Answers

1 Hummings Co

(a) The functional currency is the currency of the primary economic environment in which the entity operates. With a foreign acquisition, consideration should be given as to whether Crotchet Co should adopt the same functional currency as its parent, Hummings Co. However, Crotchet Co appears to be largely independent and is not reliant on Hummings Co for either sales or finance. It is not required therefore for Crotchet Co to adopt the same functional currency as Hummings Co. Crotchet Co does not appear to have transactions in dollars or have a dollar bank account and it can be concluded that the dollar should not be their functional currency.

In determining its functional currency, Crotchet Co should consider the currency which mainly influences its sales price of goods and the currency which mainly influences its labour and other costs. This is likely to be the currency which goods are invoiced in and the currency in which costs are settled. The location of the entity's head office is irrelevant except to the extent that it is likely that the costs of running the head office are likely to be settled in the domestic currency. For Crotchet Co, whilst there are a number of transactions in dinars and tax has to be paid in dinars, it appears that the vast majority of their transactions are in grommits. All sales and purchases are invoiced in grommits as well as approximately half of their staff being paid in grommits. Funds for finance are raised in grommits which further suggests that grommits should be chosen as the functional currency of Crotchet Co.

(b) **(i)** IFRS® 3 *Business Combinations* requires the investor to identify all of the investee's identifiable net assets at acquisition. To be identifiable, a customer contract must either be capable of being used or sold separately or it must arise from legal or contractual rights. A reliable estimate of its fair value is also necessary to be recognised as a separate asset rather than subsumed within the goodwill figure. This is the case regardless of whether the contracts had been recognised within the individual financial statements of Crotchet Co or not.

The contracts provide Crotchet Co with a legal right to prevent their customers from obtaining goods and services from their competitors and a reliable estimate of fair value appears to be obtainable. The contracts should be recognised as a separate intangible asset at an initial value of 15 million grommits. This would initially be translated at the spot rate of exchange of $1 to 8 grommits and would be recognised initially in the consolidated financial statements at $1·875 million. The contracts would need to be examined to determine the average unexpired useful life of the contracts and amortised over this period. This would be translated at the average rate of exchange and expensed to consolidated profit or loss. The carrying amount of the contracts would need to be retranslated at the closing rate of exchange of $1 to 7 grommits ($2.143 million) with a corresponding exchange gain recognised within equity.

(ii) Goodwill at 31 December 20X4 would be $8·2 million calculated as follows:

	Grommits (millions)	**Ex rate $:grommits**	**$ (millions)**
Consideration ($24m x 8)	192		
NCI at acquisition ($6m x 8)	48		
Net assets at acquisition*	(158)		
Goodwill at 1 January 20X4	82	8	10·25
Impairment (30%)	(24·6)	7	(3·51)
Exchange gain			1·46
	57·4	7	8·2

*Net assets at acquisition are 43 million grommits plus 15 million grommits for the contractual relationships plus 100 million grommits for the dinar assets translated at 1 dinar to 2 grommits (50m x 2).

Goodwill is initially recognised at the spot rate of exchange of $1:8 grommits and so would initially be $10·25 million. The impairment loss of $3·51 million will be expensed against consolidated profit or loss. Goodwill will be retranslated using the closing rate of exchange of $1:7 grommits with the exchange gain of $1·46 million included within other comprehensive income. Since non-controlling interest is valued at fair value, both the impairment and the exchange gain will be apportioned 80/20 between the shareholders of Hummings Co and the non-controlling interest respectively.

(c) It appears as if the acquisition of Quaver Co should be treated as a subsidiary acquired exclusively with a view for resale. The usual criteria for an asset to be classified as held for sale as per IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* include:

– The sale must be highly probable;
– The sale must be expected to be complete within 12 months;
– The asset must be actively marketed at a reasonable price;
– Management must be committed to a plan of sale and it is unlikely that any significant changes to the plan will be made.

The sale has not taken place within 12 months of acquisition; however, an exception is permitted where the sale is still deemed to be highly probable and the delay was caused by events which were unforeseen and beyond the control of management. The sale is still expected early in 20X5 and the legal dispute was unforeseen, so this exception seems applicable.

It appears clear that management was immediately committed to the sale as Hummings Co did not wish to have active involvement in the activities of Quaver Co. Quaver Co should therefore be treated as a subsidiary acquired exclusively with a view to resale. It should not be consolidated into the Hummings group financial statements. Quaver Co should initially be valued at fair value less costs to sell with any subsequent decreases in fair value less costs to sell taken to consolidated profit or loss. As a subsidiary acquired exclusively for resale, Quaver Co would be classified as a discontinued activity and earnings for the year disclosed separately in the consolidated statement of profit or loss of the Hummings group.

(d) Since the business model of Hummings Co is to collect the contractual cash flows of the bonds over the life of the asset, the bonds should be measured at amortised cost. All financial assets including amortised cost assets should initially be recognised at fair value. This would be equal to the $10,000,000 paid on acquisition of the bonds.

IFRS 9 *Financial Instruments* requires entities to adopt an expected value approach to the consideration of impairment losses on financial assets. On acquisition, the bonds are considered low risk and are not credit impaired. The bonds would be classified as a stage one financial asset as at 31 December 20X3. This means that Hummings Co should create an expected credit loss equal to 12 months expected credit losses. It is important to appreciate that the 12-month expected credit loss is not the lifetime expected credit loss which an entity will incur which it predicts will default in the next 12 months. The 12-month expected credit loss is defined as a portion of the lifetime expected credit losses which represent the expected credit losses which result from a default within the next 12 months. In effect, the proportion of the lifetime expected credit losses which are expected should a default occur within 12 months are weighted by the probability of a default occurring. Hummings Co should therefore recognise a default allowance of $10,000 as at 31 December 20X3. This will be expensed to profit or loss and a separate allowance created rather than offset against the $10,000,000 bonds. The allowance is, however, netted off the $10,000,000 bond in the statement of financial position of Hummings Co as at 31 December 20X3. The carrying amount of the bonds in the statement of financial position at 31 December 20X3 will be $9·99 million ($10 million – $10,000).

As the bonds are to be measured at amortised cost, the effective rate of interest of 8% will be included in profit or loss and added to the bonds. This is calculated on the initial $10,000,000 and is not affected by the loss allowance of $10,000. The coupon interest of $500,000 ($10,000,000 x 5%) is deducted from the carrying amount of the bonds. This means that the bonds would have a carrying amount of $10,300,000 at 31 December 20X4 before considering the impairment allowance.

B/fwd	Interest 8%	Coupon 5%	C/fwd
$	PL		
10,000,000	800,000	(500,000)	10,300,000

At 31 December 20X4, there has been a significant increase in credit risk. As no actual default has yet occurred, the bonds should be classified as a stage two financial asset. This means that Hummings Co should make an allowance to recognise the lifetime expected credit losses. This is defined as the expected credit losses (cash shortfalls) which result from all possible default events over the expected life of the bonds. An allowance is required equal to the present value of the expected loss in contractual cash flows as weighted by the probability of default. The expected default losses are discounted using the original effective rate of interest of 8%.

Date	Cash flow loss working	PV of default
		$
31 December 20X5	3% x $462,963	13,889
31 December 20X6	5% x $6,858,710	342,936
		356,825

The expected loss allowance should be increased to $356,825 with an expense recorded in profit or loss of $346,825 ($356,825 – $10,000). The loss allowance is deducted directly from the bonds with future interest income recorded on the gross position. The carrying amount of the bonds at 31 December 20X4 would be $9,943,175 ($10,300,000 – $356,825).

2 Bagshot Co

(a) **(i)** A provision for restructuring costs should only be recognised in the financial statements of Bagshot Co where all of the following criteria are met:

- A reliable estimate can be made of the amount of the obligation;
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- There is a present obligation as a result of a past event.

IAS® 37 *Provisions, Contingent Liabilities and Contingent Assets* states that it would be extremely rare that no reliable estimate can be made. A best estimate of the expenditure required to settle the present obligation should be provided as at 31 December 20X5 should all criteria be met. In the case of a restructuring provision, this should only include direct expenditure arising from the restructuring and not associated with ongoing activities. Hence the relocation costs would not be included as, although they relate directly to the restructuring, the costs would be classified as an ongoing activity.

An obligation is regarded as probable where the event is more likely than not to occur. It is not clear that the restructuring is probable. Mrs Dawes has indicated that alternative strategies are possible and further clarification would be required to ascertain whether these activities would constitute a restructuring as per IAS 37. Only then may it be determined that a restructuring is indeed probable.

A constructive obligation for restructuring only arises where a detailed formal plan exists and a valid expectation to those affected by the restructuring that it will take place has occurred. A plan is in place but management does not yet appear committed as alternative strategies are possible. It is unlikely therefore that the plan is detailed and specific enough for these criteria to be satisfied. For example, the specific expenditure to be incurred, the date of its implementation and timeframe which should not be unreasonably long must be identified. With alternative strategies available, this does not appear to be the case. Furthermore, Mr Shaw is the only member of staff who has been notified and no public announcement has been made as at the reporting date. Consequently, there is no obligation in existence as at 31 December 20X5 and no provision can be recognised.

Mrs Dawes has identified that a final decision on the restructuring and communication is likely to take place before the financial statements are authorised. This would almost certainly be a material event arising after the reporting date but should be treated as non-adjusting. Accordingly, Bagshot Co should disclose the nature of the restructuring and an estimate of its financial effect but recognition of a restructuring provision is still prohibited.

(ii) Stewardship is an ethical principle which embodies the responsible planning and management of resources. The directors of Bagshot Co perform a stewardship role in that they are appointed by the shareholders to manage Bagshot Co on their behalf. The directors therefore assume responsibilities to protect the entity's resources from unfavourable effects of economic factors such as price and technological changes and to ensure that Bagshot Co complies with all laws, regulations and contractual obligations. Group results have been disappointing in recent years although no specific causes have been identified. It could be argued, therefore, that the restructure is acting in good faith and reflecting good principles of stewardship. It is anticipated that long-term shareholder value will be enhanced from the proposals.

A second factor of good stewardship is that it is important that investors, both existing and potential, and lenders have reliable and accurate information about the entity's resources so that they can assess how efficiently and effectively the entity's management and governing board have discharged their responsibilities. It is important therefore that the financial statements are transparent, objective and comply fully with International Financial Reporting Standards. Mrs Dawes wants Bagshot Co to include a restructuring provision as at 31 December 20X5 even though no obligation arises. Whilst prudence is a guiding principle when dealing with issues of uncertainty, excessive prudence cannot be justified. As a qualified member of ACCA, it should be apparent to Mrs Dawes that no provision should be recognised and to include one would be misleading to the stakeholders of Bagshot Co.

(iii) Mrs Shaw's acquisition of the equity shares in Bagshot Co would be deemed a related party transaction if the acquisition enabled her to control or have significant influence over Bagshot Co. A 5% ownership would not give Mrs Shaw control over the operating decisions of Bagshot Co and it is clear she would not be able to control the entity. Significant influence is the power to participate in the financial and operating decisions of the entity. It is presumed that a holding of less than 20% of the voting power is insufficient for significant influence unless this can be clearly demonstrated. Mrs Shaw is unaware of the proposed restructure which would suggest that she does not have a board position. It can be concluded that she does not have control nor significant influence.

Mrs Shaw would be deemed to be a close family member of Mr Shaw. She would therefore be deemed to be a related party if it was concluded that Mr Shaw is a member of key management personnel of Bagshot Co. Mr Shaw is the head accountant of Bagshot Co but it seems highly unlikely that he would be deemed to be key management personnel. There is no evidence that he has authority or responsibility for planning, directing and controlling the activities of Bagshot Co. Nor does he appear to be a director of the entity. It can be concluded that Mrs Shaw's acquisition of the 5% of the equity in Bagshot Co would not be a related party transaction.

(b) Mr Shaw is facing a number of ethical dilemmas arising from the scenario. Mrs Dawes's insistence that a restructuring provision should be included could constitute an intimidation threat although her motivation for including the provision early is unclear. Mr Shaw is also a qualified member of ACCA and therefore should be aware that the treatment is inconsistent with international accounting standards. Mr Shaw must adhere to the ACCA *Code of Ethics* and prepare financial statements diligently which are objective and fully comply with International Financial Reporting Standards. He must not comply with Mrs Dawes's requests and should politely remind her of her professional responsibilities as a member of ACCA. Non-compliance with accounting standards would be a breach of a range of ethical principles including professional competence, professional behaviour and objectivity. Assuming that Mrs Dawes is aware of the error, her integrity would also be questionable.

Mr Shaw could be accused of insider trading were he to inform his wife of the proposed restructure. Insider trading involves the use of non-publicised information in order to make decisions on financial investments based on the information which others do not yet know about. It is clear that such behaviour would not be ethical since Mrs Shaw would be in an advantageous position to make investment decisions which could impact unfairly on the other shareholders. Insider traders have information which others do not have such that the other stakeholders may act differently and make different decisions should they have been privy to the same information. Such activities are seen as fraudulent and are likely to be in breach of local money laundering regulations.

Mr Shaw has become privy to confidential information regarding Bagshot Co. One of ACCA's key ethical principles is that of confidentiality. Information must not be disclosed to others unless there is a legal or professional right or duty to disclose. Professional accountants must also ensure that they do not use confidential information for their own personal benefit. Mr Shaw has self-interest threats arising both from his wife's ownership of the shares and from his nephew facing potential redundancy. His wife could use the information to consider whether she may wish to sell her 5% ownership interest. Mr Shaw may also feel pressure to inform his nephew of the potential redundancy he may be facing. This may allow his nephew to obtain an unfair advantage over fellow employees by, for example, examining other opportunities in the labour market. Mr Shaw must not disclose the confidential information to his wife or his nephew.

3 Leria Co

(a) (i) IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* addresses the accounting for assets which are classified as held for sale. IFRS 5 requires a non-current asset to be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through its continuing use. It must be available for immediate sale in its present condition, and its sale must be highly probable within 12 months of classification as held for sale. The standard only foresees an exemption to this rule if the sale is delayed by events or circumstances which are beyond the entity's control, which is unlikely to be the case in this instance. Leria Co has entered into a firm sales commitment but the sale will occur after the 12-month threshold. Therefore, the stadium cannot be classified as held for sale. Additionally, a sale and leaseback transaction is outside the scope of IFRS 5 and is covered by IFRS 16 *Leases*.

(ii) The $2 million to be spent on crowd barrier improvements to the stadium should not be treated as an impairment of the asset's carrying amount at 31 October 20X5. There is no present obligation (legal or constructive) as a result of a past event and there is no probable payment. Leria Co may decide not to carry out the improvements, especially as the stadium is going to be sold and then subsequently leased back. Therefore the $2 million should be added back to the carrying amount of the stadium and a corresponding credit made to profit or loss.

(iii) A sale and leaseback transaction occurs where an entity transfers an asset to another entity and leases that asset back from the buyer/lessor. The first required criteria of IFRS standards is to determine whether a sale has occurred. Under IFRS 16, an entity must apply the IFRS 15 *Revenue from Contracts with Customers* requirements to determine when a performance obligation is satisfied. If it is concluded that the transfer of an asset is not a sale, then the seller/lessee will continue to recognise the transferred asset. In this event, a financial liability and financial asset will be recognised under IFRS 9 *Financial Instruments*. In this case, it seems that a sale will occur on 30 November 20X6 because of the binding sale commitment. If the fair value of the sale consideration equals the asset's fair value, and the lease payments are at market rates, there is no need to adjust the sales proceeds under IFRS 16.

Leria Co should follow IFRS 15 to account for the sale and then apply IFRS 16 to account for the lease. Thus, Leria Co should account for the sale and leaseback as follows:

- Derecognise the underlying asset.
- Recognise the sale at fair value.
- Recognise only the gain/loss which relates to the rights transferred to buyer/lessor.
- Recognise a right-of-use asset as a proportion of the previous carrying amount of the underlying asset.
- Recognise a lease liability.

Leria Co should account for the sale and leaseback at 30 November 20X6 as follows:

Carrying amount of stadium is $(18 + 2) million =	$20 million
Less Depreciation for year to 31 October 20X6 $(20 x ·05) million	($1 million)
Depreciation for November 20X6 $(20 – 1) x ·05)/12) million	($0·08 million)
	$18·92 million

Present value of lease/fair value of asset = $26m/$30 x 100% = 86·67%

The right-of-use asset recorded will be 86·67% x $18·92 = $16·4 million.

Tutorial note:

The following will be the entries in the financial records:

	Dr ($m)	**Cr ($m)**
Cash	30	
ROU asset	16·4	
Stadium		18·92
Lease liability		26
Gain on disposal (balance)		1·48
	46·4	46·4

The gain on disposal is limited to the gain on the portion of the asset sold recognising that Leria has retained an interest in the asset. It will be reported in the statement of profit or loss.

(b) (i) Leria Co's accounting policy to base the amortisation of the intangible asset for content rights on revenue stemming from the rights seems reasonable and systematic. However, IAS 38 *Intangible Assets* sets out a rebuttable presumption that amortisation based on revenue generated by an activity which includes the use of an intangible asset is not appropriate. This presumption can be overcome when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The intellectual property embodied in the television programmes will generate cash flows through the television channel subscriptions and the estimated revenues for a television programme determine the amount to be spent on producing the television programme. Therefore, revenue reflects a proxy for the pattern of consumption of the benefits received. Revenue and consumption of the economic benefits of the intangible asset seem highly correlated and therefore a revenue-based amortisation method seems appropriate.

The industry practice method is also acceptable and conceptually sound as it is based on an analysis of the remaining useful life of the programme and the recoverable amount. Such an approach does not contradict IAS 38's prohibition on revenue-based amortisation because it is not based on direct matching of revenue and amortisation. The useful life of an asset is required to be reassessed in accordance with IFRS Standards at least at each financial year end. Where this results in a change in estimate, this is will be accounted for prospectively from the date of reassessment.

IAS 38 also states that if a pattern of amortisation cannot be measured reliably, the straight-line method must be used.

(ii) When a player's contract is signed, management should make an assessment of the likely outcome of performance conditions. Contingent consideration will be recognised in the players' initial registration costs if management believes the performance conditions will be met in line with the contractual terms. Periodic reassessments of the contingent consideration should be made. Any contingent amounts which the directors of Leria Co believe will be payable should be included in the players' contract costs from the date management believes that the performance conditions will be met. Any additional amounts of contingent consideration not included in the costs of players' registrations will be disclosed separately as a commitment. Amortisation of the costs of the contract will be based upon the length of the player's contract.

The costs associated with the renegotiation of a playing contract should be added to the residual balance of the players' contract costs at the date of signing the contract extension. The revised carrying amount should be amortised over the remaining renegotiated contract length. Where a player sustains a career threatening injury and is removed from the playing team, the carrying amount of the individual would be assessed against the best estimate of the individual's fair value less any costs to sell and an impairment charge made in operating expenses reflecting any loss arising.

It is unlikely that any individual player can be a separate single cash generating unit (CGU) as this is likely to be the playing squad. Also, it is difficult to determine the value-in-use of an individual player in isolation as players cannot generate cash flows on their own unless via a sale.

4 Ecoma Co

(a) There is increasing interest by investors in understanding how businesses are developing environmental, social or governance (ESG) goals. The positioning of the ESGs in relation to the overall corporate strategies is information which investors feel is very relevant to the investment decision which in turn will lead to capital being channelled to responsible businesses.

Sustainability practices will not all be equally relevant to all companies and investors' expectations are likely to focus on companies realising their core business activities with financial sustainability as a prerequisite for attracting investment. Because institutional investors have a fiduciary duty to act in the best interests of their beneficiaries, such institutions have to take into account sustainability practices. Companies utilising more sustainable business practices provide new investment opportunities. 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.

Investors screen the sustainable policies of companies and factor the information into their valuation models. Investors may select a company for investment based on specific policy criteria such as education and health. Investors may evaluate how successful a company has been in a particular area, for example, the reduction of educational inequality. This approach can help optimise financial returns and demonstrate their contribution to sustainability. Investors increasingly promote sustainable economies and markets to improve their long-term financial performance. However, the disclosure of information should be in line with widely-accepted recommendations such as the Global Reporting Initiative (GRI) and the UN Global Compact. Integrated reporting incorporates appropriate material sustainability information equally alongside financial information, thus providing reporting organisations with a broad perspective on risk.

Investors often require an understanding of how the directors feel about the relevance of sustainability to the overall corporate strategy, and this will include a discussion of any risks and opportunities identified and changes which have occurred in the business model as a result.

Investors employ screening strategies, which may involve eliminating companies which have a specific feature, for example, low pay rates or eliminating them on a ranking basis. The latter may be on the basis of companies which are contributing or not to sustainability. Investors will use related disclosures to identify risks and opportunities on which they wish to engage with companies. Investors will see potential business opportunities in those companies which address the risks to people and the environment and those companies which develop new beneficial products, services and investments which mitigate the business risks related to sustainability. Investors are increasingly seeking investment opportunities which can make a credible contribution to the realisation of the ESGs.

(b) (i) Ecoma Co cannot make a provision of $16 million as the company cannot make a provision for the future operating losses of $20 million (these are specifically not allowed by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), nor take account of the saving of $2 million per annum as no obligation exists. However, the lease represents an onerous contract and an appropriate provision should be made. IAS 37 defines an onerous contract as 'a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.' There are no explicit requirements for entities to 'search' for onerous contracts but it is implicit in the onerous contract principles that reasonable steps should be taken to identify them. If an onerous contract is identified, a provision must be recognised for the best suitable estimate of the unavoidable cost. IAS 37 defines the unavoidable costs under a

contract as the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation and penalties arising from failure to fulfil it. Before a separate provision for an onerous contract is recognised, an entity recognises any impairment loss which has occurred on assets dedicated to that contract.

The onerous contract should be measured by determining the present value of the unavoidable costs, net of the expected benefits under the contract. The discount rate should be a pre-tax rate which reflects current market assessments of the time value of money and the risks specific to the liability.

In this case, the requirements of the onerous contract must be considered along with the prohibition in IAS 37 of providing for future operating losses. It is important to distinguish between unavoidable costs under an onerous contract, and future operating losses. Future operating losses are not independent of the entity's future actions and do not normally stem from an obligation arising from a past event. A provision for onerous contracts is recognised if the unavoidable costs of meeting the obligations under the contract, or exiting from it, exceed the economic benefits expected to be received under it.

Therefore, the unavoidable cost of the onerous contract should be discounted to 30 September 20X5 is ($600,000 + $600,000/1·05), i.e. $1,171,429.

The expected benefit of sub-letting the building arising at 30 September 20X5 will be ($400,000 + (40% x 400,000)/1·05), i.e. $552,381.

A provision of $(1,171,429 – 552,381) $619,048 can therefore be made. In addition, a provision of $1 million can be made for the costs of moving to the new head office if it is felt that the cost is unavoidable. This gives a total provision of $1,619,048.

Tutorial note:

IFRS16 Leases says that the right-of-use asset at the date of initial application is adjusted by the amount of any provision for onerous leases recognised in the statement of financial position.

(ii) At each financial year end, the plan assets and the defined benefit obligation are remeasured. Remeasurement gains and losses are recognised in other comprehensive income.

The statement of profit or loss records the change in the surplus or deficit except for contributions to the plan and benefits paid by the plan and remeasurement gains and losses.

The amount of pension expense to be recognised in profit or loss is comprised of service costs and net interest costs. Service costs are the current service costs, which is the increase in the present value of the defined benefit obligation resulting from employee services in the current period, and 'past-service costs'. Ecoma Co's past-service costs are the changes in the present value of the defined benefit obligation for employee services in prior periods which have resulted from the plan amendment and should be recognised as an expense. IAS 19 *Employee Benefits* requires all past service costs to be recognised as an expense at the earlier of the following dates:

(a) when the plan amendment or curtailment occurs, and
(b) when the entity recognises related restructuring costs or termination benefits.

These costs should be recognised regardless of vesting requirements. Thus, the past service cost of $9 million will be recognised at 30 September 20X5.

Net interest on the net defined benefit liability is calculated by multiplying the opening net defined benefit liability by the discount rate at the start of the annual reporting period. Net interest on the net defined benefit liability can be viewed as effectively including theoretical interest income on plan assets.

The table below reflects the change in the net pension obligation for the period. The profit or loss will be charged with the net interest component of $3·2 million and the service cost of $27 million ($18 million + $9 million). OCI will be credited with $1·2 million and this gain cannot be reclassified to profit or loss. Benefits paid have no effect on the net obligation as both plan assets and obligations are reduced by $6 million.

	$m	Charge to
Net pension obligation at 30 September 20X4	59	
Net interest component (5·5% x 59m)	3·2	Profit or loss
Service cost for year	18	Profit or loss
Past service cost relating to plan amendment at 30 September 20X5	9	Profit or loss
Contributions	(10)	Already credited to cash
Remeasurement	(1·2)	To OCI
Net pension obligation at 30 September 20X5	78	

(iii) Thus profit before tax of $25 million will suffer as the profit available to the ordinary shareholders will be reduced by:

	$m
Onerous contract provision (part (i))	1·6
Net interest component	3·2
Past and current service cost	27
	31·8

Thus a loss of $6·8 million ($25 million – $31·8 million) will now be reported.

			Marks	Marks
1	Hummings Co			
(a)		Application of the following discussion to the scenario:		
		Autonomy from parent	2	
		Determination of functional currency	3	5
(b)	**(i)**	Application of the following discussion to the scenario:		
		Identifiable criteria and recognition	3	
		Need to amortise	1	4
	(ii)	Goodwill calculation	4	
		Discussion of correct treatment of impairment and exchange difference	1	
		Recognition of split between shareholders	1	6
(c)		Discussion of asset held for sale criteria	2	
		Application of the above discussion to Quaver Co	2	4
(d)		Amortised cost identification	1	
		12-month credit loss – discussion	2	
		– calculation	1	
		Amortised cost calculation	1	
		Explanation lifetime credit losses	3	
		Calculation of lifetime credit losses	3	11
				30
2	Bagshot Co			
(a)	**(i)**	Discussion of IAS 37 criteria and restructuring expenditure	2	
		Application of the above to the scenario	3	
		Identification of non-adjusting event	1	6
	(ii)	Application of the following discussion to the scenario:		
		What is meant by good stewardship	2	
		Examples of good stewardship	2	4
	(iii)	Application of the following discussion to the scenario:		
		Control/significant influence criteria	2	
		Recognition of close family member	1	3
(b)		Application of the following discussion to the scenario:		
		Intimidation threat	1	
		Insider trading	2	
		Confidentiality	2	5
		Professional marks		2
				20

		Marks	Marks
3	**Leria Co**		
(a)	Discussion and application of the following to the scenario:		
	(i) – Held for sale guidance under IFRS 5	3	
	(ii) – Accounting treatment barrier improvements	3	
	(iii) – Sale and leaseback principles	4	
	– Accounting treatment sale and leaseback	3	13
(b)	Discussion and application of the following to the scenario:		
	– Potential amortisation of the intangible asset	5	
	– Performance conditions and contract costs	5	
	– Value-in-use of an individual player/CGU	2	12
			25
4	**Ecoma Co**		
(a)	Discussion of why it is important to investors that companies disclose sustainable information		
	Relevance	2	
	Opportunities	1	
	Valuation models	2	
	Risks	2	
	Screening strategies	1	8
(b)	**(i)** Discussion and application of the following to the scenario:		
	IAS 37 onerous contract	3	
	Future losses	1	
	Provision	2	6
	(ii) Discussion and application to scenario of the principles and practice of accounting for the pension scheme	4	
	Calculation of net pension obligation	3	7
	(iii) Calculation of the general impact on earnings		2
	Professional marks		2
			25

Note: In each question, some marks are allocated for RELEVANT knowledge. Marks will not be awarded for the reproduction of irrelevant knowledge or irrelevant parts of IFRS Standards. Full marks cannot be gained unless relevant knowledge has been applied. Candidates may also discuss issues which do not appear in the suggested solution. Providing that the arguments made are logical and the conclusions derived are substantiated, then marks will be awarded accordingly.