognized in the financial statements for the year ended 30 September 2019 is $495,000 ($990,000x½).

The statement of profit or loss for the year ended 30 September 2019 includes an expense of $495,000. This is an employment cost and is included in cost of sales, distribution costs or administrative expenses as appropriate.

The statement of financial position at 30 September 2019 includes a corresponding amount of $495,000 relating to the options. This is presented as a separate component within equity.

The accounting entry is:

DEBIT expense:	$495,000	
CREDIT Equity:		$495,000

Case 3:

Required:

Explain and show with appropriate calculations how Omega would report those events in its financial statements (statement of financial position and statement of profit and loss) for the year ended 30 September 2017.

Answer:

Note 1- Property lease

The initial right of use asset and lease liability would be $3,072,500 (500,000 x 6.145). The initial direct costs of the lessee would then be added to the right of use asset to give a carrying amount of $3,132,500 ($3,072,500 + $60,000).

Depreciation would be charged over a ten-year period so the charge for the year ended 30 September 2017 would be $313,250 ($3,132,500 x 1/10). The closing carrying amount of PPE in non-current assets would be $2,819,250 ($3,132,500 x 9/10).

Delta would recognize a finance cost in profit or loss of $307,250 ($3,072,500 x 10%). The closing lease liability would be $2,879,750 ($3,072,500 + $307,250 - $500,000). Next year's finance cost will be $287,975 ($2,879,750 x 10%) so the current liability at 30 September 2017 will be $212,025

($500,000 - $287,975). The balance of the liability of $2,667,725 ($2,879,750 - $212,025) will be non-current.

Note 2 – sale and leaseback

Because the 'sale' to a third party does not constitute the satisfaction of a relevant performance obligation under IFRS 15- Revenue from Contracts with Customers this is treated as a financing transaction rather than a sale. Therefore Delta will continue to recognize the property and depreciate it over its future useful economic life. The "sales proceeds" will be treated as a financial liability.

The depreciable component of the property is $12m and so the depreciation on the property for the year ended 30 September 2017 will be $600,000 ($12m x 1/20). This amount will be charged to profit or loss as an operating expense. The carrying amount of the property at 30 September 2017 will be $16,900,000 ($17,500,000 - $600,000). This will be shown as a non-current asset in the statement of financial position.

The financial liability will have a carrying amount of $4,500,000 at 1 April 2017. There will be a finance cost charged to profit or loss for the year ended 30 September 2017 of $225,000 ($4,500,000 x 10% x 6/12). The closing financial liability at 30 September 2017 will be $4,725,000 ($4,500,000 + $225,000).

The rental payment that will be made within 12 months of the reporting date will be the first payment of $732,300 due on 31 March 2018. This payment will first be applied to the outstanding finance cost at 31 March 2018. Any amounts over and above the outstanding finance cost will be applied to a reduction in the principal amount owing.

The outstanding finance cost at 31 March 2018 will be the finance cost of $225,000 for the six months to 30 September 2017 (included in the year end liability) plus the finance cost for the six months from 1 October 2017 to 31 March 2018 (also $225,000 but not included in the year-end liability). Therefore the amount of the principal amount that will be discharged by the payment of $732,300 on 31 March 2018 will be $282,300 ($732,300 - $225,000 - $225,000). Therefore the total current liability at 30 September 2017 will be $507,300 (the $225,000 finance cost for the six months to 30 September 2017 plus the $282,300 principal repayment). The non-current liability will be $4,217,700 ($4,725,000 - $507,300).

Case 4:

Required:

Explain and show how the transaction would be reported in the financial statements of Alpha (statement of financial position and statement of profit and loss) for the year ended 30 September 2017.

Answer:

Note 1 – Sale of product with right of return

Under the principles of IFRS 15, revenue cannot be recognised on 1 April 2017 because at that date the consideration is variable and the amount of the variable consideration cannot be reliably estimated.

However, on 1 April 2017 $80,000 would be removed from inventory and included as a 'right to recover asset' (any reasonable description of this would be permitted).
Revenue of $100,000 (the present value of $121,000 receivable in two years) is recognised on 30 June 2017 when the uncertainty regarding potential returns is resolved.
On the same day, the 'right to recover asset' will be de-recognised and transferred to cost of sales.
Alpha will also recognise finance income of $2,500 ($100,000 x 10% x 3/12) in the year ended 30 September 2017.
At 30 September 2017, Alpha will recognise a trade receivable of $102,500 ($100,000 + $2,500).

Part III GROUP ACCOUNTING (31%)

Required:

Use the draft statements of financial position of Alpha, Beta and Gamma at 31 March 20X2 in Note 1, and the further information provided in notes 2-4 to prepare the consolidated statement of financial position of Alpha at 31 March 20X2.

Answer:

The consolidated statement of financial position of Alpha at 31 March 20X2.

Assets	$'000
Non-current assets	
Property, plant and equipment (267,000 + 190,000 + 4,800 (W1))	461,800
Goodwill (W2)	77,949
Investment in associate (W5)	71,000
	610,749
Current assets	
Inventories (85,000 + 50,000 – 3,000 (W4))	132,000
Trade receivables (75,000 + 45,000)	120,000
Cash and cash equivalents (15,000 + 10,000)	25,000
	277,000
Total assets	887,749
Equity and liabilities	$'000
Equity attributable to equity holders of the parent	
share capital	195,000
Retained earnings (W4)	311,299
	506,299
Non-controlling interest (W3)	50,110
Total equity	556,409
Non-current liabilities:	
Long term borrowings (60,000 + 45,000)	105,000
Deferred tax (W7)	32,159
Total non-current liabilities	137,159
Current liabilities:	
Deferred consideration (W6)	68,181
Trade and other payables (70,000 + 30,000)	100,000
Short term borrowings (16,000 + 10,000)	26,000

Total current liabilities	194,181
Total equity and liabilities	887,749

Workings			
1. Net assets table – Beta			
	1 April 20x0	*31 March 20x2*	
	$'000	$'000	
Share capital	100,000	100,000	
Retained earnings:			
Per question/ per accounts of Beta	80,000	100,000	
Plant and equipment adjustment	10,000	4,800	
Inventory adjustment	3,000	Nil	
Deferred tax on fair value adjustments ($13,000 x 20%) , ($4,800 x 20%)	(2,600)	(960)	
Net assets for the consolidation	190,400	203,840	

The post-acquisition increase in net assets is $13.44m ($203.84m - $190.4m).
All of this relates to retained earnings.

Note re: post acquisition plant and equipment adjustment:
This is $4.8m ($10m x 3/5 x 80%).

Fair value: The below table is for more clarification on how we calculate the $4.8m

	Plant & Eqpt(P&E) $'000	***Inventory $'000***
carrying value (1)	*100,000*	*35,000*
estimated market value (2)	*110,000*	*38,000*
Fair value adjustment at acquisition (2) – (1)	***10,000***	***3,000***
Movement		
*Acc. Depreciation (10,000 * 2 / 5 years)*	*(4,000)*	
*Disposal P&E (10,000 – 4,000)*20% = 1,200*	*(1,200)*	
Inventory Sold		*(3,000)*
Fair value adjustment at reporting	***4,800***	***zero***

2. Goodwill on consolidation (Beta)	
	$'000
Cost of investment:	
Share exchange (75million x 2/3 x $3.50)	175,000
Deferred consideration (75 million x $1)/$(1.10)^3$	56,349
Fair value of non-controlling interest at date of acquisition (25million x $2.00)	50,000
	281,349
Net assets at 1 April 20x0 (W1)	(190,400)
Goodwill before impairment	90,949
Impairment	(13,000)
Goodwill after impairment	77,949
3. Non-controlling interest in Beta	
Fair value at date of acquisition (W2)	50,000

25% of post-acquisition increase in net assets ($13.44m (W1))	3,360
25% of goodwill impairment ($13m)	(3,250)
	50,110
4. Retained earnings	$000
Per financial statements of Alpha	281,167
Additional finance cost for deferred consideration (W6)	(6,198)
Beta (75% x $13.44m (W1))	10,080
Gamma (40% x 100,000)	40,000
Unrealised profits on sales to Beta (15,000 x 25/125)	(3,000)
Unrealised profit on sales to Gamma (12,500 x 25/125 x 40%)	(1,000)
75% of goodwill impairment ($13m)	(9,750)
	311,299
5. Investment in Gamma	
Cost	32,000
Share of post-acquisition profits (W4)	40,000
Unrealised profits on sales to Gamma (W4)	(1,000)
At 31 March 20x2	71,000
6. Deferred consideration	$000
At 31 March 20x1 – two years payment	61,983
Finance cost for the current year (10%)	6,198
At 31 March 20x2	68,181
	$000
7. Deferred tax	
Alpha + Beta (21,199 + 10,000)	31,199
On fair value adjustments (W1)	960
	32,159