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# Answers

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- 1 (a) (i) An acquirer is the entity which has assumed control over another entity. In accordance with IFRS® 10 *Consolidated Financial Statements*, an investor controls an investee where it has:
- Power over the investee;
  - Exposure or rights to variable returns from its involvement with the investee;
  - The ability to use its power over the investee to affect the amount of the investor’s returns.

There are a significant number of factors to consider when determining which entity should be treated as the acquirer. The first factor to consider is the consideration transferred for the relative share of ownership. It may look at first that Columbia Co and Brazil Co have undertaken a joint venture where the two parties share control over the investee. This is because both Columbia Co and Brazil Co have paid an equal amount of \$8 per share. Additionally, Columbia Co and Brazil Co have each obtained 50% of the equity interests and have equal voting rights of one vote per share. Both entities satisfy the criteria for rights to a variable return. However, a joint venture relies upon there being joint control over all the key operating and financing decisions of the entity. The scenario does not indicate that unanimous consent is required because decision-making responsibilities appear to be split between Columbia Co and Brazil Co.

A second factor to consider is who has the rights to appoint the majority of the governing body. Columbia Co can appoint 60% of the board suggesting they may be the acquirer. It is true that Brazil Co does have additional rights in terms of the power to veto amendments to the articles of incorporation and the appointment of auditors. In the assessment of control, it is important to consider whether these rights give Brazil Co power over the investee and whether it can use this power to affect their return. In this assessment, it is important to distinguish between substantive rights and protective rights. Only rights which are substantive are said to give the investor control. These rights are more likely to be considered protective since they appear to prohibit changes in the activities of the investee which Brazil Co does not agree with rather than give Brazil Co power. Additionally, these are not rights which would allow Brazil Co to affect the profitability of Peru Co and subsequently their return. Protective rights do not prevent Columbia Co from obtaining control.

A similar argument can be applied to the appointment of the senior managers. The entity which has the right to appoint the majority of the senior management team is more likely to be the acquirer. Whilst each entity can appoint one senior manager each, the rights of the senior management appointed by Brazil Co appear to be protective while all key decisions are made by the senior manager appointed by Columbia Co. The rights of the senior manager appointed by Columbia Co therefore appear substantive including requesting board approval for significant activities. They have the rights over decisions affecting the key revenue earning capabilities of Peru Co including technological development, markets to operate it and ways of raising finance. Thus Columbia Co has power over the investee and these rights enable them to affect their return.

Further evidence that Columbia Co is the acquirer is reflected by the share issue which Columbia paid as additional consideration. To obtain control, it is often the case that the acquirer has to pay a premium on acquisition for their equity interests. Columbia Co has in effect had to pay additional consideration equal to \$1.25 million (50% x \$5 million x 1/20 x \$10) despite each investor acquiring 50% of the equity shares. It can be concluded that Columbia is the acquirer in a business combination and that Brazil Co, in effect, is the non-controlling interest.

- (ii) Goodwill at acquisition should be calculated as follows:

	\$ millions	\$ millions
Consideration:		
– Cash (5m shares x 50% x \$8)	20	
– Shares (5m shares x 50%/20 x \$10)	1.25	21.25
Add fair value of non-controlling interest at acquisition (5m shares x 50% x \$8)		20
Less net assets at acquisition – per question:	32	
Fair value adjustment – bonds (see below)	2.16	
Fair value adjustment – brand (see below)	1	
Fair value adjustment – deferred income (see below)	0.59	(35.75)
Goodwill at acquisition		5.5

Fair value per IFRS 13 *Fair Value Measurement* defines fair value as the price paid which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This means that fair value is not entity specific but rather should take into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant who would use the asset in its highest and best use. Goodwill should be measured by deducting the fair value of the identifiable net assets at acquisition from the fair value (including any non-controlling interest) of the consideration paid.

In terms of the consideration paid by Columbia Co for the acquisition of Peru Co, the fair value of the cash paid will be equal to face value. Columbia Co has paid \$8 per share for their 50% equity interest resulting in a cash consideration of \$20 million (50% x 5 million x \$8). The most reliable evidence of fair value is where an observable price for an identical asset or liability is traded on an active market. The fair value of Columbia Co’s equity should therefore be measured using the market price of their own shares at the acquisition date of \$10 per share. This results in a fair value measurement of \$1.25 million (50% x 5 million x 1/20 x \$10) for the share for share exchange.

Since the non-controlling interest is also to be measured at fair value and Brazil Co paid \$8 per share for their 50% equity interest, this will have a fair value of \$20 million.

In assessing the fair value of the identifiable net assets at acquisition, it is important that the net assets of Peru Co are measured using the same accounting policies of the group. Since Columbia Co has similar bonds where their business model is to either collect the cash flows or to sell, the bonds should be measured at their acquisition date fair values and treated as a fair value through other comprehensive income investment rather than amortised cost. The carrying amount of the bonds in the individual financial statements of Peru Co on 1 July 20X5 would be \$6.24 million (\$6 million + (6/12 x \$6 million x 8%)). Since the bonds are in an unquoted company and an active market for an identical asset is not observable, it appears reasonable to use the market value for a similar asset as adjusted for differences in their liquidity. The bonds would have a fair value of \$8.4 million (6 million x \$2 x 70%). A fair value uplift to the net assets of Peru Co of \$2.16 million (\$8.4 million – \$6.24 million) is required.

The fair value of the brand has to be determined in accordance with its highest and best use for market participants. Since it is not entity specific, the intention by Columbia Co to discontinue the brand is not relevant unless it is what other market participants would also do with the brand. Since it is estimated that a competitor would be prepared to pay \$5 million to continue the trade of the brand, this is not the case. The highest and best use of the brand from a market perspective would appear to be continue the trade at a value of \$5 million. A \$1 million increase is required to the fair value of the brand.

The deferred income must be measured from the market's perspective. Since the market would expect to incur direct and incremental costs of \$1.7 million in the performance of their obligations, the fair value should be determined by adding the 30% mark-up to this estimate. The fair value of the deferred income should be \$2.21 million (\$1.7 million x 130/100). This will result in a decrease in the liabilities at acquisition and therefore an increase in the net assets of Peru Co equal to \$590,000 (\$2.8 million – \$2.21 million).

- (b) Where a defined benefit pension scheme is in surplus, IAS<sup>®</sup> 19 *Employee Benefits* requires the surplus to be measured as the lower of:
- The surplus in the plan; and
  - The present value of the economic benefits in the form of refunds from the plan or reductions in the future combinations (known as the asset ceiling).

At 1 January 20X5, the surplus of the scheme is \$60 million (\$260 million – \$200 million) but the asset ceiling is only \$20 million, so the defined benefit pension asset would have been restricted to \$20 million. Interest on the opening asset would therefore be adjusted and only \$1 million (5% x \$20 million) interest income will be recorded in profit or loss for the year. The cash contributions of \$21 million should be added to the scheme assets, benefits paid of \$25 million are deducted from both the scheme's assets and the scheme's liabilities and the current service cost of \$30 million is charged to profit or loss.

IAS 19 states that an entity must first determine any past service cost arising from a gain or loss on settlement without considering the effect on the asset ceiling. A gain therefore should be recognised in the profit or loss of Columbia Co on the settlement equal to \$12 million (\$28 million – \$16 million). The pension scheme surplus at 31 December 20X5 is summarised as follows.

	Assets	Liabilities	Net plan asset before ceiling adjustment	Ceiling adjustment	Net plan asset after ceiling adjustment
	\$ millions	\$ millions	\$ millions	\$ millions	\$ millions
Balance 1 January 20X5	260	200	60	(40)	20
Net interest at 5%	13	10	3	(2)	1
Cash contributions	21		21		21
Benefits paid	(25)	(25)			
Current service cost		30	(30)		(30)
Curtailment and settlement	(16)	(28)	12		12
Total at 31 December 20X5	<u>253</u>	<u>187</u>	<u>66</u>	<u>(42)</u>	<u>24</u>

**Tutorial note:** Candidates are not required to produce this table in its entirety and the detail provided here is for tutorial purposes only.

The actuary has valued the scheme as a surplus of \$47 million (\$242 million – \$195 million) immediately after the curtailment which would result in a remeasurement loss of \$19 million (\$66 million – \$47 million) on 31 December 20X5. However, the effect of the asset ceiling is that the pension scheme would only be recognised at a value of \$24 million following the curtailment (see table above). Since the scheme is valued at the lower of the surplus of the scheme and the present value of the economic benefits in the form of refunds from the plan or reductions in the future combinations, the scheme will be restated to \$25 million. A net gain of \$1 million (\$25 million – \$24 million) will be recognised in other comprehensive income.

The pension scheme asset should be included in the financial statements of Columbia Co at \$25 million (the lower of \$25 million and \$47 million).

With a defined contribution scheme, it is the employee who undertakes all of the risk should the pension plan not perform to expectations. Columbia Co would have no obligations further to their contributions into the scheme. This means that provided

the correct contributions have been paid into the scheme, no asset or liability would be recognised within their statement of financial position. The cash contributions of \$0.5 million are instead recognised as an expense in profit or loss.

- 2 (a) Most liabilities are ignored when calculating recoverable amounts in impairment testing. However, certain liabilities, such as decommissioning liabilities, cannot be separated from the related assets.

IAS 36 *Impairment of Assets* requires the carrying amount of a recognised liability to be deducted from both the carrying amount of a cash generating unit (CGU) and the amount determined using the value-in-use (VIU). The recoverable amount of the asset should be determined using the VIU model in IAS 36.

The amount of the decommissioning provision is used to calculate the net recoverable amount by deducting it from the VIU amount. The net recoverable amount is then compared to the carrying amount of the CGU which should be adjusted to include the decommissioning provision in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections. IAS 36 presumes that budgets and forecasts should not go beyond five years; for periods after five years, extrapolation should be used from the earlier budgets. In this case, the mines have a useful life of five years or less and, therefore, the cash flow projections can be used in the impairment testing.

At 31 December 20X7	\$ million
Present value of future cash inflows from the sale of components for re-use	20
Present value of future cash inflows from sale of mining output	203
Present value of future cash outflows from operating the mines	(48)
Carrying amount of decommissioning provision	(53)
Recoverable amount (NPV of cash flows)	<u>122</u>
Carrying amount of mines	200
Carrying amount of decommissioning provision	(53)
Net carrying amount of mines	<u>147</u>

The recoverable amount is less than the carrying amount and, hence, there is an impairment charge of \$25 million (\$147 million – \$122 million).

- (b) IAS 32 *Financial Instruments: Presentation* states that a financial instrument is a financial liability if it provides that, on settlement, the entity will deliver either:

- (i) cash or another financial asset; or
- (ii) its own shares whose value is determined to exceed substantially the value of the cash or other financial asset.

Bismuth Co has discretion over whether 'rewards' are payable on class A shares and class B shares. The rewards are essentially a dividend paid on the investment. This would seem to indicate that both instruments should be classified as equity. The Bitcoin can be readily converted into cash in Bismuth Co's jurisdiction and therefore can be treated in the same way as legal tender or cash (also known as fiat money).

The possibility of Bismuth Co listing on a stock exchange is a contingent settlement provision. Bismuth Co is able to avoid listing shares on a stock exchange if it so chooses but is unlikely to do so, as the listing is deemed to be highly probable. Thus, the class A shares will be classified as a liability because the value of the share settlement of 1,000 class A instruments at 2 Bitcoin substantially exceeds that of the 'cash' settlement option of 1 Bitcoin for the same number of instruments and Bismuth Co is implicitly obliged to redeem the instruments for a 'cash' amount of 1 Bitcoin.

If Bismuth Co fails to exercise its call option on the class B shares, it must transfer an additional reward to the holder. An obligation must be established through the terms and conditions of the financial instrument. Anything outside the contractual terms is not relevant to the classification process in accordance with IAS 32. Therefore, the potential failure to exercise the call option does not affect the classification of class B shares as equity as there is no unavoidable contractual obligation to pay the reward or to call the instrument. Also, if the call option is not exercised, the reward payable will only constitute an increase in the dividend rate and not a redemption of the class B shares. Hence the class B shares constitute equity shares.

- (c) Ms Pleasant is in a difficult position as regards information gained at a previous employer. In general, she should respect the confidentiality of information acquired as a result of professional and business relationships and, therefore, not disclose any such information to third parties without proper and specific authority, unless there is a legal or professional right or duty to disclose. In addition, she should not use the information for her personal advantage. However, the situation will depend upon the nature of the confidentiality agreement with her previous employer. This agreement may have been made in order to protect commercially sensitive information and to prevent her from sharing such information with Bismuth Co. However, if the agreement is not clear or specific, then it will be left up to the ethical conscience of Ms Pleasant as to whether she should disclose the information. The purpose of the agreement is to prevent the disclosure of this type of sensitive information and the chief accountant's ethical conscience should prevail. In addition, the confidentiality agreement may be legally binding.

Opportunities and challenges presented by technology, and new business models, require an evolving level of digital literacy by accountants. Accountants should provide relevant, decision-useful analysis to ensure that the right technological applications

are adopted in the best interests of the business. New business models present opportunities for professional accountants to provide relevant advice on regulatory matters. This development requires a growing set of competencies. These competencies relate to not only financial matters but also social impact assessment, environmental accounting or other non-financial capital valuation techniques. Mr Fricklin is obviously not aware of the importance of the entity being environmentally aware as he has told the chief accountant not to worry about ethically sourced material data. Professional accountants need to expand their competency areas to include digital and social awareness. The fundamental principle of professional competence and due care requires that a professional accountant only undertake significant tasks for which the professional accountant has, or can obtain, sufficient specific training or experience. A professional accountant should not intentionally mislead an employer as to the level of expertise or experience possessed such as is the case with Mr Fricklin who has told the board that he has 'in depth knowledge' of the technology.

Ms Pleasant is in a difficult position as regards the competence and sabotage of the project by Mr Fricklin, as an act of 'whistleblowing' can cause a conflict of interest between the personal, organisational and societal spheres. This conflict stems from the way in which a whistle-blower is viewed. The chief accountant could be viewed as someone sharing knowledge of misconduct for the benefit of others or as someone who is acting 'disloyal' to their superior. Ms Pleasant will be torn between loyalty to Mr Fricklin and her own moral commitment.

As long as her motivations are sound and she is confident in the system and her knowledge, she should not hesitate to relay such information as she is helping to create an environmentally aware project which will enhance the company's business.

- 3 (a) (i) IFRS 15 *Revenue from Contracts with Customers* states that goods or services which are promised to a customer are distinct if both of the following criteria are met:
- (a) the customer can benefit from the good or service either on its own or together with other resources; and
  - (b) the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

The updates are integral to Cent Co's ability to derive benefit from the licence during the four-year contract, because the entity works in an industry in which technologies change rapidly. The determination of whether licence and updates are separate performance obligations requires judgement. In this case, the updates improve the effectiveness of software without being essential. However, for the updates to be combined with the licence, they should fundamentally change the functionality of the software or be essential to its functionality.

Although the software can function on its own without updates, the benefits of using the software would be significantly reduced. The frequency of the monthly updates indicates that they are essential to the effective operation of the software. However, Sitka Co should consider not only the frequency but also whether Cent Co accepts the updates. Updates are made available every month but Cent Co has only updated its software on two occasions which seems to indicate that the software is functional without updates.

To conclude, the benefit which Cent Co could obtain from the licence over the four-year term without the updates would be significantly reduced, the contract to grant the licence and to provide the expected updates is, in effect, a single promise to deliver a combined item to Cent Co. As Cent Co simultaneously receives and consumes the benefits of the entity's performance as it occurs, the performance obligation is satisfied over time. As the contract is a single promise, the revenue of \$3 million will be allocated over the four-year time period. Sitka Co should disclose the method used to recognise revenue together with the judgements used to determine the timing of the satisfaction of performance obligations, in the financial statements for the year ended 31 December 20X7. It should not and cannot allocate \$2.5 million to the monthly updates and the residual amount of \$0.5 million to the licence of software as this does not faithfully reflect the stand-alone selling price of the software.

**Note: If the conclusion was that the software could function without updates (since they are not essential to functionality, and Cent Co has only updated twice which could indicate the software is functional without updates), then two performance obligations would be identified and the contract price allocated to each performance obligation. This approach to an answer, if well argued, would have been given credit.**

- (ii) Cent Co pays fees to Sitka Co to access and use its software. The recognition criteria for an intangible asset in accordance with IAS 38 *Intangible Assets* are identifiability, control over a resource and existence of future economic benefits. These need to be considered when determining whether an intangible asset is created. The current arrangement with Sitka Co is likely to satisfy the identifiability and existence of future economic benefits criteria, but it is questionable whether the control criterion is satisfied. IAS 38 states that 'an entity controls an asset if the entity has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits'. Cent Co does not own the rights to the software at any time.

Thus, Cent Co should not recognise an intangible asset because Cent Co does not control the resource.

The contract is not a lease contract in accordance with IFRS 16 *Leases* as Cent Co does not have the right to direct the use of an asset by having decision-making rights to change how and for what purpose the asset is used throughout the four-year contract. At 1 January 20X7, the contract gave Cent Co only the right to receive access to Sitka Co's software in the future and is therefore a service contract which is expensed over the four-year period.

- (b) IAS 27 *Separate Financial Statements* requires an entity which prepares separate financial statements to account for investments in subsidiaries, joint ventures and associates either:
- at cost
  - in accordance with IFRS 9 *Financial Instruments*
  - using the equity method as described in IAS 28 *Investments in Associates and Joint Ventures*.

After the partial disposal, Marlett Co is not a subsidiary, joint venture or associate of Sitka Co but is an investment in an equity instrument. Therefore, IFRS 9 is used to account for the retained interest. Investments in equity instruments should be measured at fair value. However, IFRS 9 also states that an entity can make an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income. This can only occur if the investment is neither held for trading nor contingent consideration. In this case, Sitka Co could make such an election at 1 July 20X7. IAS 28 specifies how an entity should account for a transaction which results in discontinuing the use of the equity method because the investment ceases to be an associate or joint venture but retaining an interest which is a financial asset. Here the entity recognises in profit or loss any difference between:

- (i) the fair value of the retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
- (ii) the carrying amount of the investment at the date the equity method is discontinued.

Thus, Sitka Co would make a profit of \$(10 + 3.5 – 12) million, i.e. \$1.5 million. This applies regardless of whether the entity elects to present in OCI subsequent changes in fair value of the retained interest. Sitka Co should only present any difference in OCI to subsequent changes in fair value which arise after initial recognition. Such a difference is not a result of a change in fair value but instead results from a change in the measurement basis of the retained interest when an entity loses control of an investee. The difference also meets the definition of income or expenses in the *Conceptual Framework for Financial Reporting* (2018).

- (c) IFRS 13 *Fair Value Measurement* states that the fair value of an asset is the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, IFRS 13 also uses the concept of the highest and best use which is the use of a non-financial asset by market participants which would maximise the value of the asset or the group of assets and liabilities within which the asset would be used. The fair values of the two assets would be determined based on the use of the assets within the buyer group which operates in the industry. The fair value of the asset group of \$230 million is higher than the asset group for the financial investor of \$200 million. The use of the assets in the industry buyer group does not maximise the fair value of the assets individually but it maximises the fair value of the asset group. Thus, even though Qbooks would be worth \$50 million to the financial investors, its fair value for financial reporting purposes is \$30 million as this is the value placed upon Qbooks by the industry buyer group.

- 4 (a) Sustainability has become an increasingly crucial aspect of investing. There is a growing recognition that sustainability can have a significant effect on company financial performance. Investors are increasingly integrating consideration of sustainability issues and metrics into their decision-making. Investors require a better understanding of the wider social and environmental context in which the business operates. This creates a greater trust and credibility with investors and a reduced risk of investors using inaccurate information to make decisions about the company.

Investors have shown an appetite for products which recognise and reflect the relationship between their investments and social and environmental conduct. Investors need to completely understand the nature of the companies in which they are looking to invest and need to incorporate material sustainability factors into investment decisions. They need to understand whether there are material risks or opportunities connected with sustainability factors which do not appear in traditional financial reports.

Their materiality will differ from sector to sector, industry to industry. Sustainability is often unique to the sector. This analysis can be the deciding factor between otherwise identical companies. If the company is viewed poorly based on its sustainability performance, it could lead to a non-investment decision. The increasing availability of data from companies offers the opportunity for rating and ranking analysis, as well as observing trends. These advances have led to the quantitative application of sustainability data in investment analysis and decision making. Companies need a greater knowledge of investor needs and perspectives to help make reporting more relevant to investors and to clearly communicate the financial value of the company's sustainability efforts.

- (b) If Colat Co determines that the events resulting from a natural disaster have triggered impairment indicators, an impairment test must be performed in accordance with IAS 36 *Impairment of Assets* for the respective assets and/or cash-generating units. In this instance, a decline in customer demand has taken place because of the damage in reputation resulting from the disaster. Also, the share price of Colat Co has declined which again may indicate that the carrying amount of the entity's net assets is higher than its market capitalisation. Finally, damage to the manufacturing facility is a direct indicator and the increase in operating costs resulting from the replacement of a supplier in the region with an international supplier is an indirect indicator. The increase in costs as an indicator of impairment depends on the significance and duration of the expected change. Short-term, temporary disruptions are not necessarily indicative of an impairment for assets with a long-term remaining useful life. As a result of the above impairment indicators, an impairment test must be performed in accordance with IAS 36.

- (c) (i) The destruction of a non-current asset (NCA) results in the derecognition of that asset as opposed to an impairment as there will be no future economic benefits expected either from its use or disposal. Therefore, the NCA of \$250 million would be derecognised. As regards the decommissioning of the power plant, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires that a liability is recognised as soon as the obligation arises, which will normally be at commencement of operations. Similarly, IAS 16 *Property, Plant and Equipment* requires the initial cost of an item of property, plant and equipment to include an estimate of the amount of the costs to dismantle and remove the item and restore the site on which it is located. As regards the change in the useful life of the power plant, the present value of the decommissioning liability will increase because of the shorter period over which cash flows are discounted. This increase is added to the carrying amount of the asset, which is tested for impairment. The remaining carrying amount is depreciated prospectively over the following eight years.
- (ii) Colat Co has, in the past, put right minor environmental damage which it has caused but it has never been involved in a natural disaster on this scale and there is no legal obligation. A constructive obligation for the environmental costs will only result in the recognition of a provision if there is an established pattern of past practice, published policies or a specific current statement that Colat Co will pay for the damage. In this case, the entity has not indicated to other parties that it will accept certain responsibilities and as a result, it has not created a valid expectation. IAS 37 states that a provision should be recognised only when there is a present obligation resulting from past events. The future expected costs would not meet the definition of a provision as there is no legal obligation nor a constructive obligation. In the case of the natural disaster, Colat Co is not at fault and therefore there will be no obligation to correct the environmental damage which may be put right by the government.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* states that a government grant is recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. A grant receivable as financial support should be recognised as income in the period in which it is receivable. In this case, Colat Co has only received acknowledgement of its application for a grant on 1 March 20X8 and, therefore, there is no reasonable assurance that the grant will be received. Further, it is not probable that the grant will be received and it should not be disclosed in the financial statements.

- (iii) Prior to the disaster, Colat Co hedges commodity price risk in aluminium and such transactions constituted 'highly probable' hedged transactions in cash flow hedges under IFRS 9 *Financial Instruments*. However, the purchases which were considered highly probable prior to the natural disaster are now not expected to occur. Colat Co should follow hedge accounting principles up until the date of the natural disaster and then should cease hedge accounting. As the forecast transaction is no longer expected to occur, Colat Co should reclassify the accumulated gains or losses on the hedging instrument from other comprehensive income into profit or loss as a reclassification adjustment.
- (iv) IAS 37 does not permit the recognition of contingent assets. Accordingly, an insurance recovery asset can only be recognised if it is determined that the entity has a valid insurance policy which includes cover for the incident and a claim will be settled by the insurer. The recognition of the insurance recovery will only be appropriate when its realisation is virtually certain, in which case the insurance recovery is no longer a contingent asset. Decisions about the recognition and measurement of losses are made independently of those relating to the recognition of any compensation which might be receivable. It is not appropriate to take potential proceeds into account when accounting for the losses. The potential receipt of compensation should be assessed continually to ensure that it is appropriately reflected in the financial statements. The asset and the related income are recognised in the period in which it is determined that a compensation will be received which means reviewing the situation after the end of the reporting period and before the date of approval of the financial statements.

In this case, as it appears probable that the insurance claim for the loss of the non-current assets would be paid and as this information was received before the financial statements were approved, the potential proceeds (\$280 million) should be disclosed in the financial statements for the year ended 31 December 20X7. There would be no disclosure of the insurance recovery related to the relocation costs or the lost revenue as the recovery is not virtually certain. The insurance policy does not cover environmental damage which is the responsibility of the government.

	<i>Marks</i>	<i>Marks</i>
<b>1 (a) (i)</b> Definition of control	1	
Application of the following to the scenario:		
Voting rights	2	
Governance structure	2	
Key management	2	
Premium on consideration	<u>2</u>	9
<b>(ii)</b> IFRS 13 discussion	2	
Application of IFRS 13 to the following:		
– Bonds	2	
– Brand	2	
– Deferred income	2	
Goodwill calculation	<u>3</u>	11
<b>(b)</b> Discussion of defined benefit scheme and asset ceiling	4	
Defined benefit calculations	5	
Discussion of the defined contribution scheme	<u>1</u>	10
		<u><b>30</b></u>
<b>2 (a)</b> Discussion and application of IAS 36 principles to scenario	3	
Calculation of impairment	<u>2</u>	5
<b>(b)</b> Discussion and application of IAS 32 principles to scenario	3	
Contractual obligation discussion	<u>2</u>	5
<b>(c)</b> Discussion of the following key ethical principles and application to the scenario:		
– Confidentiality	3	
– Competence	3	
– Whistleblowing	<u>2</u>	8
Professional marks		<u>2</u>
		<u><b>20</b></u>



	<i>Marks</i>	<i>Marks</i>
<b>3 (a) (i)</b> Discussion and application of the following to the scenario:		
IFRS 15	2	
Updates of software	3	
Single performance obligation	1	
Revenue allocated over time	1	
Cannot use residual value	<u>1</u>	8
<b>(ii)</b> Discussion and application of the following to the scenario:		
IAS 38	2	
IFRS 16	1	
Service contract	<u>1</u>	4
<b>(b)</b> Discussion and application of the following to the scenario:		
IAS 27	2	
IFRS 9	3	
IAS 28	2	
Calculation of profit or loss	1	
Principles of OCI	<u>1</u>	9
<b>(c)</b> Discussion and application of the following to the scenario:		
IFRS 13 highest and best use	2	
Grouping of fair values	<u>2</u>	4
		<u><b>25</b></u>
<b>4 (a)</b> Discussion of:		
Integration of sustainability issues	<u>4</u>	4
<b>(b)</b> Discussion of impairment indicators	2	
Conclusion	<u>1</u>	3
<b>(c) (i)</b> Discussion and application to scenario:		
Derecognition of NCA	1	
Change in accounting for decommissioning	<u>3</u>	4
<b>(ii)</b> Discussion and application to scenario of liability for environmental damage	2	
Government grant	<u>2</u>	4
<b>(iii)</b> Discussion and application to scenario:		
Hedged transaction	2	
Accounting treatment	<u>2</u>	4
<b>(iv)</b> Discussion and application to scenario:		
Contingent asset	2	
Disclosure	<u>2</u>	4
Professional marks		<u>2</u>
		<u><b>25</b></u>