PART I - MULTIPLE CHOICE QUESTIONS (40%)

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

PART II - EXERCISES

Exercise 1 (10%)

Required:

a) Identify the balance to be included in Daktari's statement of financial position at 31 December 2017.
b) Calculate the amounts to be included in the statement of profit or loss and other comprehensive income for the year ended 31 December 2017.
c) Present a journal summarizing the accounting entries.

a) *Statement of financial position*

Closing net defined liability (1,450 – 1,130)	320

b) *Statement of profit or loss and other comprehensive income*

Service cost	70
Net interest (W1)	7
Profit or loss	77
Other comprehensive income: Remeasurements (W2)	98
Total comprehensive income	175

Workings:

(1) 3% x 245 opening net defined benefit liability (i.e. 1,270 – 1,025)

(2) Remeasurements:

Actuarial gain or loss on defined benefit liability:

Opening liability	1,270
Current service cost	70
Interest on opening liability (1,270 x 30%)	38
Actuarial loss to balance	72
Closing liability	1,450

Actual return on plan assets:

Opening asset	1,025
Cash contribution	100
Actual return to balance	5
Closing asset	1,130

Net interest on opening plan assets is 31 (1,025 x 3%), so decrease due to remeasurement is 26 (5-31).
Net remeasurement is 98 (72 loss on liability + 26 loss on return).

c) Journal entries

Dr	Profit or loss	77	
Dr	Other comprehensive income	98	
Cr	Cash (contribution)		100
Cr	Net defined benefit liability (W)		75

Working

Opening net liability (1,270-1,025)	245
Closing net liability (as (a))	320
Increase in liability	75

Exercise 2 (10%)
Required:

Explain and quantify how shall Gerard report revenues generated from this contract in its financial statements at the end of each of the reporting periods.

The first steps consist in calculating the net profit (loss) to be generated from this contract at the end of each reporting period. The second step consists in measuring progress towards completion at the end of each reporting period by applying the input methods (in accordance with the company's policy) as follows:

	2012	2013	2014	2015
Total contract price (a)	**€12,000,000**	**€12,000,000**	**€12,000,000**	**€12,000,000**
Costs incurred till yearend (b)	€2,750,000	€5,750,000	€9,950,000	€11,100,000
Anticipated future costs (c)	€7,750,000	€7,750,000	€1,550,000	-
Total costs (d) = (b) + (c)	**€10,500,000**	**€13,000,000**	**€11,500,000**	**€11,100,000**
Contract profit (loss) (e) = (a) – (d)	**€1,500,000**	**€(1,000,000)**	**€500,000**	**€900,000**
% of completion = (b) / (d)	**26.19%**	**44.23%**	**86.52%**	**100.00%**
Revenue recognized till yearend (f)	**3,142,800(1)**	**4,750,000(2)**	**10,382,400(3)**	**12,000,000(4)**
Revenue recognized for the year (g) = (f) – (f_{-1})	**3,142,800(5)**	**1,607,200(6)**	**5,632,400(7)**	**1,617,600(8)**

(1) 3,142,800 = 12,000,000 x 26.19%

(2) 4,750,000 = 5,750,000 – 1,000,000 (principle of prudence)

(3) 10,382,400 = 12,000,000 x 86.52%

(4) 12,000,000 = 12,000,0000 x 100.00%

(5) 3,142,800 = 3,142,800 – 0

(6) 1,607,2000 = 4,750,000 – 3,142,800

(7) 5,632,400 = 10,382,400 – 4,750,000

(8) 1,617,600 = 12,000,000 – 10,382,400

Exercise 3 (10%)
Required:
Explain and show how this event would be reported in the financial statements of Delta for the year ended 31 March 2012.

- Under the principles of IAS 16 – Property Plant and Equipment – costs of $13.5 million ($10 million + $3.5 million) will be debited to property, plant and equipment in respect of the cost of acquiring the extraction facility.
- The costs of erecting the extraction facility (excluding the land) will be depreciated over a 10-year period, giving a charge in the current period of $175,000 ($3.5 million x 1/10 x 6/12).
- From 1 October 2011, an obligation exists to rectify the damage caused by the erection of the extraction facility and this obligation should be provided for.
- The amount provided is the present value of the expected future payment, which is $966,000 ($3 million x 0.322).
- The amount provided is debited to property, plant and equipment and credited to provisions at 1 October 2011.
- The debit to property, plant and equipment creates additional depreciation of $48,300 in the current year ($966,000 x 1/10 x 6/12).
- The closing balance in property, plant and equipment is $14,242,700 ($13.5 million - $175,000 + $966,000 - $48,300).
- As the date of settlement of the liability draws closer the discount unwinds.
- The unwinding of the discount in the current year is $57,960 ($966,000 x 12% x 6/12).
- The extraction process itself creates an additional liability based on the damage caused by the reporting date.
- The additional amount provided is $34,100 ($200,000 x 6/12 x 0.341).
- This additional provision causes an extra charge to the statement of comprehensive income.
- The carrying amount of the provision at the year-end is:
  $1,058,060 ($966,000 + $57,960 + $34,100).

Exercise 4 (30%)
Required:
(a) Prepare the Consolidated Statement of Financial Position for the Alpha group as at 31 July 2019 in accordance with International Financial Reporting Standards.

(b) IFRS 3 - *Business Combinations* permits two methods for valuing non-controlling interest at acquisition. Discuss how the initial calculation and subsequent treatment of goodwill arising on the acquisition of Beta would have differed had the non-controlling interest been measured using the proportionate share of the identifiable net assets at the acquisition date. Recalculate the goodwill on this basis.

Alpha: Consolidated statement of financial position as at 31 July 2019

	$ **million**
Non-current assets:	
Property, plant and equipment (758+326 +20 (W7)	1,104.0
Goodwill W3	136.4
Investment in Associate W6	116.5
Investments (1,200+40-750-38-112)	340.0
	1,696.9
Current assets:	
Inventories (235+153 -6 (W9))	382.0
Trade receivables (188+134 -2.5 (W10)	319.5
Cash & bank (100+36)	136.0
	837.5
Total assets	**2,534.4**

Equity:	
Equity shares	1,000.0
Other equity reserves W5 (b)	209.5
Retained earnings W5 (a)	829.5
	2,039.0
Non-controlling interest W4	**84.9**
	2,123.9
Current liabilities:	
Trade payables (161+127 -2.5 (W10)	285.5
Contingent consideration W8	0.0
Dividends proposed	80.0
Current taxation (25+20)	45.0
	410.5
Total equity & liabilities	**2,534.4**

W1 - Group structure:

Alpha has 80% (controlling) equity in Beta, bought 12 months prior to the reporting date
Alpha has 30% equity in Gamma, bought 12 months prior to the reporting date.
Gamma is presumed to be an associate as shareholding is between 20% and 50%

W2 Beta's net assets

	At Acquisition	At Reporting	Post Acquisition
Equity share capital of $1 each	400	400	-
Other equity reserves	20	30	10
Retained earnings	132	112	(20)
Fair value adjustment (W7)	25	20	(5)
Unrealised profit on intra-group trading (W9)	-	(6)	(6)
	577	**556**	**(21)**

	Alpha (80%)	
Retained earnings -W5 (a)	(24.8)	((21) – 10)=(31)) * 80%
OCE - W5 (b)	8	10 * 80%
	Beta (20%)	
W4	(4.2)	(21) * 20%

W3 - Goodwill on acquisition of Beta	**$ million**
Cost of investment:	
Equity issued by Alpha	750.0
Contingent consideration (W8)	38.0
	788.0
Add Value of NCI at acquisition (ii)	130.0
Less Fair value of net assets at acquisition (W2)	(577)
Goodwill at Acquisition	**341.0**
Impairment loss (60% * 341)	(204.6)
Balance to SOFP	**136.4**

W4 - Non-controlling Interest Beta	**$ million**
Balance at acquisition (W3)	130.0
Share of reserves of Beta (20% * (21) (W2))	(4.2)
Share of Goodwill impairment (W3) (20% * (204.6))	(40.9)
Balance to SOFP	**84.9**

W5 (a) Retained earnings Alpha	$ **million**
Balance at reporting date	977.0
Share of R/E of Beta (W2)	(24.8)
Goodwill impairment (80%* (204.6) (W3))	(163.7)
Elimination of contingent consideration (W8)	38.0
Share of R/E of Associate (W6)	3.0
Balance to SOFP	**829.5**

W5 (b) Other equity reserves Alpha	$ **million**
Balance at reporting date	200.0
Share of other equity of associate (W6)	1.5
OCE Share Beta (80% * 10)	8
Balance to SOFP	**209.5**

W6 - Investment in Associate Gamma	$ **million**
Balance at acquisition (iv)	112.0
Share of post-acquisition equity reserves (80-75) * 30%	1.5
Share of post-acquisition earnings (70-60) * 30%	3.0
Balance to SOFP	**116.5**

W7 - Fair value adjustment	$ **million**
Balance at acquisition to goodwill working	25.0
Depreciation since acquisition 25 / 5 years * 1 yr to R/E	(5.0)
Balance at reporting date to PPE in SOFP	20.0

W8 - Contingent consideration	$ **million**
Agreed amount of contingent consideration	50.0
Fair value at acquisition date Include in goodwill calc.	38.0
Fair value at reporting date Include in SOFP	**0.0**
Adjustment to retained earnings as gain	38.0

W9 - Intra-group trading $ **million**	
Total profit on trade 30 * 100/200	15.0
Proportion relating to goods still in group inventory at R/D 40%	
Unrealised profit Deduct from R/E of seller	6.0
Deduct from group inventory	

W10 - Intra-group balances outstanding	$ **million**
Balance owed from Beta to Alpha at reporting date	2.5
Eliminate this by reducing trade receivables and trade payables.	

(b) When the proportionate share of identifiable net assets is used to measure the non-controlling interests, goodwill will normally be somewhat lower than when using the fair value method. This is because the fair value method assigns some value for goodwill to the NCI, whereas the proportionate method does not.

The subsequent treatment of goodwill also differs when there is an impairment loss to be recognised. Under the fair value method, the impairment loss is allocated to the parent and the NCI in their profit-sharing ratio (normally in proportion to their equity holdings). Under the proportionate method, as no goodwill is assigned to the NCI, no part of the impairment loss is allocated to NCI. It is entirely allocated against the parent's share of profits.

Had the proportionate method been used in this question, the calculation of goodwill would be as follows:

W1 recalculated: - Goodwill on acquisition of Beta		$ **million**
Cost of investment:		
Equity issued by Alpha	750.0	
Contingent (W8)	38.0	
		788.0
Add Value of NCI at acquisition (20% * 577 (W2))		**115.4**
Less Fair value Beta of net assets at acquisition (W2)		(577.0)
Goodwill (related only to Alpha)		**326.4**
Impairment loss (326.4* 60%)		**(195.8)**
Balance to SOFP		**130.6**