

WORKBOOK For exams in September 2018, December 2018, March 2019 and June 2019

Chapter 2, section 3.1

Two of the references given in this section were to IAS 18, when they should have been to IAS 8. The correction is highlighted below.

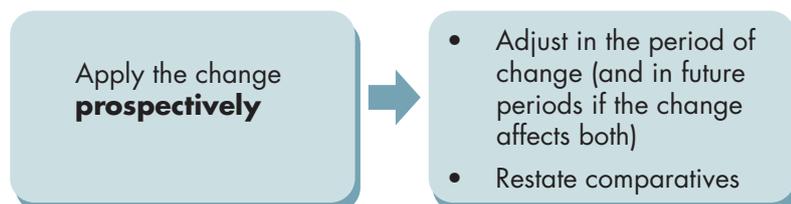
A change in accounting policy **is only permitted if the change** (IAS 8: para. 14):

- Is **required by an IFRS**; or
- Results in financial statements providing **reliable and more relevant information**.

The accounting treatment for a change in accounting policy is (IAS 8: para. 19, 22):

Chapter 2, section 3.2

There is an error in the diagram in section 3.2 (shown below). The box on the right should not say 'Restate comparatives'. It should say instead **No prior period adjustment**.



Chapter 7, Illustration 9

The allowance for credit losses has been correctly calculated, however, the wrong figure had then been used to calculate the carrying amount at the end of the first year. The corrected amounts are highlighted below.

At the end of the first year the situation is therefore:

	\$
Loan assets	840,000
Allowance for credit losses	<u>(107,500)</u>
Carrying amount (net of allowance for credit losses)	<u>732,500</u>

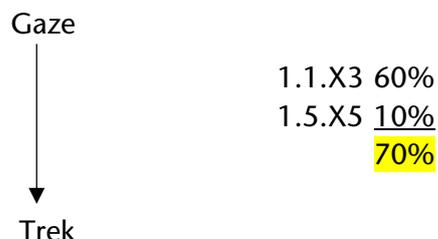
In the second year, effective interest income and interest cost will be calculated on the gross figures of \$840,000 and **\$107,500** respectively, or (if there is objective evidence of actual impairment) on the net figure of **\$732,500**.

Chapter 11, Activity 3

The summarised statements of profit or loss and other comprehensive income are for the year ended 31 December 20X5 and not 20X3.

In the answer, in working 1, the total percentage owned by Gaze in Trek should add down to 70% (not 80%). The corrected amount is highlighted below.

1 Group structure



Chapter 12, Section 1.2

The calculation on page 289 contains an (X) where it should not. This is shown crossed out and highlighted in yellow in the calculation below.

Calculation of group profit or loss on disposal

	\$	\$	
Fair value of consideration received		X	
Fair value of any investment retained		X	
Less: share of consolidated carrying amount at date control lost:		X	
net assets at date control lost	X		
goodwill at date control lost	X		
Less non-controlling interests at date control lost	(X)		
		<u>(X)</u>	
Group profit/(loss) (recognise in SPL)		<u>X/(X)</u>	
			(IFRS 10: para. 25, B97–B98)

Chapter 12, Illustration 1

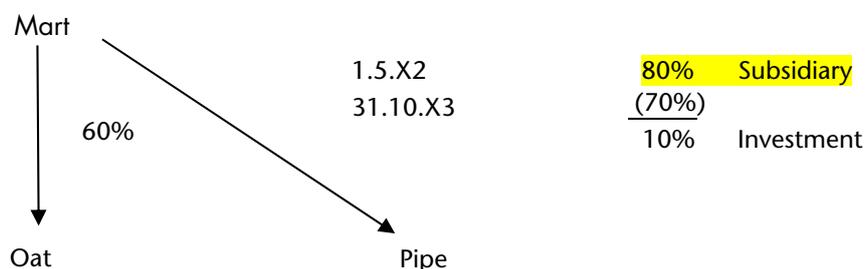
Note (e) should say:

Mart wishes to measure non-controlling interests at its proportionate share of net assets at the date of acquisition.

In Step 1 of the Solution, in the Group Structure, the percentages are misaligned. It should appear as follows:

Step 1

Group structure



Chapter 12, Section 2.1

In the calculation of non-controlling interests, the increase in NCI on date of disposal should be a positive figure. The correction is highlighted below.

	\$
NCI at acquisition (when control achieved – 30%)	X
NCI share (30%) of post-acquisition reserves to date of disposal	<u>X</u>
NCI at date of disposal	A
Increase in NCI on date of disposal ($A \times 15\%/30\%$)*	<u>X</u>
NCI after disposal	X
<i>Next two lines only required if disposal is partway through year:</i>	
NCI share (45%) of post-acquisition reserves to year end	<u>X</u>
NCI at year end	<u><u>X</u></u>

Chapter 12, Activity 3

In the first paragraph, other components of equity at 1 December 20X0 should be \$10 million (not \$20 million). The correction is highlighted below.

On 1 December 20X0, the retained earnings of Dial were \$300 million and other components of equity were \$10 million.

Chapter 13, Illustration 3 & Activity 1

There are errors in illustration 3 and Activity 1. The corrections are highlighted below.

Illustration 3

A 70% subsidiary of a group with a 31 December year end meets the definition of a discontinued operation, through being classified as held for sale, on 1 September 20X1.

The subsidiary's profit for the year ended 31 December 20X1 is \$36m. The carrying amount of its consolidated net assets on 1 September 20X1 is \$220m and goodwill \$21m. The non-controlling interests were measured at the proportionate share of the fair value of the net assets at acquisition; ie the goodwill is partial goodwill. The fair value less costs to sell of the subsidiary on 1 September 20X1 is \$245m.

Analysis

In the consolidated statement of profit or loss, the subsidiary's profit for the year of \$36m must be shown as a discontinued operation, presented as a single line item combined with any loss on remeasurement.

The loss on remeasurement as held for sale is calculated as:

	\$m
'Notional' goodwill ($21 \times 100\%/70\%$)	30
Consolidated net assets	<u>220</u>
Consolidated carrying amount of subsidiary	250
Less fair value less costs to sell	<u>(245)</u>
Impairment loss (gross)	<u>5</u>

As only partial goodwill is recognised, it must be grossed up for the impairment test to compare correctly fair value less costs to sell (which is 100%) with 100% of the subsidiary

The impairment loss is written off to the goodwill balance. However, as only the group share of the goodwill is recognised in the financial statements, only the group share of the impairment loss ($70\% \times \$5m = \$3.5m$) is recognised.

The single amount presented as a separate line item in the statement of profit or loss as profit on the discontinued operation is:

	\$m
Profit or loss of discontinued operations	36.0
Loss on remeasurement to fair value less costs to sell (ignoring any tax effect)	<u>(3.5)</u>
	32.5

Activity 1: Discontinued operation



Titan is the parent entity of a group of companies with two subsidiaries, Cronus and Rhea. Each of the three group companies operates in a different line of business. Cronus is 100% owned and Rhea is 80% owned. Both subsidiaries have been owned for a number of years.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20X5

	<i>Titan</i>	<i>Cronus</i>	<i>Rhea</i>
	\$m	\$m	\$m
Revenue	450	265	182
Cost of sales	<u>(288)</u>	<u>(152)</u>	<u>(106)</u>
Gross profit	162	113	76
Operating expenses	(71)	(45)	(22)
Finance costs	<u>(5)</u>	<u>(3)</u>	<u>(2)</u>
Profit before tax	86	65	52
Income tax expense	<u>(17)</u>	<u>(13)</u>	<u>(10)</u>
Profit for the year	69	52	42
<i>Other comprehensive income</i>			
Items that will not be reclassified to profit or loss			
Gain on property revaluation, net of tax	<u>16</u>	<u>9</u>	<u>6</u>
<i>Total comprehensive income for the year</i>	<u>85</u>	<u>61</u>	<u>48</u>

The consolidated carrying amount of the net assets (excluding goodwill) of Rhea on 1 January 20X5 was \$320m. The goodwill of Rhea was \$38m on that date. The non-controlling interests were measured at the proportionate share of the fair value of the net assets at acquisition.

Titan decided to sell its investment in Rhea and on 1 October 20X5 the investment in Rhea met the criteria to be classified as held for sale. The fair value less costs to sell of Rhea on that date was \$395m.

The investment in Rhea was still held at the year end and continued to meet the IFRS 5 'held for sale' criteria but no further adjustment to the consolidated carrying amount of Rhea was required.

Required

Prepare the consolidated statement of profit or loss and other comprehensive income for the Titan Group for the year ended 31 December 20X5.

The profit and total comprehensive income figures attributable to owners of the parent and attributable to non-controlling interests need not be subdivided into continuing and discontinued operations. Ignore the tax effects of any impairment loss.

Work to the nearest \$0.1m.

Solution:

Activity 1: Discontinued operation

TITAN GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

\$m

Continuing operations

Revenue (450 + 265)	715
Cost of sales (288 + 152)	(440)
Gross profit	275
Operating expenses (71 + 45)	(116)
Finance costs (5 + 3)	(8)
Profit before tax	151
Income tax expense (17 + 13)	(30)
Profit for the year from continuing operations	121
<i>Discontinued operations</i>	
Profit for the year from discontinued operations (42 – (W2) 6.8)	35.2
Profit for the year	156.2
<i>Other comprehensive income</i>	
Gain on property revaluation, net of tax (16 + 9 + 6)	31.0
Total comprehensive income for the year	187.2

Profit attributable to:

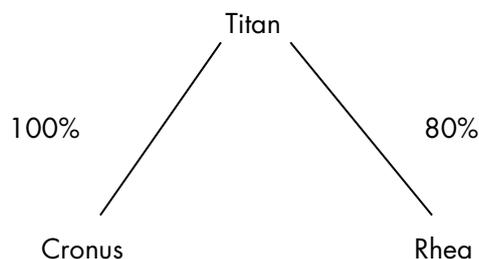
Owners of the parent (β)	147.8
Non-controlling interests (42 × 20%)	8.4
	156.2

Total comprehensive income attributable to:

Owners of the parent (β)	177.6
Non-controlling interests (48 × 20%)	9.6
	187.2

Workings

1 Group structure



2 Impairment losses (Rhea)

	\$m
'Notional'* goodwill (38 × 100%/80%)	47.5
Carrying amount of net assets (320 + (48 × 9/12))	<u>356.0</u>
	403.5
Fair value less costs to sell	<u>(395.0)</u>
Impairment loss: gross	<u>8.5</u>
Impairment loss recognised: all allocated to goodwill (8.5 × 80%)	<u>6.8</u>

*Where the partial goodwill method is used part of the calculation of the recoverable amount of the CGU relates to the **unrecognised** non-controlling interest share of the goodwill.

For the purpose of calculating the impairment loss, the carrying amount of the CGU is therefore **notionally adjusted** to include the non-controlling interests in the goodwill by grossing it up.

The resulting impairment loss calculated is only recognised to the **extent of the parent's share**.

This adjustment is **not required** where non-controlling interests are measured at fair value at acquisition.

Chapter 16, Illustration 2

Illustration 2 on page 358 is an illustrative example of the **direct** method, not the indirect method as it currently states. The correction is highlighted below.



Illustration 2

Direct method: illustrative consolidated statement of cash flows

Note. New entries for a consolidated statement of cash flows are shaded in grey.

31.12.X1

Chapter 17, Activity 2

The requirement of Activity 2 on page 406 currently asks for the following:

store. Wheels has an average 45 day credit from its suppliers. The bank overdraft is used to fund working capital and currently has a limit of \$300,000.

Required

- Analyse the liquidity of Wheels from the entity's perspective.
- Discuss the other stakeholders who may be interested in the liquidity of Wheels.

The requirement should be:

Required

- Calculate relevant ratios in respect of the liquidity of Wheels.
- Analyse the liquidity of Wheels from the entity's perspective.

Activity Answers: Chapter 9 – Activity 6

The 20X3 tax base is incorrectly stated as \$3,000 when it should be \$17,000. The 20X3 tax deduction is incorrectly stated as \$3,000 when it should be \$17,000. The corrections are highlighted below.

Activity 6: Deferred tax implications of share-based payment

	31/12/20X 2 \$	31/12/20X 3 \$
Carrying amount of share-based payment expense	0	0
Less: Tax base of share-based payment expense (5,000 × \$1.2 × ½)/(5,000 × \$3.40)	(3,000)	(17,000)
Temporary difference	(3,000)	(17,000)
Deferred tax asset @ 30%	900	5,100
Deferred tax (CR P/L) (5,100 – 900 – (Working 600))	900	3,600
Deferred tax (CR Equity) (Working)	0	600
Working		
	\$	\$
Accounting expense recognised (5,000 × \$3 × ½)/(5,000 × \$3)	7,500	15,000
Tax deduction	(3,000)	(17,000)
Excess temporary difference	0	(2,000)
Excess deferred tax asset to equity @ 30%	0	600

Activity Answers: Chapter 12 – Activity 1

In the solution to part (b), the references to goodwill and non-controlling interests are incorrect. The correct references are highlighted below. 'net assets' should also be 'Net assets'.

(b) Group profit on disposal

	\$'000	\$'000
Fair value of consideration received		1,250
Fair value of 30% investment retained (2,000 × 30%/80%)		750
Less: share of consolidated carrying amount when control lost		
Net assets [1,680 – (160 × 3/12)]	1,640	
Goodwill (W2)	340	
Less non-controlling interests (W3)	(396)	
		(1,584)
		<u>416</u>

Skills Checkpoint 3

On page 388, the first paragraph incorrectly referred to 'Park' when it should have referred to 'Pear'. The correction is shown below.

Pear held **a franchise right**, which at 1 June 20X9 had a **fair value of \$10 million**. This had **not been recognised** in the financial statements of **Pear**. The franchise agreement had a **remaining term of five years** to run at that date and is not renewable. Pear still holds this franchise at the year-end.

Skills Checkpoint 4

On page 445, in the suggested solution to part (ii), the number of months was incorrectly stated as 10 when it should have been 9. The correction is shown below.

The **number of new shares issued** is 1 million. This needs to be **time apportioned** (the shares were in issue for **9** months) and **added** to the **denominator** of the EPS calculation.