Answers

1 (a) According to IAS27 – *Presentation of Consolidated Financial Statements* – Gamma is a subsidiary of Alpha if Alpha controls Gamma. Control means the power to govern the financial and operating activities so as to obtain benefits from Gamma's activities. We know that there has been at least one occasion when Alpha has been unable to do this and so it is most unlikely that Gamma would be regarded as a subsidiary. It appears that Gamma will be regarded as an associate of Alpha. According to IAS28 – *Accounting for Investments in Associates* – Gamma is an associate of Alpha if Alpha can exercise a significant influence over Gamma and Gamma is neither a subsidiary or a joint venture of Alpha. As stated already, Gamma is not a subsidiary of Alpha and Gamma cannot be a joint venture in the absence of a contractual arrangement with another investor. Alpha does appear to exercise significant influence over Gamma through its substantial shareholding and representation on the board of directors of Gamma. Therefore Gamma would be regarded as an associate of Alpha.

IAS28 requires that associates (other than those held exclusively with a view to disposal in the near future) should be consolidated using the equity method of consolidation. This involves initially recording the investment at cost in the consolidated balance sheet, adjusting the subsequent carrying value for the post acquisition change in Alpha's share of Gamma's net assets. The consolidated income statement should reflect Alpha's share of the results and operations of Gamma.

(b) CONSOLIDATED INCOME STATEMENT – YEAR ENDED 31 MARCH 2004

	$'000
Revenue (65,000 + 60,000 – 6,000)	119,000
Cost of sales (balancing figure)	(56,140)
Gross profit (W1)	62,860
Distribution costs (7,000 + 6,000)	(13,000)
Administrative expenses (8,000 + 6,500 + 200 (W2))	(14,700)
Profit from operations	35,160
Share of profits of associates (W4)	2,380
Other income from investments (W6)	500
Finance cost (W7)	(5,000)
Profit before tax	33,040
Income tax expense:	
Group (5,000 + 3,600)	(8,600)
Associate (30% x 3,200 x 8/12)	(640)
Profit after tax	23,800
Minority interest (20% x 10,900)	(2,180)
Net profit for the period	21,620

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – YEAR ENDED 31 MARCH 2004

	$'000
Balance at 1 April 2003 (W8)	57,900
Net profit for the period	21,620
Dividends paid	(6,000)
Balance at 31 March 2004	73,520

WORKINGS – ALL IN $'000

1. Gross profit

	$'000
Alpha + Beta	63,000
Movement in provision for unrealised profit (40/140 x (1,540 – 1,050))	(140)
	62,860

2. Administrative expenses

	$'000
Alpha + Beta	14,500
One year's write off of goodwill of Beta (2,000 (W3) x 1/10)	200
	14,700

3. Goodwill on acquisition of Beta

	$'000
Cost of investment	19,600
80% of the equity of Gamma at the date of the investment (22,000)	(17,600)
	2,000

4. **Share of profits of Gamma**

	$'000
8/12 x 30% of profit before tax	2,500
8 months' write off of goodwill (1,800 (W5) x 1/10 x 8/12)	(120)
	2,380

5. **Goodwill on acquisition of Gamma**

	$'000
Cost of investment	14,130
30% of the equity of Gamma at the date of the investment (38,000 + 4/12 x 9,300)	(12,330)
	1,800

6. **Investment income**

	$'000
Total for Alpha	6,500
Dividend from Beta (80% x 3,500)	(2,800)
Dividend from Gamma (30% x 4,000)	(1,200)
Interest from Beta (25,000 x 8%)	(2,000)
	500

7. **Finance cost**

	$'000
Alpha + Beta	7,000
Intra-group interest (W6)	(2,000)
	5,000

8. **Opening equity**

	$'000
Alpha	44,000
Beta (80% x (42,000 – 22,000))	16,000
9 years' amortisation of goodwill on acquisition of Beta	(1,800)
Unrealised profit in opening inventory (40/140 x 1,050)	(300)
	57,900

2 (a) Income statement for the year ending 31 March 2004

	Analysis of operations		
	Continuing $'000	Discontinuing $'000	Total $'000
Revenue (120,000 + 30% x 60,000 (W4))	124,000	14,000	138,000
Cost of sales (W1)	(89,860)	(8,000)	(97,860)
Gross profit	34,140	6,000	40,140
Distribution costs (W1)	(7,000)	(1,000)	(8,000)
Administrative expenses (W1)	(12,000)	(1,500)	(13,500)
Profit from operations	15,140	3,500	18,640
Loss on disposal of business segment		(3,000)	(3,000)
Finance cost (W5)	(4,600)		(4,600)
Profit before tax	10,540	500	11,040
Income tax expense (W6)	(2,350)	(300)	(2,650)
Net profit for the period	8,190	200	8,390

(b) Balance sheet as at 31 March 2004

	$'000	$'000
ASSETS		
Non-current assets:		
Property, plant and equipment (W7)	79,900	
		79,900
Current assets:		
Amounts due under construction contracts (W4)	13,200	
Inventories	21,000	
Trade receivables	44,000	
Bank balances	26,790	
		104,990
		184,890
EQUITY AND LIABILITIES		
Capital and Reserves:		
Issued capital	50,000	
Accumulated profits (W8)	51,390	
		101,390
Non-current liabilities:		
Interest bearing borrowings	40,000	
Deferred tax (W9)	6,400	
Lease liabilities (W3)	16,830	
		63,230
Current liabilities:		
Trade and other payables (W10)	12,500	
Lease liabilities (24,600 (W3) – 16,830)	7,770	
		20,270
		184,890

Workings – all in $'000

1. **Allocation of operating expenses**

	Cost of sales $'000	Distribution costs $'000	Administrative expenses $'000
Opening inventory	18,200		
Expenses per TB	70,000	8,000	12,000
Closing inventory	(21,000)		
Depreciation (W2):			
Buildings	360		
Plant	5,000		
Fixtures			1,500
Leased asset (W2)	10,000		
Asset used on construction contract (W2)	–		
Arising on construction contract (W4)	15,300		
Total in income statement	97,860	8,000	13,500

2. **Depreciation of non-current assets**

	$'000
Buildings – 2% x 18,000	360
Purchased plant – $^1/_3$ x (21,000 – 6,000)	5,000
Fixtures – 25% x 6,000	1,500
Leased asset – $^1/_4$ x 40,000	10,000
Asset used on construction contract – $^6/_{24}$ x 14,000	3,500
Total depreciation for the period	20,360

3. **Leased asset**

The lease is a finance lease under the provisions of IAS17 – *Leases*. Substantially all the risks and rewards of ownership are transferred to Delta. Evidence for this fact is:

- Negligible value for the asset at the end of the lease.
- Delta is responsible for security and maintenance.
- No escape clauses under the lease.

This means that 40,000 is included in assets and borrowings. The borrowing is treated as shown below;

Year ended	Opening balance	Finance cost	Cash paid	Closing balance
	$'000	$'000	$'000	$'000
31 March 2004	*32,000	1,600	(9,000)	24,600
31 March 2005	24,600	1,230	(9,000)	16,830

*The opening payable is reduced by the deposit of 8,000

- The finance cost for the current year is 1,600
- The closing borrowing is 24,600, of which 16,830 is a non-current liability.

4. **Construction contract**

	$'000
(a) Estimated total profit:	
Revenue	60,000
Costs:	
Materials etc. to date	(12,000)
Materials etc. in future	(25,000)
Plant	(14,000)
	9,000
(b) Income statement for current year:	
Revenue (30% x 60,000)	18,000
Cost of sales (balance)	(15,300)
Gross profit (30% x 9,000)	2,700
(c) Balance sheet presentation:	
Costs incurred to date – materials etc	12,000
Depreciation of plant used on contract (W2)	3,500
Attributable profit (see (b) above)	2,700
Progress payment received	(5,000)
Amount due from customer	13,200

5. **Finance cost**

	$'000
Interest payable on long term borrowings	3,000
Relating to finance lease (W3)	1,600
	4,600

6. **Income tax expense**

	$'000
Estimate on the profits of the current year	2,500
Overprovision in the previous year	(250)
Deferred tax	400
	2,650

7. Property, plant and equipment

	$'000
Cost as per Trial Balance (30,000 + 27,000)	57,000
Leased asset	40,000
Asset used on construction contract	14,000
Accumulated depreciation as per TB (3,240 + 7,500)	(10,740)
Depreciation charge for the current year (W2)	(20,360)
	79,900

8. Accumulated profits

	$'000
As per TB	45,000
Net profit for the period	8,390
Dividends paid	(2,000)
As per closing balance sheet	51,390

9. Deferred tax

	$'000
As per TB	6,000
Transfer for the period	400
As per closing balance sheet	6,400

10. Trade and other payables

	$'000
Trade payables per TB	10,000
Income tax estimate	2,500
As per closing balance sheet	12,500

3 (a) Global prepares financial statements under international financial reporting standards because this is permitted in our reporting jurisdiction. However we are a multinational enterprise with listings on a number of different capital markets. When a multinational seeks a listing on a capital market other than in its own jurisdiction (often referred to as a cross-border listing) then it needs to comply with whatever reporting requirements the relevant securities exchange chooses to apply for foreign enterprises. An increasing number of exchanges, for example most European exchanges, allow enterprises seeking cross-border listings to file financial statements that comply with international financial reporting standards. This practice is of benefit to our enterprise as it reduces the need for the preparation of reconciliation statements in accordance with a number of different sets of rules.

Some securities exchanges require multinationals to prepare a statement reconciling key figures from their original financial statements to the equivalent figures prepared according to local accounting standards. The US and Japanese stock exchanges are two examples of this type of exchange and this presumably explains the need for the reconciliation to US and Japanese standards.

It is certainly true that international financial reporting standards are increasing in prominence. In 2000 the International Organization of Securities Commissions (IOSCO) recommended that all its members allowed multinationals to use international standards in cross-border listings, supplemented by any 'supplemental treatments' necessary to address particular issues at national and regional level. Unfortunately some securities exchanges, the US in particular, have interpreted this provision as sanctioning a continued requirement to prepare reconciliations to local accounting standards. However recent accounting scandals in the USA may persuade the US regulatory authorities that global consensus is the way forward.

As far as European enterprises are concerned the European Union passed a regulation in June 2002 that all listed enterprises filing consolidated financial statements should use international financial reporting standards from 2005 onwards. This is likely to provide further impetus to the global acceptance of international standards and may well help to persuade regulatory authorities in countries such as the US and Japan that international standards are sufficiently robust for their reporting requirements.

(b) It is certainly true that the measurement basis most commonly adopted by enterprises in preparing their financial statements is historical cost. This was explicitly confirmed by the International Accounting Standards Committee (IASC) in their *Framework for the Preparation and Presentation of Financial Statements*. However there are a number of instances where enterprises depart from the historical cost convention:

– Inventories are written down to realisable values where these are lower than historical cost (IAS2 – *Inventories*).

– Property, plant and equipment is written down to its recoverable amount where this is lower than carrying amount (IAS36 – *Impairment of Assets*).
– Certain categories of financial instruments are carried at fair value rather than historical cost (IAS39 – *Financial Instruments: Recognition and Measurement*).
– Investment properties are permitted to be included at fair value rather then historical cost (IAS40 – *Investment Property*).

The international accounting standard that applies to properties is IAS16 – *Property, Plant and Equipment*. The benchmark treatment under that standard is that properties should be carried at their historical cost. However an allowed alternative treatment does allow for properties to be carried at their current values. However where this practice is adopted, all properties need to be revalued since the standard requires that any revaluation policy be applied to all assets of the same class. Unfortunately, therefore, your suggestion of selective revaluation of properties would not be acceptable.

Where a property is revalued upwards IAS16 requires that the surplus be credited directly to equity unless it reverses a previous revaluation decrease that has been charged against income. Therefore the potential gains would not benefit earnings per share. Furthermore, revaluation losses should be recognised as an expense unless the asset has previously been revalued upwards. Therefore there is a potential for the revaluation exercise to cause an immediate fall in the earnings per share.

Even if we decide not to proceed with the revaluation exercise we may need to consider potential deficits. The potential deficits could well indicate that the relevant properties have suffered impairment in value and in such cases the impairment loss would need to be recognised in the income statement even if a more general revaluation were not undertaken.

(c) There are two separate issues to consider here. The first is whether or not a provision is appropriate in the accounts for the year to 30 June 2004. IAS37 – *Provisions, Contingent Liabilities and Contingent Assets* – deals with the issue of recognition both generally and in the specific context of a restructuring. The general principle is that before a provision is appropriate, an obligation has to exist arising out of an event occurring before the balance sheet date. Such an event, referred to in the standard as an **obligating event**, has to be such as to give the enterprise no realistic alternative to settling the obligation. Mere intention to act does not normally result in an obligating event. More specifically IAS37 states that before a restructuring provision is appropriate the enterprise should have:
– Formulated a detailed formal restructuring plan.
– Started to implement the plan or at least announced its main features.

Failure to announce the plan before 30 June 2004 would mean that the criteria for recognition of a provision would not have been satisfied.

Even if the plan were announced, not all of the costs you mention could be included in the provision. Under IAS37, the provision should include only the direct expenditures arising from the restructuring that are both:
– Necessarily entailed by the restructuring; and
– Not associated with the ongoing activities of the enterprise.

Under these criteria both the training costs of retained employees and the future operating losses would not qualify for inclusion as part of the provision. Furthermore, anticipated gains on the future disposal of assets are not included in a provision as they relate to future events. In contrast, anticipated losses on disposal of assets are prima facie evidence that those assets have suffered impairment. Therefore whilst anticipated losses are not included in the provision as such, the relevant assets may well be written down to reflect a reduction in recoverable amount.

Therefore if the necessary conditions for a provision were satisfied the provision would be for $5 million, with a further $500,000 impairment of plant being recognised, resulting in a charge to income of $5,500,000. However unless the restructuring plan is made public before 30 June 2004 the only charge in the financial statements for the year ended 30 June 2004 would be for the potential impairment of the plant ($500,000).

4 (a) The objective of segment reporting is to provide information about the different types of products and services of an enterprise and the different geographical areas in which it operates. This information assists users of financial statements to:
– Understand the enterprise's past performance.
– Assess the enterprise's risks and returns.
– Make more informed judgements about the enterprise as a whole.

Many enterprises provide groups of products or services or operate in geographical areas that are subject to different rates of profitability, opportunities for growth, future prospects and risks. Information about an enterprise's different types of products or services and its operations in different geographical areas is relevant to assessing the risks and returns of a diversified or multinational enterprise, but may not be discernible from the aggregated data. Therefore segment information is widely regarded as necessary to meeting the needs of users of financial statements.

A key problem with segment reporting is the manner in which the reportable segments are identified. IAS14 does provide some guidance in this area, requiring an enterprise to identify segments on the basis of internal reporting systems wherever practicable. The materiality threshold for a segment is basically set at one which contributes at least 10% of total revenue, profits, or total assets. Even with this guidance however, segment identification is a somewhat subjective exercise and comparisons of segment information provided by different enterprises needs to be performed with caution.

A further problem is the method of allocation of costs and assets relating to more than one segment. IAS14 requires that common costs and assets that can reasonably be allocated to individual segments should be included in arriving at results and assets on a segment by segment basis. However, the standard does allow for common items to be left unallocated and this inevitably introduces an element of subjectivity into the segment report.

(b) Segment report for Worldwide

	Europe	North America	Asia	Total
	$'000	$'000	$'000	$'000
REVENUE:				
External sales (40:35:25)	266,000	232,750	166,250	665,000
Inter-segment sales	20,000	16,000	13,000	49,000
Total revenue	286,000	248,750	179,250	714,000
RESULT				
Segment result (W1)	60,400	47,100	38,500	146,000
Unallocated corporate expenses				(10,000)
Profit from operations				136,000
Investment income				6,000
Finance cost				(25,000)
Income taxes				(28,000)
Minority interests				(8,000)
Net profit				81,000
OTHER INFORMATION				
Segment assets (W2)	204,060	193,320	139,620	537,000
Unallocated corporate assets (50,000 + 6,000)				56,000
Consolidated total assets				593,000
Segment liabilities (W3)	26,600	25,200	18,200	70,000
Unallocated corporate liabilities (176,000 + 17,000)				193,000
Consolidated total liabilities				263,000

WORKINGS – ALL IN $'000

Working 1 – segment result

	Europe	North America	Asia
	$'000	$'000	$'000
Segment revenue	286,000	248,750	179,250
Segment costs:			
External*	(207,600)	(181,650)	(129,750)
Intra-group (Note 3 to question)	(18,000)	(20,000)	(11,000)
	60,400	47,100	38,500

– *Total operating costs (excluding intra-group items) are 529,000 (312,000 + 99,000 + 118,000).
– Head office costs are 10,000.
– So costs to be allocated are 519,000. The given ratio is 40:35:25.

Working 2 – segment assets – all allocated 38:36:26

	Europe	North America	Asia
	$'000	$'000	$'000
Property, plant and equipment (340,000) 38:36:26	129,200	122,400	88,400
Inventories (75,000)	28,500	27,000	19,500
Trade receivables (104,000)	39,520	37,440	27,040
Bank balances (18,000)	6,840	6,480	4,680
	204,060	193,320	139,620

Working 3 – segment liabilities – all allocated 38:36:26

	Europe	North America	Asia
	$'000	$'000	$'000
Trade payables (38:36:26)	26,600	25,200	18,200

5 (a) (i) A historical cost measurement system possesses the following strengths:

- The historical cost of an element can be measured relatively objectively, based on the consideration given or received.
- The concept of historical cost is based on a relatively objective measure and is thus easier to verify.
- The concept of historical cost is relatively simple and well understood by users.

Using an alternative concept, for example current value, may lead to users assuming that the balance sheet indicates the value of the business as a going concern.

However the system also suffers from a number of weaknesses:

- The historical cost of an element is often a very poor indicator of the future economic benefits that will flow into or out of the enterprise as a result of the element.
- The historical cost system tends to show a weaker balance sheet with higher gearing ratios and thus could be said to make an enterprise more vulnerable to takeover.
- The historical cost system cannot measure elements that do not have a verifiable cost of creation.

(ii) There are two main reasons why a current value measurement system is considered to be superior to a historical cost system when measuring financial instruments:

- External factors such as interest rate and exchange rate changes can result in the current value of a financial instrument being significantly different from its original cost. For example the market value of a fixed interest financial asset will change in inverse proportion to changes in interest rates. In such circumstances the relevance of the original cost of the investment is called into question.
- Certain categories of financial instruments have little or no cost to the enterprise yet radically alter its risk profile. For example an enterprise that enters into a forward exchange contract to hedge a foreign currency payable or receivable has eliminated its exchange risk with a contract that has little or no initial cost to the enterprise. A financial instrument such as a forward exchange contract is known as a **derivative** financial instrument. Cost based measures are clearly unsuitable where no cost exists!

(iii) The IAS32 requirements regarding financial instruments are based around disclosure of the key risks that an enterprise assumes when transacting in financial instruments. The IASC *Framework for the Preparation and Presentation of Financial Statements* states (in paragraph 21) that a key purpose of the notes is to provide additional information regarding elements already included in the financial statements. A disclosure standard such as IAS32 on its own could be regarded as, at best, only a temporary solution to the problem of accounting for financial instruments.

(b) First transaction

- The loan will initially be included in the financial statements in long term borrowings at its net proceeds of $14,900,000 ($15 million – $100,000).
- The finance cost for the year – included in the income statement – will be $1,490,000 (10% x $14,900,000). This will be added to the loan.
- The interest paid will reduce the outstanding loan.
- The closing loan – included under non-current liabilities as an interest bearing borrowing – will be $14,900,000 + $1,490,000 – $900,000 = **$15,490,000**.
- The fair value of the loan is not relevant under IAS39 because the loan is a financial liability that is being held to maturity.

Second transaction

- The treatment depends on whether the strategic investment gives Iota significant influence over Lambda. If it does the provisions of IAS39 do not directly apply to the investment, either in the individual financial statements of Iota or in any consolidated financial statements Iota might prepare.
- In such circumstances the individual financial statements of Iota would show the investment either at cost or under the equity method (accruing for 18% of any post-acquisition profits Lambda makes). The fair value of the investment would not be relevant unless indications of impairment were present.
- The issue of significant influence is subjective to determine but it would be assumed that an investment of 18%, being under 20%, is insufficient to give significant influence. Therefore IAS39 does appear to apply to the financial asset – *investment in Lambda*.
- Under IAS39 the investment in Lambda would be classified by default as an available for sale financial asset. It is not a derivative, it is not held for trading, it has no fixed maturity, and it is not a loan originated by Iota.
- The investment would initially be recognised at its cost of $10 million but IAS39 requires that at each balance sheet date the investment is re-measured at its fair value. In this case this means recognising a gain of $1 million.
- IAS39 gives enterprises a choice in the matter of recognising gains or losses relating to available for sale financial assets, which it must apply consistently. The choice is either to recognise the gains or losses in income as they occur or to take them directly to equity and recycle them to income when the asset is disposed of.

				Marks
1	**(a)**	Subsidiary definition based on control		1
		Discuss meaning of control		1
		Conclude not a subsidiary with reason		2
		Associate – link with significant influence [up to]		2
		Evidence that significant influence present here [up to]		2
		Explanation of equity method [up to]		2
			available	10
			maximum	**6**
	(b)	Revenue [$^1/_2$ for aggregation, 1 for elimination]		$1^1/_2$
		Gross profit or cost of sales [$^1/_2$ for aggregation, 2 for unrealised profit]		$2^1/_2$
		Distribution costs		$^1/_2$
		Administrative expenses [including goodwill of Beta]		$1^1/_2$
		Share or profit before tax of Gamma [only 1 if no time apportionment]		2
		Calculate goodwill on acquisition of Gamma		2
		Amortise correct amount of above		1
		Eliminate inter-enterprise investment income and leave residue		2
		Finance cost [only $^1/_2$ if no elimination of intra-group amount]		$1^1/_2$
		Group tax		$^1/_2$
		Share of Gamma tax [only $^1/_2$ if no time apportionment]		1
		MI in Beta		1
		Statement of changes in equity includes Alpha		$^1/_2$
		And 80% of Beta post acquisition [only $^1/_2$ if 100% included]		$1^1/_2$
		And 9 years amortisation of goodwill on acquisition of Beta		$1^1/_2$
		But not Gamma		$^1/_2$
		Net profit in statement of changes in equity from income statement		$^1/_2$
		Reduce by opening unrealised profit:		
		– Principle		$^1/_2$
		– Calculation		1
			available	23
			maximum	**19**
			Maximum for question	**25**

				Marks
2	**(a)**	Split out discontinuing operation		
		– Revenue, cost of sales, distribution costs, administrative expenses, tax [$^1/_2$ each]		$2^1/_2$
		– Loss on sale shown separately [IAS8 para 16]		1
		– Tax correctly computed		1
		Revenue includes 30% of contract revenue – principle		$^1/_2$
		Working 1:		
		– Inventory movement in cost of sales		$^1/_2$
		– Basic expenses included [$^1/_2$ each]		$^1/_2$
		– Depreciation allocated – principle		1
		– Depreciation on leased asset in cost of sales – principle		1
		Working 2:		
		– Depreciation of non-current assets in TB [$^1/_2$ + 1 + $^1/_2$]		2
		– Depreciation of leased asset		1
		– Depreciation of contract asset		1
		Working 3:		
		– Conclude a finance lease – principle [up to]		2
		– Compute finance charge [up to]		2
		Working 4:		
		– Total revenue is **$60 million**		1
		– Principle deduct total estimated costs		1
		– Principle include 30% of profit so take costs to cost of sales		1
		Working 5 [$^1/_2$ per element]		1
		Working 6 [$^1/_2$ per element]		$1^1/_2$
			available	$21^1/_2$
			maximum	**16**
	(b)	Working 7 [$^1/_2$ per element]		$2^1/_2$
		Construction contract in BS [residue of W4 – $^1/_2$ per element]		$2^1/_2$
		Inventories, trade receivables and bank – $^1/_2$ each		$1^1/_2$
		Issued capital		$^1/_2$
		Working 8 – $^1/_2$ per element		$1^1/_2$
		Non-current liabilities		$^1/_2$
		Lease payable analysis [balance of W3]		2
		Working 9 – $^1/_2$ per element		1
		Working 10 – $^1/_2$ per element		1
			available	13
			maximum	**9**
			Maximum for question	**25**

				Marks
3	**(a)**	Explain need to satisfy local reporting needs		2
		Multi-national so need to consider requirements of financial markets		2
		Contrast Europe with USA and Japan in above regard		2
		Describe IOSCO endorsement mechanism		2
		Note of caution re: USA interpretation of above		2
		Describe EU 2005 ruling		2
		Other relevant issues [e.g. impact of Enron type scandals]		2
			available	14
			maximum	**9**
	(b)	Acknowledge HC most widely used		1
		Examples of departures – up to		2
		Describe IAS16 rules regarding revaluations – up to		3
		Describe treatments of gains and losses on revaluation – up to		3
		Identify impairment as a separate issue – up to		2
			available	11
			maximum	**7**
	(c)	Describe general IAS37 rules regarding recognition – up to		3
		Move on to specific description of restructuring – up to		2
		General principle of composition – up to		2
		So include redundancies		1
		But exclude training and operating losses		2
		Don't include anticipated profit on property sale – with reason		2
		But allow for impairment of plant		2
			available	14
			maximum	**9**
			Maximum for question	**25**
4	**(a)**	Identify three factors available from segment reports – 2 each up to		4
		Identify typical differing features of segments – 2 each up to		4
		Identify limitations of segment reports – 2 each up to		4
		So conclude on usefulness – up to		2
			available	14
			maximum	**10**
	(b)	Allocate net revenue using given %ages		2
		Include intra-group		1
		Show total revenue by segment		1
		Aggregate operating costs and exclude Head Office		1
		Allocate net costs using given %ages		1
		Include intra-group		1
		Show total costs by segment		1
		Unallocated costs shown separately		1
		Other unallocated figures in income statement [$^1/_2$ each]		2
		Allocate PPE, inventories and trade receivables [1 each]		3
		Allocate bank balances excluding Head Office		2
		Unallocated corporate assets		2
		Allocate trade payables		1
		Unallocated corporate liabilities		2
			available	21
			maximum	**15**
			Maximum for question	**25**

					Marks
5	**(a)**	**(i)**	1 or 2 marks per valid point up to	**maximum**	**5**
		(ii)	Explain why interest rate changes etc make historical cost measures of little relevance [up to]		3
			Explain why there is no valid historical cost for derivative type financial instruments [up to]		2
				available	5
				maximum	**3**
		(iii)	IAS32 is a **disclosure** standard		1
			Explain why disclosure not enough on its own [up to]		2
			So IAS32 only a 'half-way house'		1
				available	4
				maximum	**3**
	(b)		Initial carrying value of loan $14·9 million		1
			Grow by finance cost and reduce by interest – principle		1
			Compute finance cost and take to income		1
			Compute closing loan and say where shown in BS		2
			IAS39 doesn't apply if investment is associate		1
			Describe options under IAS28 if Lambdaan associate – 1 each		2
			Discussion regarding significant influence – up to		2
			Investment an available for sale financial asset – with reason		2
			So at fair value in BS		1
			Options for treatment of gain – up to		3
				available	16
				maximum	**14**
				Maximum for question	**25**