Q1

a (1)

An associate exists when an entity has influence on the other entity. Chuckle Co acquired 30% of the equity shares of Grin Co, which is lower than 50%, so it seems not a control. The remaining 70% of the equity of Grin Co is owned by a few other investors, none of which own more than 10% of equity of Grin. If the other shareholders integrated together, they have a decision to make decision. But Chuckle Co can vote independently, it have influence on Grin Co. Therefore, Grin Co should be treated as an associate, not a subsidiary.

a (2)

An associate is measured at cost when it is initially recognized in financial statements. It presented as a line in the consolidated statement financial position. Investment in associate will increase if Grin Co earn profit. When Grin Co pay dividend, investment will decrease.

a (3)

On 1 April 20X6, Chuckle Co acquired a further 10% of Grin Co’s equity, so Chuckle has 48% equity of Grin Co. It is still lower than 50%, it seems the investment is not necessarily to change. However, substance over form. Chuckle Co has some share options in Grin Co exercisable any time until 31 March 20X7. Whether Chuckle Co would exercise is dependent on the share price of Grin. In this case, Grin has been profitable for a number of years and the share price has been on upwards trend which is expected to continue. Therefore, Chuckle Co is likely to exercise and acquire additional shares of Grin Co. It is appropriate to change the investment and treat Grin as a subsidiary rather than an associate.

b (1)

At a consolidation date of acquisition, the NCA and CA should be recognized in consolidated financial statements. They should be measured at a fair value. The CA of and $50m and its fair value is $60m, so there is an increase value in land. As the carrying amount is higher than tax base, a deferred tax liability $2m ((60-50)\*20%) should be recognized.

The cost of finished goods is $84m, but the fair value is $131m. It should be measured at consolidated financial statements at $131m, with an increase of $47m. As the carrying amount is higher than tax base, a deferred tax liability $16.8m ((131-47)\*20%) should be recognized.

As for database, it is an internally generated database of customers who were likely to be interested in purchasing their products. As it is internally generated intangible asset, it can be measured reliably and can not be recognized in financial statement. However, when consolidated, is should be recognized in consolidated financial statement. As a professional expert has estimated their competitors of Grin Co would prepared to pay $5m for this database, it should be recognized in consolidated financial statement at $5m. A deferred tax liability should be recognized at $1m (5\*20%).

b (2)

cash consideration 66

FV of remaining 30% equity 127

NCI 206.75 (397.6\*30%)

FV of net assets

Carrying amount 348

Land adjustment 10

Goods adjustment 47 (131-84)

Database 5

Deferred tax liability -12.4

 -397.6

Goodwill 2.152

Gain on disposal

Cost 100

Share of profit 18.6 (348-286)\*30%

Investment in associate 118.6

Fair value of associate 127

Gain on disposal 8.4

It should be treated as the disposal of associate and purchase of a subsidiary. The goodwill is calculated as the difference between consideration add NCI and fair value of net assets. NCI is calculated at the fair value of net assets multiply 30%. Fair value of net assets is measured at carrying amount add the increase in value. Deferred tax liability should be recognized at the proportion of fair value adjustment. Consideration contains cash consideration of $66m and 30% equity remained which is measured at fair value of $127m.

**Q2**

**(a)(i) Discuss the appropriateness of Mr Raavi's accounting treatment of the foreign exchange gains on the re-translation of the foreign subsidiary which is held for sale. (3 marks)**

Foreign exchange gains on the re-translation of the foreign subsidiary should be recognized in other comprehensive income rather than profit or loss. Therefore, Mr Raavi's accounting treatment of the foreign exchange gains is not appropriate. It overstated the profit.

**(a)(ii) Discuss any ethical issues raised by Ms Malgun's actions regarding her management of Mr Raavi. (6 marks)**

Intimidation

Mr Raavi has been told by Ms Malgun that there has been a global slowdown in business and that the biggest uncertainty is customer demand. She has therefore impressed upon Mr Raavi that the company profitability targets are based upon achieving 30% higher net profit than their nearest competitors. There is an intimidation risk on Mr Raavi because he is difficult to find employment and may lose the temporary employment contract if he dissatisfied Ms Malgun. He has pressure and afraid to raise questions.

Self-interest

Ms Malgun has therefore impressed upon Mr Raavi that the company profitability targets are based upon achieving 30% higher net profit than their nearest competitors. Therefore, Ms Malgun has motivation to overstate the profit for her own financial interest.

Objectivity

Mr Raavi has included in profit or loss the foreign exchange gains arising on the re-translation of a foreign subsidiary which is held for sale. Although Ms Malgun is an expert in IFRS® standards, she did not comment on this incorrect accounting treatment of the foreign exchange gains. As an expert, she has a clear understanding of standards, but she does not correct the mistakes of Mr Raavi. Mr Raavi is not objective and may because achieve her target to get financial interest.

**(b) Discuss how the granting (sale) of the licence to Kokila Co should be accounted for by Agency Co on 1 January 20X7. (5 marks)**

As an intangible asset has a carrying amount of $30 million, Kokila Co made an up-front payment of $15 million and will make an additional payment of $3 million when South American sales exceed $35 million. An impairment should be recognized as the recoverable amount is lower than carrying amount. The impairment loss is amount of difference between the recoverable amount and carrying amount. $3m is contingent consideration, therefore, an impairment loss of $12m should be recognized.

**(c) Discuss the accounting treatment of the costs incurred to date in developing the biosimilar drug. (4 marks)**

All research cost should be expensed. Development costs can only be capitalized when is it probable that the future economic benefits will flow into the entity. The entity has the ability to complete the product and use or sell it.

In this case, the product is used in the treatment of a very specific condition which affects only a small group of people. It can’t be proved that the economic benefits will flow into the entity.

A biosimilar product is one which is highly similar to another which has already been given regulatory approval. Although the product can be developed successfully, people may favor of products which have been exist for a long time rather than these new products.

The government has reviewed the analysis and allowed Agency Co to undertake initial medical trials. Agency Co may be too optimistic to feel that the trials are going well and the entity may not have the ability to complete the product and use or sell it.

**Q3**

1. **Explain, with suitable calculations, the impact of the three alternative company car options on:**

**· earnings before interest, tax, depreciation and amortisation (EBITDA);·profit before tax; and**

**· the statement of financial position for the year ended 31 December 20X7. Note: Candidates should refer to IFRS 16 Leases where appropriate. (13 marks)**

Option 1

on 1 January 20X7, the right-of-use asset should be recognized at market value of $75274. Lease liability should be discounted to present value using the discount rate which reflects the market risk. Lease liability need to be unwound. The depreciation should be charged on RUA at $18818.5 (75274/4). The depreciation will not affect the EBITDA, but affect PBT. PBT at the year end should be measured at $78361.5(100000-235\*12-18818.5).

Option 2

The borrowing cost should be capitalized to the car as it can be directly attributable to the car. The car should be measured at $79037.7 (75274\*(1+5%)). Depreciation should be measure at $12321(79037.7-29753)/4, which decreases PBT and have no influence on EBITDA. Monthly service costs is $235 per month, which should be charged to expense. This will decrease both EBITDA and PBT. PBT at the year end will be $84859 (100000-12321-235\*12).

Option 3

As Stem Co takes advantage of the short-term lease exemption, $1,900 per month in advance should be recognized as expense. The cars will not be recognized so there is no depreciation. It decreases both EBITDA and PBT. PBT at the year end will be $77200 (100000-1900\*12).

**(b)(i) Discuss briefly principles of the equity method of accounting and whether it is a more relevant measurement basis than cost or fair value for an investment in an associate company. (4 marks)**

Equity method of accounting gives a more clear understanding for financial statement users. It provides more relevant information and a relevant representation.

**(b)(ii)Discuss why Stem Co's investment in Emphasis Co should be classified as a joint venture and how Stem Co should account for its interest at 1 January 20X7 in accordance with IAS 28 Investments in Associates and Joint Ventures.**

**Note: Candidates should show any relevant entries required in the accounting records of Stem Co. (8 marks)**

A joint arrangement is an arrangement of which two or more parties have joint control. Stem Co has contributed cash to a new legal entity, Emphasis Co, and holds an interest of 40%. The other two companies contributing have retained equity interests of 40% and 20%, respectively. It can be proved that there is a joint venture.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. In this case, all significant decisions require the unanimous consent of the board, which means it should be classified as a joint venture.

Stem Co contributed cash of $150,000 to Emphasis Co, which increases the investment in joint venture. Dr: investment in joint venture 150000 Cr: Cash 150000

A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. At 1 January 20X7, the carrying amount of the net assets contributed by the three companies was $310,000 but the fair value of the net assets contributed was $470.000. The share of profit from joint venture will increase the investment in joint venture. The investment in associate is $338000 (150000+470000\*40%).

**Q4**

1. **Explain the principles of good disclosure which should be used to inform investors regarding the company's holding of crypto assets. (6 marks)**

The entity should make disclosures in financial statement comply with IFRS standards. In addition, a good disclosure can help investors to make rational decisions. The holding period, nature of asset, measurement method should be disclosed regarding the company’s holding of crypto assets.

1. **Advise whether the various development and promotional costs related to the ICO can be accounted for as an intangible asset at 31 March 20X7. (5 marks)**

An intangible asset can be recognized if:

It is probable that future economic benefits will flow into the entity.

Its expenditure can be measured reliably.

It has enough resources to complete it.

Technical feasibility.

Manager has intention to complete the intangible asset and use or sell it.

The cost is used to promote the issue of the ICO tokens, and develop the trading platform for dealing with the purchase and sale of the ICO tokens. Whether it can develop successfully is unknown. Although Symbal Co think it will earn revenue from supporting the purchase and sale of tokens, it may be too optimistic.

1. **Discuss how the receipt of $1 million cash in the pre-sale agreement should be accounted for in the financial statements for the year ended 31 March 20X7 and how the $10 million raised in the ICO should be accounted for in the financial statements for the year ended 31 March 20X8. (6 marks)**

A liability should be recognized when there is present obligation as a result of past event.

The key feature of a financial liability is that whether there is an unavoidable contractual obligation to deliver cash to the holder. The receipt of $1 million cash in the pre-sale agreement should be accounted for as a financial liability because whether the issue would be successful is not controlled by Symbol Co. If the funding level of $9 million can’t be achieved, the cash is refundable.

Dr: Cash $10m

Cr: Other income $10m

The $10 million raised in the ICO should be accounted for as other income. $1m financial liability is reclassified as ither income when the minimum funding level is achieved.

1. **Discuss why the granting of the tokens to the five directors should be accounted for in accordance with IAS 19 Employee Benefits rather than IFRS 2 Share-based Payment in the financial statements for the year ended 31 March 20X7. (6 marks)**

Share-based payment is that the entity receives goods or services as consideration for equity instruments of the entity. Cash-settled share-based payment is that the entity acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price of the entity’s shares. In this case, the granted tokes are not relevant to equity.

A liability should be recognized when there is present obligation as a result of past event.

There is an obligation to transfer cars to directors as the tokens give the directors the right to receive a car of their choice up to a value of $50,000 at any time. If they remain as directors of Symbal Co, the directors have the right to receive a car, which is an obligation for Symbal Co.