Genesis Origo

STRATEGIC BUSINESS REPORTING (SBR)

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ASSOCIATION
OF CHARTERED CERTIFIED
ACCOUNTANTS

IAS 16 Property, Plant and Equipment

Definition

Use in :
(i) production or supply of goods or services, or (ii) assets other than land and building for rental to others, or (iii) for admin purposes

and for more than one accounting period

Initial recognition

- Control + probable future economic benefit + cost of PPE can be measured reliably.

- the cost of purchase + directly attributable costs to (location and condition) + initial estimated provision of demolition and restoration (see 1.1)

PPE

Subsequent expenditure

- enhance PPE (physical or quality)?

Yes = Addition to PPE

No = Expensed to profit or loss

Eg :

- Major costs for overhaul and / or to restore service potential are capitalised

Subsequent measurement

- Major parts of a PPE is to be accounted for separately

- choose either cost model or revaluation model on each class of PPE (see 1.2)

- Charge depreciation (except for land) on both models as expense (unless included in another asset). Depreciation starts when the asset is ready and stop when derecognition or held for sale

Depreciation : a systematic allocation (a concept of accrual techniques) of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset less residual value. Useful life and residual value is reviewed annually.

Derecognition

- (i) lost control (disposal, stolen) or no more future economic benefits (abandon, damaged)
- Gains or loss on disposal :-
(i) recognised as "other income and expense" to profit or loss, or
(ii) recognised as revenue and cost of sales if it relates to derecognition of assets routinely disposed in course of ordinary activities (eg : car renting business)

Eg :
(i) (ii)

<u>PPE exchange with another party</u>

Example : A exchange an old machine (carrying amount $100, exchange value $150) for a new machine (fair value $200 with B). A needs to top up cash $60.

<u>A's book</u>

<u>Transaction has commercial substance</u> <u>No commercial substance</u>

IAS 40 - Investment property

1.1 Investment property is :

(i) property (a land or a building), and

(ii) held (as an owner or as a lessee), and

(iii) to earn rental income or for future capital appreciation

Examples :
- land held for long-term capital appreciation
- land held for undetermined future use
- building leased out under an operating lease
- vacant building held to be leased out under an operating lease
- property that is being constructed or developed for future use as investment property

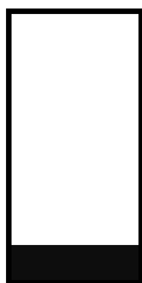
1.2 Property partly for own used, partly held for investment :

- Can the two portions can be sold separately?

YES
each portion is as PPE and IP based on its usage.

NO
entire property is treated as PPE if significant proportion is for owner-

eg



Prop A

Prop B

Both properties cannot be sold separately. Prop A seems like a__________, and Prop B seems like a ___________.

1.3 Provides ancillary services to the occupants (tenant) of a property held by the entity :

- Significant services provided?

YES : PPE

NO : IP

eg

Prop C
A block of apartment rented out, provide security services via a joint management body, provide cleaning to common area, provide elevator and swimming pool.

Prop D
A block of hotel building rented out, provide security services by own management team, provide cleaning to common area and room to room, provide room service such as meals and laundry, provide elevator and swimming pool.

Prop C seems like a__________, and Prop D seems like a ___________.

IAS 12 - Income taxes

Concepts and key terms

	$000		
Revenue	1,000	} IFRSs	
Costs	(600)		
Profit before tax	400		Matching concept failed
Tax	(70)	} Tax rules	
Profit after tax	330		

Example :-

An equipment is purchased at $1,000. It is depreciated at straight line 10% per annum.

The cost of the equipment is fully qualified for tax purpose, and the deductibility of the equipment is listed as below :-

First year	Initial allowance 10% Annual allowance 10%	Subsequent years	Annual allowance 10%

Required :-
Compute deferred tax effect for first year. Tax rate at 30%.

Solution
Deferred tax computation

	Opening	Addition	Disposal	Depreciation/ Tax claim	Closing
Carrying value	0	1,000	0	-100	900
Tax base	0	1,000	0	-200	800
Temporary diff.	0				100
Deferred tax @ 30%	0				30

Summary :-

Asset

i) Carrying amount > Tax base

________________ temporary difference
Deferred tax ________________

ii) Carrying amount < Tax base

________________ temporary difference
Deferred tax ________________

Liability

i) Carrying amount < Tax base

________________ temporary difference
Deferred tax ________________

ii) Carrying amount > Tax base

________________ temporary difference
Deferred tax ________________

Example :-

An entity has the following assets and liabilities recorded in its statement of financial position at December 31, 20X5:

	Carrying value $ million
Property	10
Plant and equipment	5
Inventory	4
Trade receivables	3
Interest receivable	2
Trade payables	6
Cash	2

The value for tax purposes of property and for plant and equipment are $7 million and $4 million respectively. The entity has made an allowance for inventory write down of $2 million, which is not allowable for tax purposes until the inventory is sold.

Further, an impairment charge against trade receivables of $1 million has been made. This charge will not be allowed in the current year for tax purposes but will be allowed in the future.

Interest income receivable is exempted from tax. Income tax paid is at 30%.

Required

Account for the deferred tax provision at December 31, 20X5.

(i) Assume DT opening balance = 0

(ii) Assume DTL opening balance = $100,000

(iii) Assume DTA opening balance = $50,000

Revaluation of assets and deferred tax

Example :-

	$m
PPE opening carrying amount	9
current year depreciation	-1
closing carrying amount	8
gain on revaluation (OCI)	2
revalued amount	10
tax base	6
opening deferred tax liabilty	0.7

Tax rate for property gain = 30%, business gain = 35%

Required : account for deferred tax

A CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

1.1 Purpose of framework

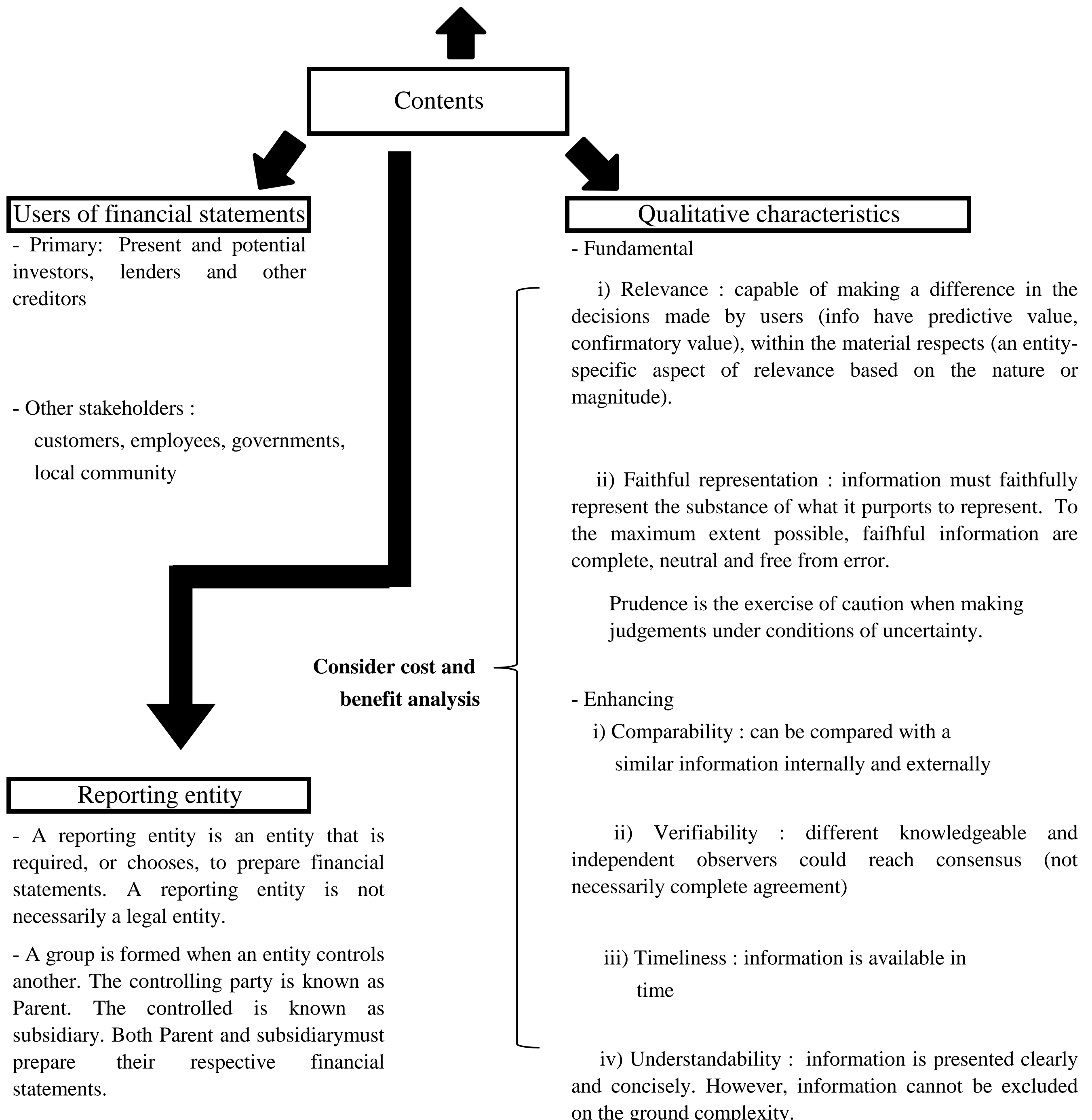
A basic concepts for external financial reporting

- To assist the IASB in **developing and revising IFRSs** that are based on consistent concepts.
- To help preparers to develop **consistent accounting policies** where there is choice of accounting policy or for areas that are not covered by a standard.
- To assist all parties to **understand and interpret IFRS**.

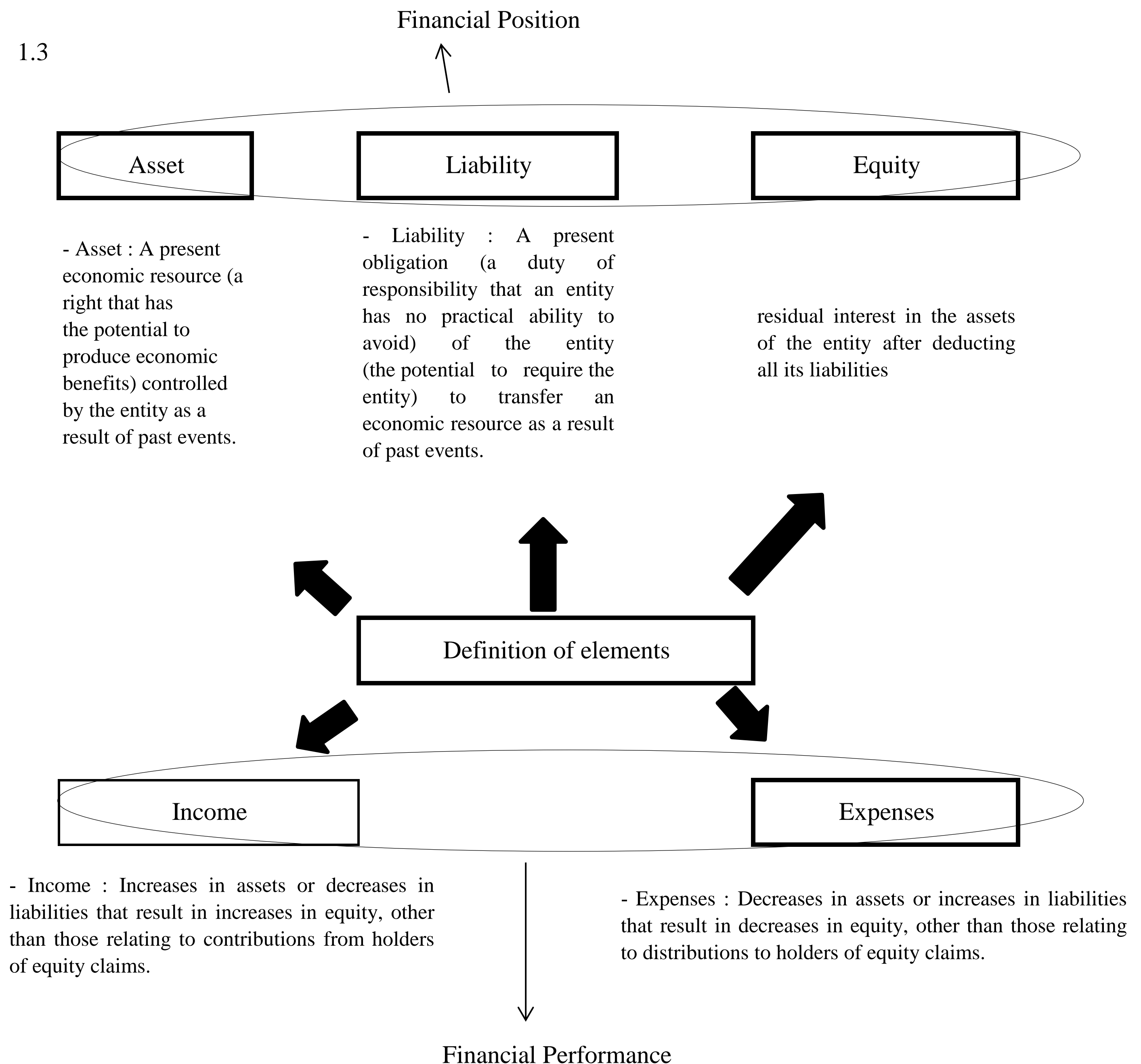
1.2 Objective of financial reporting

The objective of financial statements is to provide information about an entity's assets (economic resources), liabilities (claims against), equity, income and expenses (changes in economic resources and claims) that is useful to financial statements users in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources.

Basis = accrual. Underlying assumption = going concern.



1.3



1.4 Recognition

1.4.1 An asset or a liability is recognised if :

· relevant information about the asset or the liability and about any income, expense or changes in equity
· a faithful representation of the asset or liability and of any income, expenses or changes in equity, and
· information that results in benefits exceeding the cost of providing that information

An asset or liability can exist even if the probability of an inflow or outflow of economic benefits is low. However, if the probability of the event is low, this may not be the most relevant information. Most likely location for items such as this is to be included within the notes to the financial statements.

OTHER REPORTING

2.0 Integrated reporting

2.1 Historical financial statements are particularly for compliance purposes, while other reportings are produced on a standalone basis, where they do not provide meaningful information regarding business value. Users need a more forward-looking focus without the necessity of companies providing their own

2.2 An integrated report (IR) sets out how the organisation's strategy, governance, performance and prospects lead to the creation of value. Value can include the total of all the capitals (company's resources and relationships) , the benefit captured by the company, the market value or cashflows of the organisation, and the successful achievement of the company's objectives.

2.3 IR aims at profit making intention private sectors but can also be used by not for profit entities and public sectors.

2.4 Main purpose of an integrated report : explain to providers of financial capital how an organisation creates value over time.

Possible stakeholders : employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers, although it is not directly aimed at all stakeholders.

2.5 The International Integrated Reporting Council (IIRC) has set out a principle-based framework rather than specifying a detailed disclosure and measurement standard to prepare an IR. It will not replace other forms of reporting, but the vision is that preparers will pull together relevant information already produced to explain the key drivers of their business's value.

2.6 The integrated report aims to provide an insight into the company's resources and relationships that are known as the capitals and how the company interacts with the external environment and the capitals to create value. These capitals can be financial, manufactured, intellectual, human, social and relationship, and natural capital, but companies need not adopt these classifications.

2.7 A company should consider how to describe the disclosures without causing a significant loss of competitive advantage. The entity will consider what advantage a competitor could actually gain from information in the integrated report, and will balance this against the need for disclosure

2.8 Integrated reporting is built around the following key components:

a) Organisational overview and the external environment under which it operates.

b) Governance structure and how this supports its ability to create value.

c) Business model.

d) Risks and opportunities and how they are dealing with them and how they affect the company's ability to create value.

e) Strategy and resource allocation.

f) Performance and achievement of strategic objectives for the period and outcomes.

g) Outlook and challenges facing the company and their implications.

h) The basis of presentation needs to be determined, including what matters are to be included in the integrated report and how the elements are quantified or evaluated.

OTHER REPORTING

2.9 An integrated report may be either a standalone report or be included as a distinguishable part of another report or communication. For example, it can be included in the company's financial statements. Where that report is also prepared according to the framework or even beyond the framework, it can be considered an integrated report.

2.10 Those 'charged with governance' should be required to acknowledge their responsibility for the integrated report. If they were not involved, IR would lack credibility.

Practice : ACCA P2 S D 2016 Q4

The International Accounting Standards Board (IASB) is undertaking a broad-based initiative to explore how disclosures in IFRS financial reporting can be improved. The Disclosure Initiative is made up of a number of implementation and research projects. The IASB has decided that the project should include a discussion on whether the definition of materiality should be changed and whether IAS 1 *Presentation of Financial Statements* should include additional guidance which clarifies the key characteristics of materiality. Materiality is a matter which has been debated extensively in the context of many forms of reporting, including the International Integrated Reporting Framework. There are difficulties in applying the concept of materiality in practice when preparing the financial statements and it is thought that these difficulties contribute to a disclosure problem, namely, that there is both too much irrelevant information in financial statements and not enough relevant information. Further, the IASB has published for public comment an Exposure Draft of proposed amendments to IAS 7 *Statement of Cash Flows*. The proposal responds to requests from investors for improved disclosures about an entity's financing activities and its cash and cash equivalents balances.

Discuss how the concepts of materiality would be used in applying the International Integrated Reporting Framework. (4 marks)

Practice : ACCA P2 June 2015 Q4

International Integrated Reporting Council (IIRC) is calling for a shift in thinking more to the long term, to think beyond what can be measured in quantitative terms and to think about how the entity creates value for its owners. Historical financial statements are essential in corporate reporting, particularly for compliance purposes, but it can be argued that they do not provide meaningful information. Preparers of financial statements seem to be unclear whether the IIRC's Framework constitutes suitable criteria for report preparation.

Discuss the principles and key components of the IIRC's Framework, and any concerns which could question the Framework's suitability for assessing the prospects of an entity. (8 marks)

OTHER REPORTING

3.0 Sustainability reporting

3.1. A sustainability report is published to show the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

3.2 Sustainability is the process of conducting business in such a way that it enables an entity to meet its present needs without compromising the ability of future generations to meet their needs.

3.3 Reports include highlights of nonfinancial performance such as environmental, social and economic reports during the accounting period. It is sometimes called reporting the 'triple bottom line'

3.4 The report may be included in the annual report or published as a stand alone document, possibly on the entity's website.

3.5 The increase in popularity of such reports highlights the growing trend that business entities are taking sustainability seriously and are attempting to be open about the impact of their activities.

3.6 The Sustainable Development Goals (SDGs) are 17 goals tackling major world issues agreed by 193 UN member states to be achieved by 2030. These goals include zero hunger, decent work and economic growth, and reduced inequalities.

3.7 The SDGs can provide insights for companies on how they can create economic, social and environmental value for their investors and other stakeholders. The goals will allow business to understand and better respond to the risks and opportunities created by rapid change across the various sectors.

3.8 Institutional investors realise that environmental events can create costs for their portfolio in the form of insurance premiums, taxes, and the physical cost related with disasters. Social issues can lead to unrest and instability, which carries business risks which may reduce future cash flows and financial returns.

3.9 SDG report will help investors make informed decisions which can lead to capital being channelled to responsible businesses.

3.10 There are several reasons why companies should focus on sustainable business practices, and they include:

(i) the increased future government focus on sustainable business.

(ii) such business practices often improve performance as they lower operational, reputational and regulatory risk.

(iii) there are significant business growth opportunities in products and services that address the SDG challenges.

(iv) the fact that short term, profit based models are reducing in relevance.

3.11 Companies and their stakeholders are changing how they measure success and this is becoming more than just about profit. Investors' expectations will still be focused on companies realising their core business activities with financial sustainability as a prerequisite for attracting investment.

3.12. This reporting is voluntary, and lack of regulation leads to several potential problems:

i) Not all businesses disclose information.

ii) The information disclosed may not be complete or reliable. Many businesses see environmental reporting largely as a public relations exercise and therefore only provide information that shows them in a positive light.

iii) The information may not be disclosed consistently from year to year.

iv) Some businesses, particularly small and medium sized entities, may believe that the costs of preparing and circulating additional information outweigh the benefits of doing so.

3.13 There are growing number of sustainability parameters which are now becoming mandatory reporting requirements – such as carbon emissions, for example, or corporate governance issues.

3.14 The trend might result in radical changes to the reporting system, as financial and non-financial information becomes increasingly integrated.

4.0 Environmental reporting

4.1 In most countries, environmental reporting is entirely voluntary in terms of statute or listing rules. In effect, however, it has become difficult to resist for large companies concerned about their reputations, certainly in highly developed countries in which large companies experience high political visibility.

4.2 Because it is technically voluntary, companies can theoretically adopt any approach to environmental reporting that they like, but in practice, a number of voluntary reporting frameworks have been adopted. The best known and most common of these is called the Global Reporting Initiative (or GRI)

4.3 The Global Reporting Initiative (GRI) is a non-profit organisation that promotes economic, environmental and social sustainability. GRI provides all companies and organisations with a comprehensive sustainability reporting framework that is widely used around the world.

4.4 Environmental reporting can occur in a range of media including in annual reports, in 'stand alone' reports, on company websites, in advertising or in promotional media.

4.5 Advantages and purposes of environmental reporting

(i) Can highlight inefficiencies
(ii) Identifies opportunities to reduce waste
(iii) Can create a positive image as a good corporate citizen
(iv) Increased consumer confidence in it
(v) Stakeholders like it
(vi) Investors look for environmental concerns nowadays
(vii) Reduces risk of litigation against it

4.6 Drawbacks of environmental reporting

(i) The associated labour hours and printing costs are likely to be substantial and the return is either in long future
(ii) Hard to measure the return as they are mostly intangible, non financial
(iii) Inconsistency in presentation makes the comparability difficult
(iv) Report contains mainly information that are favourable to the reporting entity

6.2 Accounting for Amortised cost method : FAAC and FLAC

On 1st January 2004, Holder purchased 100,000 units of a quoted bond of $1 each at its issue price of $ 0.90 per unit from Issuer. The purchase represents the entire bond issued by Issuer. The $1 par value bond carries a coupon rate of 4% per annum and will be redeemed on 1st January 2006 at par. Holder has no intention to dispose the bond prior to the maturity.

Transaction costs incurred by Holder and Issuer are $ 1,205 and $1,200 respectively.

The bond has an effective interest rate of 9% for Holder and 10.5% for Issuer.

Required :-
Based on normal rules of classification of financial instrument, set out the accounting entries for Holder and Issuer on the bond from inception date to maturity date.

Solution :-

Book of Holder

Year	Start of year	Interest income	Interest received	End of year
2004	91,205	8,208	(4,000)	95,413
2005	95,413	8,587	(4,000)	100,000

Holder's SOPL FYE 31 Dec	2004 $	2005 $	2006 $
Income			
Interest income	8,208	8,587	0

Holder's SOFP as at 31 Dec			
Assets			
Financial asset at amortised cost model	95,413	100,000	0

Book of issuer

Year	Start of year	Interest expense	Interest paid	End of year
2004	88,800	9,324	(4,000)	94,124
2005	94,124	9,883	(4,000)	100,007

Issuer's SOPL FYE 31 Dec	2004 $	2005 $	2006 $
Expenses			
Finance costs	9,324	9,883	0

Issuer's SOFP as at 31 Dec			
Liabilities			
Financial liability at amortised costs model	94,124	100,000	0

6.3 Accounting for financial asset at fair value through other comprehensive income (equity instrument)

On 1st January 2004, Holder purchased 100,000 units of a quoted share at its issue price of $ 0.84 per unit from Issuer.

Market price of the share for the following two financial years were as follows :-

	Price per units
31st Dec 2004	0.87
31st Dec 2005	0.77

Transaction cost for Holder is $2,000.

Holder decided to designate this investment into FVTOCI category in accordance with IFRS 9. On 1st January 2006, Holder disposed the investment. For the 2 years holding, Holder received $6,000 dividend for year 1 and $7,500 for year 2.

Required :-

Based on information available, set out the accounting entries for Holders on the investment from inception date to disposal date.

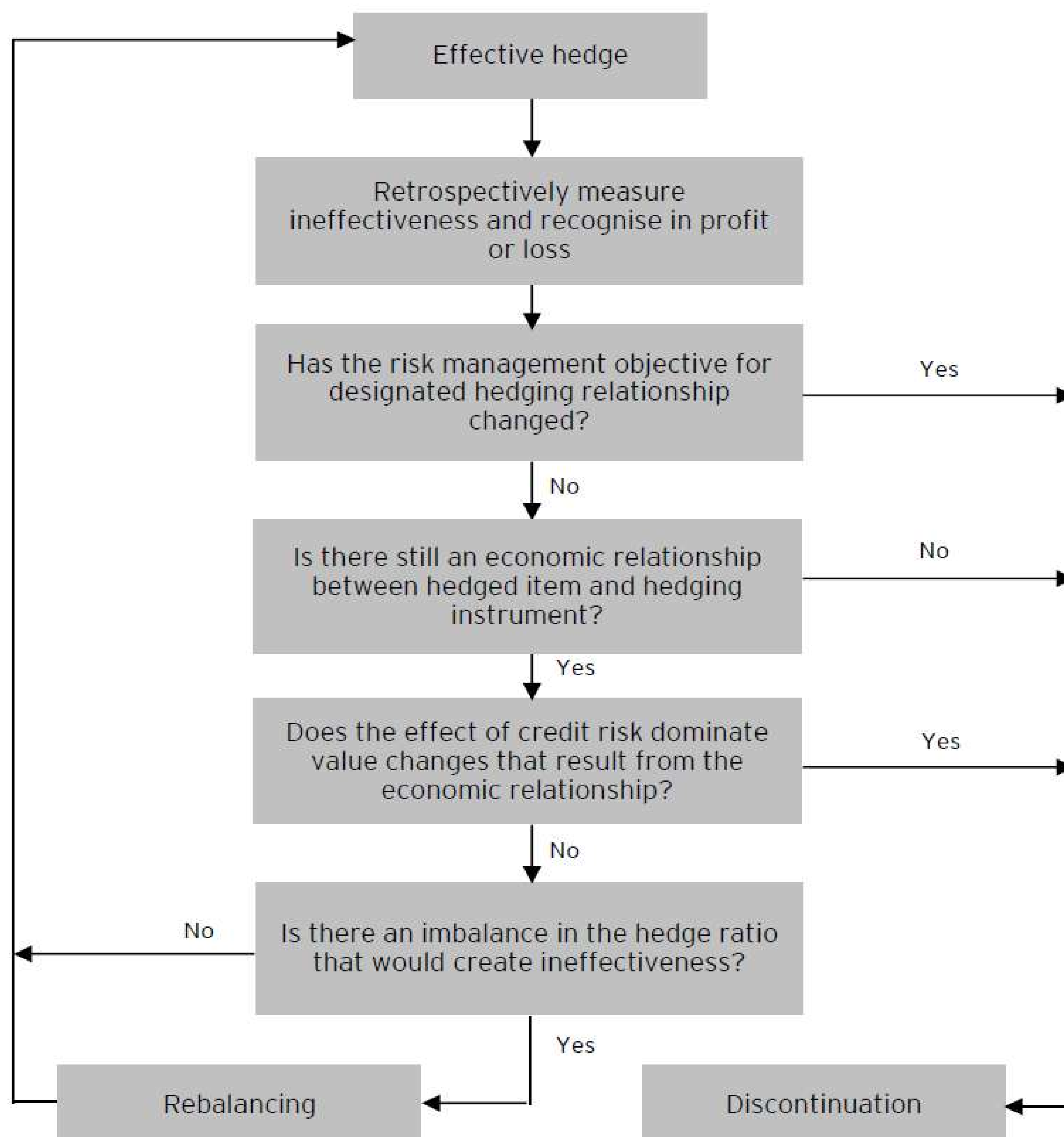
Solution :-

Book of Holder

	$		
Inception date (84,000 +2,000)	86,000		
Gain	1,000	OCI	→ Net fair value reserves in equity
31st Dec 2004	87,000		
Loss	(10,000)	OCI	→ $9,000 dr (loss)
31st Dec 2005	77,000		

Holder's SOPL FYE 31 Dec	2004 $	2005 $	2006 $
Income			
Dividend income	6,000	7,500	
Other comprehensive income / (loss)			
Gain	1,000	0	0
Loss	0	(10,000)	
Holder's SOFP as at 31 Dec			
Assets			
Financial asset at FVTOCI model	87,000	77,000	0
Equity			
Fair value reserves	1,000	(9,000)	0

11.7 Decision to rebalance or discontinue hedged accounting



Example : rebalancing

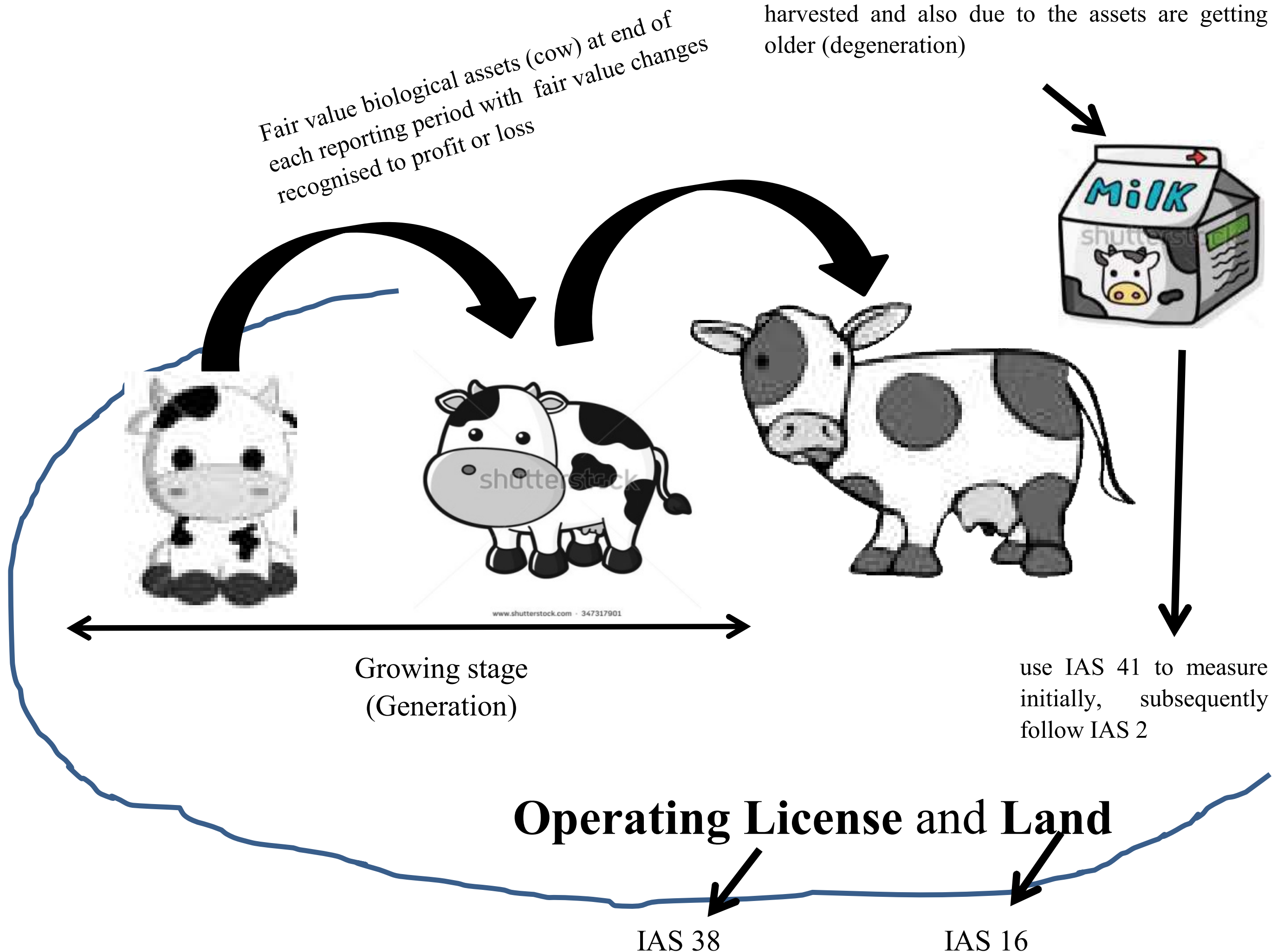
At 1 January 20x1 an entity expects to purchase 1m barrels of crude oil in 12 months. The entity designates a futures contract of 1.05m barrels of crude oil in a cash flow hedge to hedge the highly probable forecast purchase of 1m barrels of oil (hedge ratio of 1.05:1).

At 30 June 20x1, the cumulative changes in fair value of hedged item is $200, while the cumulative loss in fair value of hedging instrument is $229.

The treasurer of the entity is very sensitive to ineffectiveness and therefore considers rebalancing the hedging relationship by a reset hedge ratio to 0.98:1. To do that the entity de-designate part of the hedging instrument by discontinuing hedge accounting for 0.07m barrels of crude oil future contract.

Required : discuss the above hedge accounting from inception to rebalancing on 30 June 20x1.

IAS 41 - AGRICULTURE



Scope out : Bearer plants

Bearer plant is accounted for as a PPE (see IAS 16).

Bearer plant a living plant that:
• Is used in the production or supply of agricultural produce, and
• Is expected to bear produce for more than one period, and
• Has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales at the end of the asset's life

Example : .Sugar cane roots that produce standing sugar cane
Rubber trees that provide latex, which is extracted from the tree
Tea bushes
Fruit trees

IFRS 15 : REVENUE FROM CONTRACTS WITH CUSTOMERS

1.0 Five models

2.0 Step 1 – Identify the contract with a customer

2.1 A contract with a customer also needs to meet all of the following criteria.

- collection is probable
- rights and payment terms are identifiable
- it has commercial substance (such as timing and risks)
- it is approved and is committed

3.0 Step 2 – Identify the performance obligations in the contract

3.1 Each promise to customer constitutes a performance obligation if the promised good or service is distinct.

(i) Customer's view Customer can benefit from each promise on its own	(ii) Supplier's view Each promise is regarded as separately identifiable from other promises in the contract

(i) Yes + (ii) Yes = Each promise is a distinct performance obligation

Either (i) or (ii) only is Yes, or (i) and (ii) also No = all promises are regarded as one performance obligation

Example :-

Distinct performance obligation

Hotel rent rooms to customers. Breakfast is included in all room rental.

Solution :-

The room rental and breakfast may be deemed as 2 performance obligations because their consumption are not highly dependent on or highly inter-related with each other. The customer could stay and take breakfast independently.

Example :-
<u>Not distinct – combine with other goods and services</u>

Company Y has a contract to build a house, a process that requires a number of different goods (materials) and services (labour time costs).

Solution :-
Criterion 2 is not met for each brick and window, because Company Y provides a service of integrating those goods into a combined output. The goods and services used to build the house are therefore combined and accounted for as one performance

4.0 Step 3 – Determine the transaction price

4.1 Significant financing component

Financing component can be embedded into the invoice price if the price is not at cash price. It can be done by defer or bring forward the payment date.

Example :-
G sells to customers at a price of $1,210, and allows a credit period of 2 years. G has cost of capital of 10% p.a.

Solution :-

Example :-
H sells to customers at a price of $800, payable upon sigining contract but delivery is 2 years later. H has cost of capital of 10% p.a.

Solution :-

4.2 Consideration payable to a customer

Example :-
Slotting fees — Manufacturers commonly pay retailers fees to have their goods displayed prominently on store shelves.

Coupons and rebates - An indirect customer of a vendor may receive a refund of a portion of the purchase price of the product or service acquired by returning a form to the retailer or the vendor.

Solution :-
Generally, such fees do not provide a distinct good or service to the manufacturer and are treated as a reduction of the transaction price.

Example :-
Purchase of goods or services — Entities often enter into supplier-vendor arrangements with their customers in which the customers provide them with a distinct good or

Solution :-
Usually the payment made to the customer is solely for the goods and services received, where the payment is regarded as a distinct performance obligation.

4.3 Non-cash consideration

Example :-
Tidy, a cleaning company, signs a contract with customer to provide cleaning services over 12 months (1 month once). Consideration is to be satisfied by customer issues 100 units of its own shares to Tidy every month upon completion of the cleaning services.

Solution :-

4.4 This amount excludes amounts collected on behalf of a third party – for example, government taxes.

5.0 Step 4 – Allocate the transaction price to performance obligations

Example :-
To encourage customer to take up full package, S sells software with 3 years services for a net price of $500,000. If the package is to be sold separately, software would be sold at $360,000 while services for 3 years is at $240,000. A customer took up the package and paid $500,000 upon delivery.

Solution :-
Observable price for each component are available. The transaction price is allocated on the basis :-

Software $500,000 x 360 / (360 + 240) = $300,000
Services $500,000 x 240 / (360 + 240) = $200,000

Upon delivery of software, the cash received will be recognised as revenue of $300,000 as the performance obligation to deliver software is satisfied. The balance of $200,000 received on services is deferred as a liability as the performance obligation has not been satisfied yet.

5.0 Step 5 – Recognise revenue when (or as) the entity satisfies a performance obligation

5.1 An entity **recognises revenue** when (or as) it satisfies a performance obligation by **transferring control** of a good or service to a customer. Control may be transferred either **over time or at a point in time**.

Control is the **ability** to prevent others from directing the use of and obtaining the benefits from the asset.

5.2 The entity assesses whether it transfers control over time, using the following criteria (to satisfy at least one)

(i) If the performance is routine or recurring, or

(ii) If the perfomance is done at customer's site, or

(iii) The performance is a build a specialised asset.

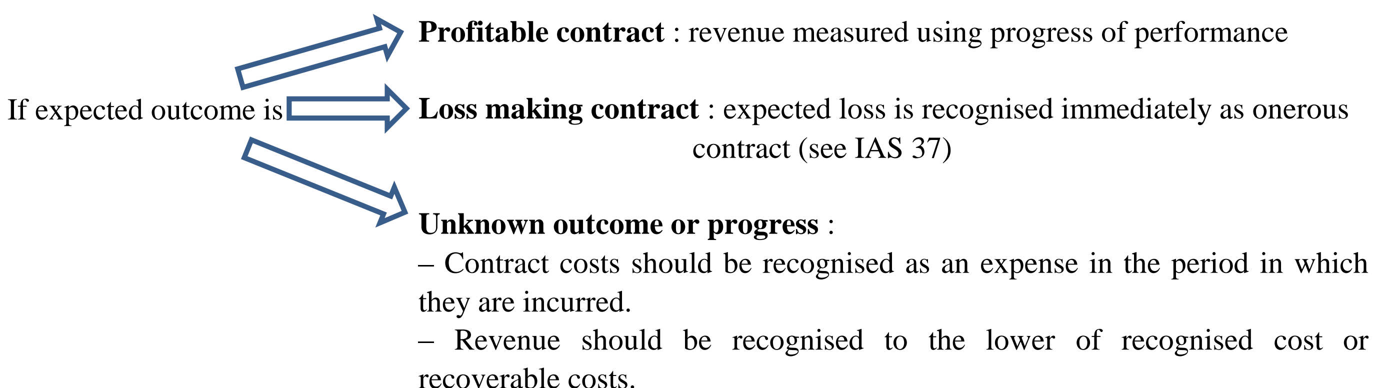
To recognise revenue over time, input method and output method may be used.

• Input methods – based on the inputs used. A commonly used measure looks at contract costs, such as:

(Costs to date/ Total costs) × 100% = % complete

• Output methods – based on performance completed to date. This is commonly done based on the value of the work completed (certified) to date, measured as:

(Work certified/Contract price) × 100% = % complete



If expected outcome is

Profitable contract : revenue measured using progress of performance

Loss making contract : expected loss is recognised immediately as onerous contract (see IAS 37)

Unknown outcome or progress :
– Contract costs should be recognised as an expense in the period in which they are incurred.
– Revenue should be recognised to the lower of recognised cost or recoverable costs.

7.0 Going concern – disclosure reminders issued by the IASB

7.1 The document does not change, remove, or add to, the requirements in IFRS standards. Rather the intention is to remind preparers of the IFRS requirements for going concern assessments and the disclosure of material uncertainties and significant judgements.

7.2 IAS 1 explains going concern by stating that financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

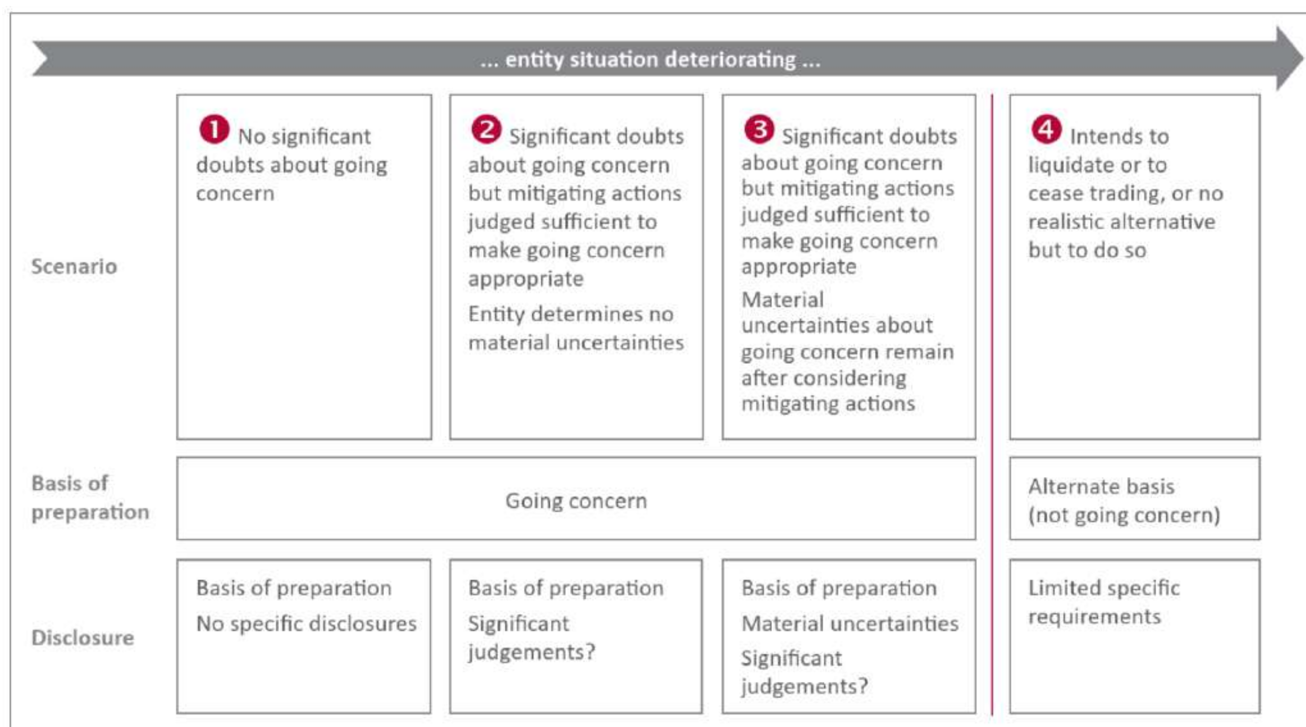
7.3 Factors to consider

- The entity's current and expected profitability
- The timing of repayment of existing financing facilities
- The potential sources of replacement financing
- The effects of any temporary shut-down or curtailment of the entity's activities
- Possible restrictions on activities that might be imposed by governments in the future
- The continuing availability of any government support
- The effects of longer-term structural changes in the market (such as changes in customer behaviour)

7.4 The financial statements must not be prepared on a going concern basis if, before they are authorised for issue, circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading, even if the assessment at the end of the reporting period supported the application of the going concern basis. (IAS 10).

7.5 Users of financial statements are more likely to focus on disclosures relating to going concern and may question how the assumptions management used in reaching its conclusion about going concern. Therefore, it is important for an entity to not only consider the specific disclosure requirements relating to going concern in IAS 1, but also its overarching disclosure requirements for example to disclose sources of estimation uncertainty which could relate to going concern status.

7.6 Guideline to decide the going concern status



Interpret financial statements for different stakeholders

1.0 Stakeholders

1.1 Definition : anyone with an interest in the business. They can either affect or be affected by the business.

2.0 Financial performance measures

2.1 Useful comparison of current year business performance :-

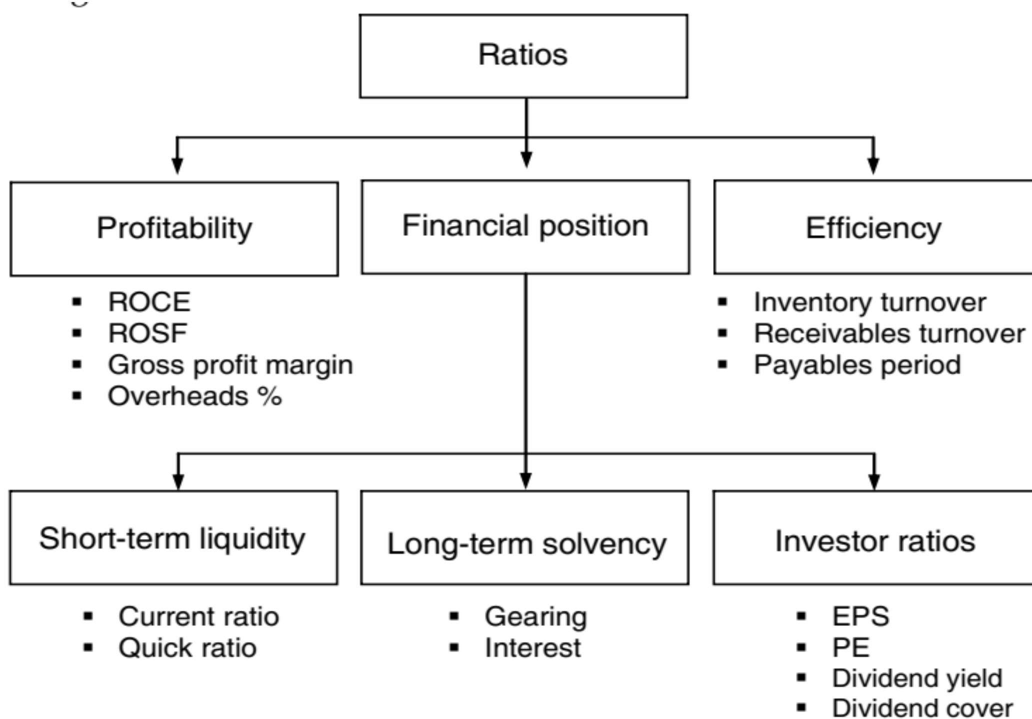
(i) Prior periods comparatives

(ii) Competitors and industry average

(iii) Benchmarks (standards set by the business)

(iv) Budgets, target

2.2 Ratios are useful for a quick comparison to gauge the performance.



3.0 Alternative performance measures (APM)

3.1 APM : non-GAAP financial measures and non-financial KPIs.

3.2 Examples of financial APMs that are commonly used in company reporting include:

- Earnings before interest, taxes, depreciation and amortization (EBITDA)
- Earnings before interest and tax (EBIT)
- Adjusted earnings (net profit add back owners salary and one off costs)
- Free cash flow (operating cash flow - capital expenditure)
- Debt ratio (debt / EBITDA)
- Order intake and backlog

3.3 Examples of non-financial APMs that are commonly used in company reporting include:

- Production metrics (growth, target)
- Sales metrics (growth, mix, new products and markets)
- Injury frequency tables
- Total water or energy consumed
- Workforce (growth, satisfaction)
- Greenhouse gas emissions

7.1 Full goodwill impairment review

At the year-end, an impairment review is being conducted on a 60%-owned subsidiary. The subsidiary has two division, A and B, where the Parent decided to allocate all the purchased goodwill to division A. At the date of the impairment review the following information are relevant :-

	$
carrying value of the subsidiary's net assets of division A	350
goodwill attributable to	parent 300, NCI 100
estimated discounted future cash inflow of division A is	600
estimated disposal value of division A	500

Required : Determine the outcome of the impairment review.

Solutions :-

Full goodwill policy adopted by Parent, gross up of goodwill is not needed for impairment

Impairment review	$
Carrying value	
Net assets	350
Goodwill	400
	750
Recoverable amount	-600
Impairment loss	150

Impairment loss attributable to :-

Parent (60%)	90
NCI (40%)	60

7.2 Proportionate goodwill impairment review

At the year-end, an impairment review is being conducted on a 60%-owned subsidiary. The subsidiary has two division, A and B, where the Parent decided to allocate all the purchased goodwill to division A. At the date of the impairment review the following information are relevant :-

	$
carrying value of the subsidiary's net assets of division A	250
goodwill attributable to	parent 300, NCI 0
estimated discounted future cash inflow of division A is	600
estimated disposal value of division A	700

Required : Determine the outcome of the impairment review.

Solution :-

Impairment review	$	
Carrying value		100%
Net assets	250	**60% unfair matching**
Goodwill	300	
	550	100%
Recoverable amount	-700	
Impairment loss	0	

Example : ACCA P2 December 2009 Q1 (extract)

The draft statements of financial position of the group companies are as follows at 30 November 2009 :

	Grange $m	Fence $m
Assets:		
Non-current assets		
Property, plant and equipment	257	238
Investments in subsidiaries		
Park	340	
Fence	134	
Investment in Sitin	16	
	747	238
Current assets	475	141
Total assets	1,222	379
Equity and liabilities:		
Share capital	430	150
Retained earnings	410	65
Other components of equity	22	17
Total equity	862	232
Non-current liabilities	172	38
Current liabilities		
Trade and other payables	178	105
Provisions for liabilities	10	4
Total current liabilities	188	109
Total liabilities	360	147
Total equity and liabilities	1,222	379

On 31 July 2008, Grange acquired a 100% of the equity interests of Fence for a cash consideration of $214 million. The identifiable net assets of Fence had a provisional fair value of $202 million, including any contingent liabilities. At the time of the business combination, Fence had a contingent liability with a fair value of $30 million. At 30 November 2009, the contingent liability met the recognition criteria of IAS 37 '*Provisions, Contingent Liabilities and Contingent Assets*' and the revised estimate of this liability was $25 million. The accountant of Fence is yet to account for this revised liability.
However, Grange had not completed the valuation of an element of property, plant and equipment of Fence at 31 July 2008 and the valuation was not completed by 30 November 2008. The valuation was received on 30 June 2009 and the excess of the fair value over book value at the date of acquisition was estimated at $4 million. The asset had a useful economic life of 10 years at 31 July 2008.

The retained earnings of Fence were $73 million and other components of equity were $9 million at 31 July 2008 before any adjustment for the contingent liability.

On 30 November 2009, Grange disposed of 25% of its equity interest in Fence to the non-controlling interest for a consideration of $80 million. The disposal proceeds had been credited to the cost of the investment in the statement of financial position.

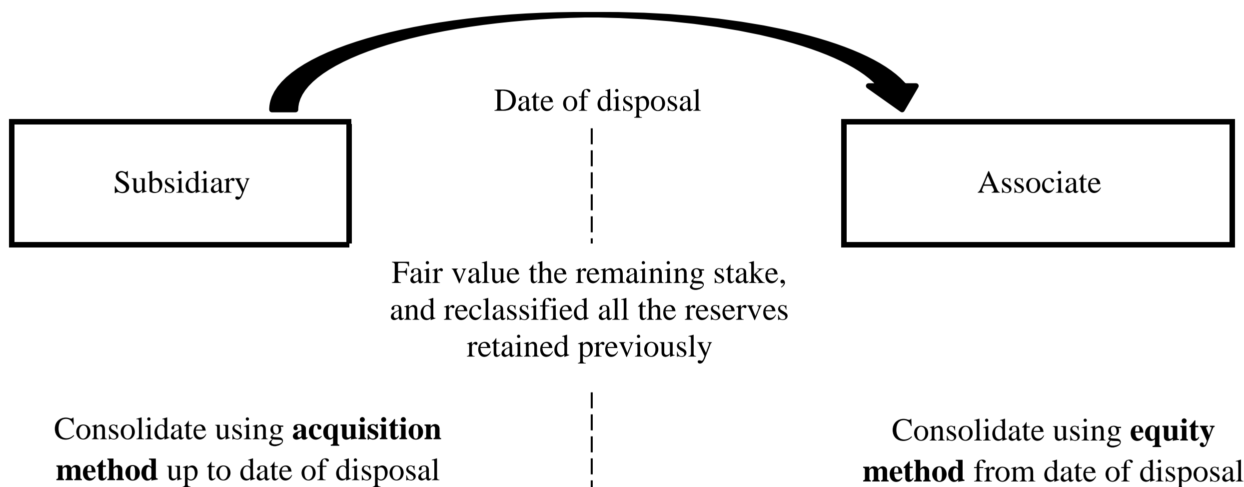
Required : set out the accounting implication of the above information on consolidated statement of financial position of the Grange Group at 30 Nov 2009 in accordance with International Financial Reporting Standards.

5.0 Partial disposal and lost control, but remain significant influence (subsidiary to associate)

5.1 Generally the consolidation techniques in this aspect the similar with those found in Part 4 above. The main issue here is to account for the residue interests in former subsidiary, which is now an associate to the

5.2 IFRS 10 requires the investor to measure the residue interests at fair value at date of losing control, and apply equity method (follow IAS 28 after that). All reserves retained that belongs to former subsidiary will be reclassified in accordance with the respective accounting standards. In summary, it gives a "fresh start" to the investment in associate.

5.3 The following diagram is useful to give an overview on the concepts :-



5.4 Let us practise the following example to learn about these techniques :-

Refer to financial statements in part 4

consideration of $39 million. Sitin's identifiable net assets were fair valued at $32 million.

On 30 November 2009, Grange disposed of 60% of the equity of Sitin when its identifiable net assets were $36 million. Of the increase in net assets, $3 million had been reported in profit or loss and $1 million had been reported in comprehensive income as profit on hedge accounting. The sale proceeds were $23 million and the remaining equity interest was fair valued at $13 million. Grange could still exert significant influence after the disposal of the interest. The only accounting entry made in Grange's financial statements was to increase cash and reduce the cost of the investment in Sitin.

Solution :

b) Gain or loss on disposal	$ m	$ m
Group		$'m
Proceed from disposal		23
Fair value of remaining stake		13
(i)		36
Net assets derecognised		36
Goodwill derecognised		7
NCI derecognised		0
(ii)		43
Loss before reclassification of other reserves (i) - (ii)		(7)
Reclassification of other reserves		1
Group loss on disposal recognised in profit or loss		(6)

Practice question 1

Rose, a public limited company, operates in the mining sector. The draft statements of financial position are as follows, at 30 April 2011:

	Rose $m	Stem Dinars m
Assets:		
Non-current assets		
Property, plant and equipment	370	380
Investments in subsidiaries		
Petal	113	
Stem	46	
Financial assets	15	50
	544	430
Current assets	118	330
Total assets	662	760
Equity and liabilities:		
Share capital	158	200
Retained earnings	256	300
Other components of equity	7	–
Total equity	421	500
Non-current liabilities	56	160
Current liabilities	185	100
Total liabilities	241	260
Total equity and liabilities	662	760

Additional information

Rose acquired 52% of the ordinary shares of Stem on 1 May 2010 when Stem's retained earnings were 220 million dinars. The fair value of the identifiable net assets of Stem on 1 May 2010 was 495 million dinars. The excess of the fair value over the net assets of Stem is due to an increase in the value of land. The fair value of the non-controlling interest in Stem at 1 May 2010 was 250 million dinars. Rose wishes to use the 'full goodwill' method to consolidate the financial statements of Stem.

The following exchange rates are relevant to the preparation of the group financial statements:

	Dinars to $
1 May 2010	6
30 April 2011	5
Average for year to 30 April 2011	5.8

Required :-

a) Calculate goodwill arising from acquisition of Stem both in Dinar and $, also explain the accounting treatment of goodwill as at year end.

b) Re-translate Statement of Financial Position of Stem as at 30 April 2011 to functional currency of Rose and prepare Rose group's consolidated statement of financial position.

6.0 Consolidating a foreign associate

Example

On 1 Jan 20X8, Investor plc, whose functional currency is Dollar, purchased a 30% shareholding in a foreign associate, Associate plc, whose functional currency is Dinar. The purchase is satisfied by a cash payment of $12m.

On 1 Jan 20x8, the share capital and retained earnings of Associate plc was 100 m Dinar and 80 m Dinar respectively. There is no other reserves nor fair value adjustment needed for the investment in Asssociate plc.

Goodwill of Associate plc attributable to Investor plc at the date of acquisition was 6 m Dinar. Goodwill is not impaired for current year.

The respective financial statements of the two companies are as follows :-

Statement of profit or loss for the year ended 31 December 20X8	Investor plc	Associate plc
	$m	Dinar m
Revenue	250	70
Costs	-180	-45
Profit	70	25

Statement of financial position as at 31 December 20X8	Investor plc	Associate plc
	$m	Dinar m
Assets		
Non current assets		
PPE	158	195
Investment in Associate plc	12	0
	170	195
Current assets	80	60
Total assets	250	255
Equity and liabilities		
Equity		
Equity shares	130	100
Retained earnings	75	105
	205	205
Non current liabilities	23	30
Current liabilities	22	20
Equity and liabilities	250	255

The following exchange rates are relevant

	Dinars to $
1 January 20X8	5
31 December 20X8	6
Average rate	5.5

Required : Prepare the consolidated statement of profit or loss for the year and statement of financial position as at 31 December 20X8 for Investor Group.

Practice : ACCA P2 December 2012 Q2

(b) During the year ended 30 November 2012, Coate acquired an overseas subsidiary whose financial statements are prepared in a different currency to Coate. The amounts reported in the consolidated statement of cash flows included the effect of changes in foreign exchange rates arising on the retranslation of its overseas operations. Additionally, the group's consolidated statement of cash flows reported as a loss the effect of foreign exchange rate changes on cash and cash equivalents as Coate held some foreign currency of its own denominated in cash. (5 marks)

Required:

Discuss how the above events should be accounted for in the individual or, as appropriate, the consolidated financial statements of Coate.

Practice : ACCA P2 June 2014 Q2

(b) Aspire has a foreign branch which has the same functional currency as Aspire. The branch's taxable profits are determined in dinars. On 1 May 2013, the branch acquired a property for 6 million dinars. The property had an expected useful life of 12 years with a zero residual value. The asset is written off for tax purposes over eight years. The tax rate in Aspire's jurisdiction is 30% and in the branch's jurisdiction is 20%. The foreign branch uses the cost model for valuing its property and measures the tax base at the exchange rate at the reporting date.

Aspire would like an explanation (including a calculation) as to why a deferred tax charge relating to the asset arises in the group financial statements for the year ended 30 April 2014 and the impact on the financial statements if the tax base had been translated at the historical rate. (6 marks)

(c) On 1 May 2013, Aspire purchased 70% of a multi-national group whose functional currency was the dinar. The purchase consideration was $200 million. At acquisition, the net assets at cost were 1,000 million dinars. The fair values of the net assets were 1,100 million dinars and the fair value of the non-controlling interest was 250 million dinars. Aspire uses the full goodwill method.

Aspire wishes to know how to deal with goodwill arising on the above acquisition in the group financial statements for the year ended 30 April 2014. (5 marks)

(d) Aspire took out a foreign currency loan of 5 million dinars at a fixed interest rate of 8% on 1 May 2013. The interest is paid at the end of each year. The loan will be repaid after two years on 30 April 2015. The interest rate is the current market rate for similar two-year fixed interest loans.

Aspire requires advice on how to account for the loan and interest in the financial statements for the year ended 30 April 2014. (5 marks)

Aspire has a financial statement year end of 30 April 2014 and the average currency exchange rate for the year is not materially different from the actual rate.

Exchange rates	$1 = dinars
1 May 2013	5
30 April 2014	6
Average exchange rate for year ended 30 April 2014	5·6

Required:

Advise the directors of Aspire on their various requests above, showing suitable calculations where necessary.

Practice : ACCA P2 June 2009 Q2

(iii) The functional and presentation currency of Aron is the dollar ($). Aron has a wholly owned foreign subsidiary, Gao, whose functional currency is the zloti. Gao owns a debt instrument which is held for trading. In Gao's financial statements for the year ended 31 May 2008, the debt instrument was carried at its fair value of 10 million zloti.

At 31 May 2009, the fair value of the debt instrument had increased to 12 million zloti. The exchange rates were:

	Zloti to $1
31 May 2008	3
31 May 2009	2
Average rate for year to 31 May 2009	2·5