MULTIPLE CHOICE QUESTIONS (40%)

1	B
2	A
3	A
4	A
5	D
6	A
7	C
8	D
9	D
10	B

11	C
12	C
13	A / C
14	C
15	C
16	B
17	C
18	B
19	A
20	C

Exercise 1 (15%)

Required

Calculate the revenue Taplop recognize in:

a) Quarter ended 30 September 20x5
b) Quarter ended 31 December 20x5

We need to apply the principles of IFRS 15 *Revenue from Contracts With Customers.*

a) Applying the requirements of IFRS 15 to TrillCo's purchasing pattern at 30 September 20x5, Taplop should conclude that it was highly probable that a significant reversal in the cumulative amount of revenue recognized ($500 per laptop) would not occur when the uncertainty was resolved, that is when the total amount of purchases was known.
Consequently, taplop should recognize revenue of 70 x $500 = $35,000 for the first quarter ended September 20x5.

b) In the quarter ended 31 December 20x5, TrillCo' purchasing pattern changed such that it would be legitimate for taplop to conclude that TrillCo purchases would exceed the threshold for the volume discount in the year to 30 June 20x6, and therefore it was appropriate to reduce the price to $450 per laptop.

Taplop should therefore recognize revenue of $109,000 for the quarter ended December 20x5. The amount is calculated as from $112,500 (250 laptops x $450) less the change in transaction price of $3,500 (70 laptops x $50 price reduction) for the reduction of the price of the laptops sold in the quarter ended 30 september 20x5. (source BPP page 44)

Exercise 2 (5%)

Required: Provide an answer to the question raised by the managing director.

Accounting for exploration and evaluation expenditures

Expenditure on the exploration for, and evaluation of, mineral resources is excluded from the scope of standards which might be expected to provide guidance in this area. Specifically such expenditure is not covered by IAS 16 Property, Plant and equipment or IAS 38 Intangible Assets.

This has meant that, in the absence of any alternative pronouncements, entities would determine their accounting policies for exploration and evaluation expenditures in accordance with the general requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. This could lead to considerable divergence of practice given the diversity of relevant requirements of other standard setting bodies.

Given other pressures on its time and resources, the IASB decided in 2002 that it was not able to develop a comprehensive standard in the immediate future.

However, recognizing the importance of accounting for extractive industries generally the IASB issued IFRS 6 Exploration for and Evaluation of Mineral Resources to achieve some level of standardization of practice in this area.

IFRS 6 requires relevant entities to determine a policy specifying which expenditures are recognized as exploration and evaluation assets and apply the policy consistently.

When recognizing exploration and evaluation assets, entities shall consistently classify them as tangible according to their nature.

Subsequent to initial recognition, entities should consistently apply the cost model or the revaluation model to exploration and evaluation assets.

If the revaluation model is used, it should be applied according to IAS 16 Property, Plant and equipment (for tangible assets and IAS 38 Intangible Assets (for intangible assets).

Where circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, such assets should be reviewed for impairment. Any impairment loss should basically be measured, presented and disclosed in accordance with IAS 36 Impairment of Assets.

Exercise 3 (10%)

Required: Discuss, with suitable computations, the accounting treatment of the above transaction in Heggie's financial statements for the year ended 31 December 20X1. Work to the nearest $0.1 million.

A right of use asset of $24.4m should be recognized in Heggie’s financial statements. This is comprised of the $24m present value of lease payments not paid at the 1 January 20x1 commencement date plus the initial direct costs incurred in setting up the lease of $0.4m.

The asset should be depreciated from the commencement date (1 January 20x1) to the earlier of the end of the asset’s useful life (four years) and the end of the lease term (five years) unless legal title reverts to the lessee at the end of the lease term. Here as the legal title remains with the lessor, the

asset should be depreciated over four years, giving an annual depreciation charge of $6.0m ($24.4/4 years) and the carrying amount of $18.3m at 31 December 20x1.

A lease liability should initially be recognized on 1 January 20x1 at the present value of the lease payments not paid at the commencement date. This amounts to $24m. an annual finance cost of 8% of the carrying amount should be recognized in profit or loss and added to the liability, the first lease installment on 31 December 20x1 is then deducted from the liability, giving a carrying amount of (see working) $19.9m at 31 December 20x1. (BPP page 97)

Working:

Lease liability

	$m
b/d at 1 January 20x1	24.0
Interest (24x8%)	1.9
Installment in arrears	(6.0)
c/d at 31 December 20x1	19.9
Interest (19.9x8%)	1.6
Installment in arrears	(6.0)
c/d at December 20x2	15.5

The lease liability at 31 December 20x1 is split between current and non-current:

	$m
Non-current liability (owed at 31 December 20x1)	15.5
Current liability (bal.fig) = instalment (0.441) less finance cost (0.344)	4.4
Total liability at 31 December 20x1	19.9

Exercise 4 (30%)

Required:

(a) Calculate the consolidated goodwill at the date of acquisition of Cyclip.

(b) Prepare extracts from Bycomb's consolidated statement of profit or loss for the year ended 31 March 2015,for:

(i) Revenue;

(ii) Cost of sales;

(iii) Finance costs;

(iv) Profit or loss attributable to the non-controlling interest. (F7 June 2015)

1 (a) Bycomb: Goodwill on acquisition of Cyclip as at 1 July 2014

	$'000	$'000
Investment at cost:		
Shares (12,000 x 80% x 2/3 x $3·00)		19,200
Deferred consideration (12,000 x 80% x $1·54/1·1)		13,440
Non-controlling interest (12,000 x 20% x $2·50)		6,000
		38,640
Net assets (based on equity) of Cyclip as at 1 July 2014		
Equity shares	12,000	
Retained earnings b/f at 1 April 2014	13,500	
Earnings 1 April to acquisition:		
(2,400 + 100 x 3/12) – see note below	625	
Fair value adjustment to plant	720	
Net assets at date of acquisition		(26,845)
Consolidated goodwill		11,795

Note: The profit for the year for Cyclip would be increased by $100,000 due to interest capitalised, in accordance with IAS 23 *Borrowing Costs*. Alternatively, this could have been calculated as: 2400 x 3/12 + 25. As the interest to be capitalised has accrued evenly throughout the year, $25,000 would relate to pre-acquisition profits and $75,000 to post-acquisition profits.

(b) Bycomb: Extracts from consolidated statement of profit or loss for the year ended 31 March 2015

	$'000
(i) Revenue (24,200 + (10,800 x 9/12) – 3,000 intra-group sales)	29,300
(ii) Cost of sales (w (i))	(20,830)
(iii) Finance costs (w (ii))	(1,558)
(iv) Profit for year attributable to non-controlling interest (1,015 x 20% (w (iii)))	203

Workings in $'000

(i) Cost of sales

Bycomb	17,800
Cyclip (6,800 x 9/12)	5,100
Intra-group purchases	(3,000)
URP in inventory (420 x 20/120)	70
Impairment of goodwill per question	500
Additional depreciation of plant (720 x 9/18 months)	360
	20,830

(ii) Finance costs

Bycomb per question	400
Unwinding of deferred consideration (13,440 x 10% x 9/12)	1,008
Cyclip ((300 – 100 see below) x 9/12)	150
	1,558

The interest capitalised in accordance with IAS 23 of $100,000 would reduce the finance costs of Cyclip for consolidation purposes

(iii) Post-acquisition profit of Cyclip

Profit plus interest capitalised and time apportioned ((2,400 + 100) x 9/12) – see note below	1,875
Impairment of goodwill (per question)	(500)
Additional depreciation of plant (w (i))	(360)
	1,015

Note: This could also have been calculated as (2,400 x 9/12) + 75 (see 1(a) above).