Suggested solution

Section A

1 B and C

Harvested grapes of $19,200
Packaged grape juice of $8,000

Agricultural produce is the harvested produce of an entity's biological assets. Grapes are the agricultural produce from the grape vines (the biological assets).

The harvested grapes shall be measured at fair value less costs to sell at the point of harvest and, therefore, are valued at $19,200 (4,000 kg × [$5.00 – $0.20]). Cost of $12,000 (4,000 kg × $3.00) is not relevant.

The (processed) packaged grape juice is measured at the lower of cost and net realisable value (NRV). Cost is lower at $8,000 (2,000 litres × $4.00) compared to NRV of $14,400 (2,000 litres × [$8.00 – $0.80]).

2 Activity 1 – Research phase

Activity 2 – Development phase

Activity 3 – Development phase

Activity 4 – Research phase

Examples of research activities include activities aimed at obtaining new knowledge and the formulation of possible alternatives for new materials. Therefore, the studies and formulations are both activities in the research phase.

Examples of development activities include the design of prototypes and the testing of new materials. Therefore, the prototype and testing are both activities in the development phase.

3 B

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as a borrowing cost (interest expenses on unwinding of discounts).

The question requires us to calculate the interest expenses for the year ended 31 December 20X4.

Interest expenses on unwinding of discount for 20X3
= 9% × $3.56m
= $320,400

Interest expenses on unwinding of discount for 20X4
= 9% × ($3.56m + $320,400)
= 9% × $3.88m
= $349,200

4 Investment in debt instruments – Financial asset

Loan received from financial institution – Financial liability

Issued non-redeemable ordinary (equity) shares – Equity instrument

An investment in debt instruments is a contractual right to receive cash from interest and the repayment. Therefore, this is a financial asset.

A loan received is a contractual obligation to deliver cash through interest payments and the repayment of the principal. Therefore, it is a financial liability.

An issued non-redeemable share is an equity instrument. It includes no obligation to redeem the share or to pay a dividend and, therefore, cannot be a financial liability. It does, however, give the holder a residual interest in the net assets of that entity (i.e., a share of net assets).

5 B

Statement 1 is not correct. An entity need only describe climate-related risks and opportunities which could reasonably be expected to affect the entity's prospects (as opposed to all risks it may be faced with).

Statement 2 is not correct. Governance is the first item in core content and its objective is to enable users of general purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities. Simply stating that directors are in charge of governance is insufficient.

Statement 3 is correct. It is a requirement that an entity discloses its absolute gross greenhouse gas emissions generated during the reporting period, expressed as metric tonnes of CO_2 equivalent.

6 A and C

Costs which relate directly to a contract include direct labour (for example, salaries and wages of employees) and allocations of costs which relate directly to the contract (for example, depreciation of tools used).

Costs which must be expenses include general and administrative costs and costs of wasted materials

7 $2.8m

The reversal of an impairment loss shall not exceed the carrying amount which would have been determined had no impairment loss been recognised for the asset in prior years.

Carrying amount had no impairment loss been recognised
= 42/50 years × $20m
= $16.8m

Difference between carrying amounts
= $16.8m – $14m
= $2.8m

The additional increase in value of $0.2m ($3m – $2.8m) would be considered in accordance with the revaluation model, if relevant.

8 B

The acquirer shall recognise as of the acquisition date, a contingent liability assumed in a business combination.

This contingent liability must, therefore, be incorporated into the fair value of identifiable net assets at 1 January 20X2.

Fair value of identifiable net assets at 1 January 20X2
= $5m + $4.2m + $1.3m – $0.3m
= $10.2m

A fair value of $8.9m incorrectly ignores the revaluation surplus but does include the contingent liability. $10.5m includes the revaluation surplus but incorrectly ignores the contingent liability. $10.8m includes the revaluation surplus but incorrectly adds the contingent liability.

9 C

A change in estimates is applied prospectively from the date of change; meaning that the carrying amount is depreciated over the remaining useful life of the asset.

Carrying amount at 28 February 20X7
= $25.00m – (3/20 years × [$25.00m – $0.40m])
= $25.00m – (3/20 years × $24.60m)
= $21.31m

Depreciation charge for the year ended 28 February 20X8
= 1/10 years × $21.31m
= $2.13m

The original depreciation charge, before revising estimates, was $1.23m. Incorrectly applying the remaining useful life to the original cost gives $2.50m of a depreciation charge. Incorrectly deducting the original residual value from the correct carrying amount gives $2.09m of a depreciation charge.

10 $1.2m

When the carrying amount of the asset exceeds its tax base, this difference is a taxable temporary difference and the obligation to pay the resulting income taxes is a deferred tax liability. Therefore, we must recognise a deferred tax liability for property, plant and equipment.

A deferred tax asset shall be recognised for the carry forward of unused tax losses if there is probable future taxable profit. Therefore, we must recognise a deferred tax asset for the carry forward losses.

An entity shall offset deferred tax assets and deferred tax liabilities when they relate to income taxes levied by the same taxation authority and where there is a legally enforceable right to set off current tax assets against current tax liabilities. Therefore, a net liability must be presented.

Deferred tax liability (net)
= (40% × [$28m – $20m]) – (40% × $5m)
= (40% × $8m) – $2m
= $3.2m – $2m
= $1.2m

11 C

Only employer's contributions are recognised as additional staff costs. Employee's contributions are not an additional cost as they are already included within gross salaries.

12 Item 1 – Should NOT be presented

Item 2 – Should be presented

Item 3 – Should NOT be presented

Item 4 – Should NOT be presented

A short-term lease is one which, at the commencement date, has a lease term of 12 months or less. Therefore, Ancorp Co applies the recognition exemption and lease payments are recognised as an expense on a straight-line basis, over the lease term.

As there are no payments in the final two months of the lease, a prepayment is required.

Total lease payments
= $3,000 × 10 months
= $30,000

Straight-line lease charge
= 4/12 months × $30,000
= $10,000

Prepaid lease charges
= ($3,000 × 4 months) – $10,000
= $12,000 – $10,000
= $2,000

There is no right-of-use asset to recognise (or depreciate); therefore, no lease liability against which the $12,000 of payments could be made. An accrual would be recognised only if the payment-free periods were earlier in the lease.

13 $5,000

The monetary item (the payable for goods and services received) has a dollar-equivalent amount of $20,000 when it is re-translated at year end. Its initial recognition was $25,000. The $5,000 decrease means that a gain is recognised.

Foreign exchange gain
= (₱100,000 ÷ ₱4) – (₱100,000 ÷ ₱5)
= $25,000 – $20,000
= $5,000

14 Item 1 – Key objective

Item 2 – NOT a key objective

Item 3 – Key objective

The International Sustainability Standards Board (ISSB) has set out four key objectives:

1. to develop standards for a global baseline of sustainability disclosures;
2. to meet the information needs of investors;
3. to enable companies to provide comprehensive sustainability information to global capital markets; and
4. to facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups.

Statements 1 and 3 are key objectives. Statement 2 is not a key objective as the ISSB aims to meet the information needs of investors, rather than all stakeholders.

15 A

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

A quoted price in an active market provides the most reliable evidence of fair value. As the shares are for a listed entity, an active market exists.

A quoted price for a similar investment is a Level 2 input. The present value of expected cash flows (i.e. dividends) is not an observable input as we do not know the amount or timing of future dividends with any degree of certainty; therefore, it is a Level 3 input. A management estimate based on analysis of an active market is also a Level 3 input.

Section B

16 A and D

Return on capital employed
= $2.4m ÷ ($25.8m + $15m)
= $2.4m ÷ $40.8m
= 5.9%

An incorrect amount of 9.3% is calculated if non-current liabilities of $15m are omitted from the calculation of capital employed.

Interest cover
= $2.4m ÷ $900,000
= 2.7 times

An incorrect amount of 1.1 times is calculated if profit for the year of $1m is used to calculate interest cover.

17 Ratio 1 – No change

Ratio 2 – Increase

Ratio 3 - Decrease

The research expenditure is currently disaggregated under operating expenses. If the research expenditure was to be capitalised, this would reduce operating expenses by $3m. In turn, profit and retained earnings would increase.

There would be no impact on the gross profit margin as operating expenses are presented after gross profit. There would also be no impact on depreciation charges as the code has an indefinite useful life.

The operating profit margin will increase as operating profit (the numerator) increases by $3m whereas there is no immediate impact on revenue (the denominator).

Gearing will decrease as equity (part or all of the denominator), increases by $3m whereas there is no impact on debt (the numerator).

18 D

A bonus scheme was launched in April 20X7 and was accrued for at 31 March 20X8.

Additional costs of employee benefits would increase expenses, decrease operating profit and, therefore, would decrease the operating profit margin.

Additional revenue and gains both increase income and, consequently, increase operating profit. Suppliers offering discounted prices would decrease expenses and, consequently, increase operating profit. These three scenarios, therefore, would increase the operating profit margin.

19 B

One new share is issued for every five held.

To calculate the adjustment factor, we must first calculate the theoretical ex-rights value per share (TERV):

TERV
= ([$8.90 × 5 shares] + [$3.50 × 1 shares]) ÷ (5 + 1) shares
= ($44.50 + $3.50) ÷ 6 shares
= $48 ÷ 6 shares
= $8.00

We can then divide the market price of the share by this newly-calculated TERV:

Adjustment factor
= $8.90 ÷ $8.00
= 1.1

Incorrectly inverting the adjustment factor calculation would give an amount of 0.9 and incorrectly dividing $8.00 or $8.90 by the rights price of $3.50 would give amounts of 2.3 and 2.5, respectively.

20 6.6 million shares

The weighted average number of shares (given) must be increased by the dilutive potential ordinary shares, then adjusted for the average market price of each share.

Number of shares
= 5.8 million shares + 2 million shares – ([2 million shares × $5.20] ÷ $8.70)
= 5.8 million shares + 2 million shares – 1.2 million shares
= 6.6 million shares

21 A

The deferred payment must be discounted to present value and the share exchange measured at fair value.

Consideration paid
= \$4.8m + (\$2.6m ÷ $1.08^{1\ year}$) + (1/4 issue × 80% × 2 million shares × \$5.00)
= \$4.8m + \$2.4m + \$2m
= \$9.2m

If discounting is incorrectly ignored, the amount would be \$9.4m and, if it is incorrectly assumed that 100% of shares were acquired, the amount would be either \$9.7m (discounted) or \$9.9m (ignoring discounting).

22 \$6.16m

The share of profit of associates increases the carrying amount of the investment whereas both the share of the dividend paid and the impairment loss decrease the carrying amount.

Carrying amount of investment in Overalba Co
= \$6.20m + (30% × \$3.00m) – (30% × \$1.80m) – \$0.40m
= \$6.20m + \$0.90m – \$0.54m – \$0.40m
= \$6.16m

23 B and C

The depreciation charge must be based on the original cost of the machinery as it remains within the group as a single entity. Effectively, no transfer has occurred as the machinery has not left the group.

Depreciation charge
= 1/10 years × \$2.8m
= \$280,000

Incorrectly depreciating \$2.5m over 10 years gives a depreciation amount of \$250,000.

There can be no gain on disposal as there has been no transfer outside of the group and, therefore, no realised gain.

Gain on disposal
= \$2.5m – (8/10 years × \$2.8m)
= \$2.5m – \$2.24m
= \$260,000

Incorrectly depreciating the original cost for three years gives a gain of \$540,000.

24 B and C

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Control, therefore, is presumed to exist when an entity has a majority shareholding in an investee. Power can also be obtained through the board representation.

In this scenario, the preference shares give no voting rights and, therefore, no power.

25 B

When Bakoj Co acquired its 100% shareholding in Mousekey Co, the consideration transferred was less than the fair value of the identifiable net assets; therefore, a gain from a bargain purchase must be recognised.

For a bargain purchase, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date.

26 Cost 1 – May capitalise

Cost 2 – May capitalise

Cost 3 – May NOT capitalise

Cost 4 – May capitalise

The cost of an item of property, plant and equipment (PPE) includes its purchase price (the land). Also included are any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (the foundations on which the building can be constructed).

Items of PPE may be acquired for safety or environmental reasons. Such items of PPE qualify for recognition as assets because they enable an entity to derive future economic benefits from related assets.

Abnormal wastage (the wasted lumber, stored inappropriately) is not a cost of an item of PPE.

27 A

An entity shall capitalise borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

The amount of borrowing costs eligible for capitalisation are the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. Interest from the $3m on deposit for three months, therefore, must be deducted.

An entity shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. March, therefore, should not be included in calculations (restricting borrowing costs to 9 months).

Net capitalised borrowing costs
= (9/12 months × 8% × $10m) – (3/12 months × 3% × $3m)
= $600,000 – $22,500
= $577,500 ($578,000)

Incorrectly ignoring the investment income gives an amount of $600,000 and incorrectly including March in calculations gives amounts of $644,000 or $667,000 (ignoring investment income).

28 A

For a transfer from investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting shall be its fair value at the date of change in use ($8.2m).

This is then depreciated over the remaining useful life of 40 years.

Depreciation charge
= 1/40 years × $8.2m
= $205,000

Incorrectly calculating depreciation using the fair value at year end gives an amount of $220,000. There is no fair value gain or revaluation increase to recognise as the cost model is applied to this property.

29 $2.24m

The cost of the right-of-use asset shall comprise the amount of the initial measurement of the lease liability ($2.5m) and any lease payments made at or before the commencement date. A lease payment of $0.3m is made on the commencement date.

As the lease transfers ownership of the underlying asset to Jambinai Co by the end of the lease term, it shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset (i.e., 5 years).

Carrying amount of right-of-use machinery
= 4/5 years × ($2.5m + $0.3m)
= 4/5 years × $2.8m
= $2.24m

30 C

When the carrying amount of the asset exceeds its tax base, this difference is a taxable temporary difference and the obligation to pay the resulting income taxes is a deferred tax liability. Therefore, we must recognise a deferred tax liability for the motor vehicles.

Carrying amount of motor vehicles at 30 November 20X8
= 80% × $800,000
= $640,000

Tax written-down value (tax base) at 30 November 20X8
= 80% × $600,000
= $480,000

Deferred tax liability
= 35% × ($640,000 – $480,000)
= $56,000

The opening deferred tax liability was $70,000 (35% × [$800,000 – $600,000]).

Section C

31

(a)

Destrou Co		
Statement of cash flows		
For the year ended 31 December 20X3		
	$'000	**$'000**
Cash flows from operating activities		
Operating profit	6,000	
Adjustments for:		
Depreciation charges	3,000	
Gain on disposal of equipment (W1)	(300)	
Operating profit before non-cash items	**8,700**	
Decrease in inventories (W2)	2,000	
Increase in trade receivables (W2)	(100)	
Increase in payables for goods and services and other payables (W2)	700	
Cash from operating activities before income taxes	**11,300**	
Income taxes paid (W3)	(600)	
Net cash from operating activities		**10,700**
Cash flows from investing activities		
Purchase of property, plant and equipment (W4)	(14,900)	
Proceeds from sale of equipment	10,000	
Dividends received	500	
Net cash used in investing activities		**(4,400)**
Cash flows from financing activities		
Interest paid	(800)	
Dividends paid (W5)	(4,800)	
Net cash used in financing activities		**(5,600)**
Net increase in cash and cash equivalents		**700**
Cash and cash equivalents at 1 January 20X3		200
Cash and cash equivalents at 31 December 20X3		**900**

Workings:

W1 - Gain on disposal of equipment

Cash proceeds – carrying amount = $10.0m - $9.7m = $0.3m

W2 – Movements in working capital

Decrease in inventories = $4m - $2m = $2m
Increase in receivables = $2.7m - $2.6m = $0.1m
Increase in payables = $4.6m - $3.9m = $0.7m

W3

Income taxes paid	**$'000**	**$'000**
Opening income taxes payable	800	
Opening deferred tax liability	-	
Income tax expense in profit or loss	700	
Income tax expense in revaluation surplus	500	
		2,000
Closing income taxes payable	900	
Closing deferred tax liability	500	
		1,400
Cash outflow		**600**

W4

Purchase of property, plant and equipment	**$'000**	**$'000**
Opening carrying amount	22,200	
Revaluation increase	2,500	
Depreciation charges	(3,000)	
Disposal	(9,700)	**12,000**
Closing carrying amount		26,900
Cash outflow		**14,900**

W5

Dividends paid	**$'000**	**$'000**
Opening retained earnings	13,100	
Profit for the year	5,400	
Issue of bonus shares	(1,000)	**17,500**
Closing retained earnings		12,700
Cash outflow		**4,800**

(b)

Destrou Co				
Statement of changes in equity				
As at 31 December 20X3				
	Share capital	**Retained earnings**	**Revaluation surplus**	**Total equity**
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 January 20X3	**5,000**	**13,100**	**-**	**18,100**
Changes in equity for 20X3				
Issue of bonus shares	1,000	(1,000)		**-**
Dividends		(4,800)		**(4,800)**
Profit		5,400		**5,400**
Other comprehensive income			2,000	**2,000**
Total comprehensive income		**5,400**	**2,000**	**7,400**
Balance at 31 December 20X3	**6,000**	**12,700**	**2,000**	**20,700**

32

(a) Solar panels contract

Accounting treatment

A rebate is a form of variable consideration and Rasemati Co must estimate the amount of variable consideration to which it expects to be entitled to in exchange for transferring the promised goods and services.

Rasemati Co concluded at contract inception that the customer would meet the 10,000 units threshold and so the transaction price should be estimated at $450 per product.

Control over the solar panels has passed to the customer and so Rasemati Co should recognise revenue of $1.8m in the statement of profit or loss.

A refund liability (contract liability) of $0.2m should be recognised in the statement of financial position for the difference between the stand-alone selling price and transaction price.

The refund liability is a current liability, due to be settled in July 20X6.

A trade receivable should also be recognised for $2.0m as Rasemati Co has an unconditional right to receive this amount.

Supporting calculations

Revenue
= 4,000 units × $450
= $1.8m

Refund liability
= 4,000 units × ($500 – $450)
= 4,000 units × $50
= $0.2m

Trade receivable
= 4,000 units × $500
= $2.0m

(b) Battery and maintenance contract

Accounting treatment

The transaction price should be allocated across the two performance obligations (to sell a battery and to maintain it) relative to the stand-alone selling prices.

The contract includes a $20,000 (or ~17%) discount on the overall transaction, which is allocated proportionately across the performance obligations, based on the relative stand-alone selling prices.

Control over the battery has passed to the customer and so revenue of $75,000 should be recognised in the statement of profit or loss for the satisfaction of this performance obligation.

The performance obligation to provide maintenance services is satisfied over time as the customer simultaneously receives and consumes the benefits provided by Rasemati Co's performance.

Revenue of $12,500 should be recognised in the statement of profit or loss for the partial satisfaction of this performance obligation.

A contract liability should be recognised for the remaining $12,500, in current liabilities.

Supporting calculations

Discount in monetary terms
= ($90,000 + $30,000) – $100,000
= $120,000 – $100,000
= $20,000

Allocation of battery revenue, recognised
= ($90,000 ÷ $120,000) × $100,000
= $75,000

Allocation of maintenance revenue, over two-year period
= ($30,000 ÷ $120,000) × $100,000
= $25,000

Allocation of maintenance revenue, apportioned to current period
= 1/2 years × $25,000
= $12,500

(c) (i)

Accounting treatment

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits which will be received.

Rasemati Co can no longer use the electrical components which it is obliged to purchase and the components have no resale or scrap value; meaning no benefits are expected.

The contract is, therefore, onerous. When an entity has a contract which is onerous, the present obligation under the contract is recognised and measured as a provision.

The cost of exiting the contract is $600,000 but the cost of fulfilling the contract is only $475,000 – a provision is recognised in the statement of financial position for the lower of the two amounts.

A corresponding expense is recognised in the operating category of the statement of profit or loss and will be disaggregated if material.

Supporting calculation

Cost of fulfilling the contract (lower than cost of exiting the contract)
= 1,900 components × $250
= $475,000 (vs. $600,000)

(ii)

The finance director receives a bonus based on reported profits, giving the finance director an incentive to overstate profits by omitting the provision from the financial statements (a self-interest threat to objectivity).

The finance director is proposing to prepare financial statements which are incorrect and, if done knowingly, this represents a breach of the ethical principle of integrity.

It may be that the finance director is not sufficiently familiar with the principles in IFRS® Accounting Standards and that the proposal is based on a lack of accounting knowledge; however, this would represent a breach of the ethical principle of professional competence and due care.

Mark scheme

Section A

Questions 1 – 15 (all questions worth two marks)

Maximum 30 marks

Section B

Questions 16 – 30 (all questions worth two marks)

Maximum 30 marks

Section C

Question 31

a	Statement of cash flows:	
	Operating profit	0.5
	Operating activities:	
	- Depreciation charge	0.5
	- Gain on disposal	1
	- Decrease in inventories	0.5
	- Increase in receivables	0.5
	- Increase in payables	0.5
	- Correct direction of working capital cash flows	0.5
	- Taxes paid	2.5
	Investing activities:	
	- PPE	3
	- Proceeds from sale	0.5
	- Dividends received	0.5
	Financing activities:	
	- Interest paid	0.5
	- Dividends paid	2.5
	Net increase	0.5
	Cash and cash equivalents at 1 January 20X3	0.5
	Cash and cash equivalents at 31 December 20X3	0.5
Maximum 15 marks		
b	Statement of changes in equity:	
	- Balance at 1 January 20X3	0.5
	- Bonus shares	1
	- Dividends	0.5
	- Profit	0.5
	- Other comprehensive income	1
	- Balance at 31 December 20X3	0.5
	- IFRS 18 presentation	1
Maximum 5 marks		

Total 20 marks

Question 32

a	Solar panels contract: - Accounting treatment (1 mark per relevant point) - Calculations (0.5 marks each, up to 1.5 marks)	 5 1.5
Maximum 6 marks		
b	Battery and maintenance contract: - Accounting treatment (1 mark per relevant point) - Calculations (0.5 marks each, up to 2 marks)	 6 2
Maximum 7 marks		
c i	Supplier contract: - Accounting treatment (1 mark per relevant point) - Calculations (0.5 mark)	 5 0.5
Maximum 5 marks		
c ii	Ethical issue – 1 mark per relevant point	2
Maximum 2 marks		
Total 20 marks		