A. MULTIPLE CHOICE QUESTIONS (30%)

1	A
2	B
3	D
4	D
5	A
6	B
7	B

8	C
9	C
10	C
11	A
12	D
13	C
14	A

15	C
16	D
17	C
18	A
19	C
20	C

B. Exercises

Exercise # 1 (20%)

Explain and show (where possible by quantifying amounts) how the three events would be accounted for in the financial statements of Delta for the year ended 30 September 2014.

a) IFRS 15 *Revenue from Contracts with Customers* regards a transaction such as this as being made up of two separately identifiable performance obligations- the supply of the machine and the supply of the servicing agreement.

   The total revenue of $500,000 would need to be allocated between the two separate performance obligations in proportion to their stand-alone selling prices.

   The selling price of the machine is $450,000 and the normal selling price of the supply of services is $150,000 (4 x $37,500). The total stand-alone selling prices therefore total $600,000.

   Revenue of **$375,000** ($500,000 x 450,000/600,000) is allocated to the supply of the machine. The balance of revenue of **$125,000** is allocated to the supply of services.

   On 1 October 2013, Delta would recognise revenue from the supply of the machine of $375,000.

   On the same date Delta would recognise a receivable of $500,000.
   The balance of $125,000 would initially be recognised as deferred income.

   On 15 October 2013, the receivable of $500,000 would be de-recognised when the payment was received from the customer.

   In the year ended 30 September 2014, service revenue of $31 ,250 ($125 ,000 x %) can be recognised.

   The closing balance of deferred income on 30 September 2014 will be $93,750 ($125 ,000-$31,250).

$31,250 of this balance will be shown as a current liability as this refers to service revenue to be recognised in the year ended 30 September 2015.

The balance of deferred income of $62 ,500 ($125 ,000- $31 ,250- $31 ,250) would be shown as a non-current liability.

Summary of reported amounts

- *Revenue from the supply of goods- $375,000*
- *Revenue from the provision of services- $31,250*
- *Cash balance- $500,000*
- *Deferred income in non-current liabilities - $62,500*
- *Deferred income in current liabilities- $31,250*

b) The construction cost of $40m is shown in property, plant and equipment (PPE) from 1 October2013.

On 1 October 2013, the obligation to dismantle the power station and restore the land is a present obligation arising out of a past event. Therefore it should be recognised as a provision.

The initial carrying amount of the provision is its discounted present value of $7.81m ($55m x 0.142).

The debit entry for this provision is to PPE as the relevant expenditure provides access to future economic benefits.

Therefore the carrying amount of PPE at 1 October 2013 is $47.81 m ($40m + $7.81m).

In the year ended 30 September 2014, Delta would charge deprecation of $1,195,250 ($47.81m x 1/40).

The carrying amount of PPE at 30 September 2014 (to be shown under **non-current assets)** would be **$46,614,750** ($47.81 m- $1,195,250).

As the date for the dismantling approaches, the discount unwinds. The unwinding is shown as a finance cost.

The finance cost for the year ended 30 September 2014 is $390,500 ($7.81 m x 5%).

This is **added to the opening provision** to give a closing provision of **$8,200,500** ($7.81 m + $390,500).

The closing provision is shown as a non-current liability.

Summary of reported amounts

- *Depreciation- $1, 195,250*
- *Finance cost- $390,500*
- *Provision in non-current liabilities- $8,200,500*

c) The potential payment of damages to Chi is an **obligation arising out of a past event** which can be reliably estimated. Therefore, following lAS 37 *Provisions, Contingent Liabilities and Contingent Assets* a provision is required.

The provision should be for the **best estimate** of the expenditure required to settle the obligation at 30 September 2014.

Under the principles of lAS 10 *Events After the Reporting Period* evidence of the settlement amount is an adjusting event.

Therefore at 30 September 2014 a provision of **$18m** should be recognised as a **current liability.**

Exercise # 2 (20%)

Discuss, for each of scenarios A & B whether the information obtained should be incorporated into the cash flow model in the value in use calculation for the year ended 30 June 2020 in accordance with international financial reporting standards.

Scenario A:

Determining whether the information obtained on 10 July 2020 should be incorporated into the cash flow model in the value in use calculation will depend on the precise facts and circumstances.

While future cash flows used in impairment calculations in accordance with IAS 36 are based on budgets and forecasts prepared by management, IAS 36 acknowledges that entities must also consider whether the information reflects reasonable and supportable assumptions and management's best estimate of the set of economic conditions that will exist over the remaining life of the assets. In circumstances where the effects of the outbreak are developing quickly, a budget approved by management some time before the reporting date may need to be adjusted significantly before the preparation of the financial statements is completed.

In the case of Radium Co., the cash flows included in the value in use calculation reflected management's estimate of cash flows as at the reporting date, 30 June 2020. Information obtained after period end must be analyzed based on the requirements of IAS 10, Events after the reporting period to determine if it is an adjusting or a non-adjusting subsequent event.

Given that the additional information was obtained on 10 July 2020, shortly after the reporting date, that may be an indication that it 'provides evidence of conditions that existed as at the end of the reporting period' (IAS 10 – definition of adjusting events after the reporting period).

However, the fact that a government took action after a reporting date does not mean that the reporting date forecasts should be adjusted to reflect that action as having been 100% likely, because that would incorporate hindsight which is not permitted. Instead, if a government took action shortly after a period end then it would be appropriate to consider whether the potential for that action to take place was included in forecasts with an appropriate probability weighting, based on all evidence available at the reporting date.

Scenario B:

In contrast to Scenario A, the information obtained in Scenario B became available 5 August, more than a month after year-end. While not being entirely conclusive, a significant amount of time elapsing between the end of a reporting period and the information being obtained is likely to be 'indicative of conditions that arose after the reporting period end' (IAS 10 – definition of non-adjusting events after the reporting period). Determining whether such information is adjusting or non-adjusting may require significant judgement.

As is the case in Scenario A, the specific facts and circumstances must be analyzed.

In the case of Scenario B, not adjusting the value in use cash flow model as at 30 June 2020 to reflect the information obtained on 5 August 2020 when the outcome seems almost certain to occur may seem counter-intuitive. However, if the information obtained does not relate to conditions as at the reporting date, the effects of the information obtained should be reflected in subsequent reporting periods.

It should also be emphasized that auditing standards and/or regulation in many jurisdictions require the assessment of going concern to cover at least 12 months from the date of approval of the financial statements and the dating of the auditor's report, rather than 12 months from period end. Therefore, for example, an auditor may conclude that impairment should not be recorded in a particular reporting period due to the application of IFRS, but nonetheless, the going concern assumption is not satisfied based on information available as at the date of the auditor's report , based on the requirements of that jurisdiction.

While the cash flows included in a going concern assessment should be based on consistent assumptions compared to other estimates (e.g. a value in use calculation required by IAS 36), the requirement to assess going concern contains less specific requirements than IAS 36.

Exercise # 3 (30%)

Prepare the consolidated statement of financial position for Alpha as at 30 September 2011.

Consolidated statement of financial position of Alpha as at 30 September 2011

	$'000	$'000
Assets		
Non-current assets:		
Property, plant and equipment (40,000 + 31,000 + 4,000 – 1,000 W2)		74,000
Intangible assets		
– goodwill (W3)		14,000
– other intangibles (7,500 + 3,000 – 500 W2)		10,000
Investment in associate (W6)		7,700
		105,700
Current assets		
Inventory (11,200 + 8,400 – 600 PUP (W7))	19,000	
Trade receivables (7,400 + 5,300 – 1,300 intra-group (W7))	11,400	
Bank	3,400	33,800
Total assets		**139,500**
Equity and liabilities		
Equity attributable to owners of the parent		
Equity shares of $1 each		50,000
Retained earnings (W5)		34,400
		84,400
Non-controlling interest (W4)		7,700
Total equity		**92,100**
Non-current liabilities		
Deferred tax (15,000 + 8,000)		23,000
Current liabilities		
Bank overdraft	2,500	
Deferred consideration (W3)	5,400	
Trade payables (11,600 + 6,200 – 1,300 intra-group (W7)	16,500	24,400
Total equity and liabilities		**139,500**

Workings (figures are in $'000)

W2) Fair Value of Beta's Net Assets

	At Acquisition	At Reporting	Post-Acquisition
Equity shares	10,000.00	10,000.00	-
Retained earnings – at 1 October 2010	12,000.00	12,000.00	-
RE for year ended 30 September 2011	-	6,000.00	6,000.00
FV Plant	4,000.00	4,000.00	-
Acc. Dep. FV Plant	-	(1,000.00)	(1,000.00)
Intangible Assets	3,000.00	3,000.00	-
Acc. Amort. Intangible Assets	-	(500.00)	(500.00)
	29,000.00	**33,500.00**	**4,500.00**

	RE split	
NCI 20%	900.00	W4
Alpha 80%	3,600.00	W5

W3) Goodwill Calculation

		$'000
	FV consideration transferred	
	Immediate cash	32,00
	Deferred consideration (5,400 x 1/1.08)	5,000
Add	Non-controlling interest (10,000 x 20% x $3·50)	7,000
		44,000
Less	Fair value Beta net assets (W2)	(29,000)
=	Goodwill on acquisition	15,000
Less	Impairment of Goodwill	(1000)
=	Goodwill on reporting	14,000

The cost of the majority shareholding in Beta was $32 million. Alpha acquired eight million shares and Beta has 10 million $1 shares, this gives a controlling interest of 80% and a non-controlling interest of 20%.

W4) Non-controlling interest

	$'000
Fair value on acquisition (W3))	7,000
Post-acquisition profits (4,500 (W2)) x 20%)	900
Impairment of Goodwill NCI shares (FV method)	(200)
	7,700

W5) Group retained earnings:

	$'000
Alpha's retained earnings (25,700 + 9,200)	34,900
Beta's post-acquisition profits (4,500 (W2)) x 80%)	3,600
Gamma's post-acquisition profits (W6))	200
Gamma's impairment loss	(2,500)
PUP in inventory (W7)	(600)
Finance cost of deferred consideration (5,000 x 8%)	(400)
Aplha's share of goodwill impairment	(800)
	34,400

W6) Investment in Gamma:

	$'000
Cash consideration	10,000
Share of post-acquisition profits (1,200 x 8/12 x 25%)	200
Impairment loss	(2,500)
	7,700

W7) Unrealised profit (PUP) in inventory/intra-group current accounts

The PUP in Beta's inventory (supplied by Alpha) of $2·6 million is $600,000 (2,600 x 30/130). The current account balances of Alpha and Beta should be eliminated from trade receivables and payables at the agreed amount of $1·3 million.