First section

QUESTION (1) Compulsory:

UNITED CO. IS AN ENTITY INCORPORATED IN THE UNITED STATES OF AMERICA (USA), AND IT HAS ITS SUBSIDIARY THE NATIONAL CO. WHICH WAS LOCATED IN ONE OF THE ARAB COUNTRIES, NATIONAL CO. PREPARES ITS FINANCIAL STATEMENTS UNDER LOCAL ACCOUNTING STANDARDS, ITS CURRENCY IS THE DINNAR.

THE FINANCIAL INFORMATION RELATES TO THE TWO ENTITIES FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2007 IS GIVEN BELOW:

STATEMENT OF FINANCIAL POSITION AS AT 30/9/2007

	UNITED CO. $ 000	**NATIONAL CO. DINNAR 000**
ASSETS		
NON-CURRENT ASSETS		
PROPERTY, PLANT AND EQUIPMENT	8.040	12.000
FINANCIAL ASSETS:		
INVESTMENTS	2.700	
OTHER	1.960	
TOTAL NON-CURRENT ASSETS	**12.700**	**12.000**
CURRENT ASSETS		
INVENTORIES	3.000	5.000
RECEIVABLES	4.500	6.000
OTHER FINANCIAL ASSETS	1.000	
CASH AND BANK BALANCES	1.500	
TOTAL CURRENT ASSETS	**10.000**	**11.000**
TOTAL ASSETS	**22.700**	**23.000**
EQUITY AND LIABILITIES		
EQUITY		
SHARE CAPITAL ($1/1 DINNAR/ SHARES)	7.000	6.000
RETAINED EARNINGS	5.200	3.300
	12.700	**9.300**
NON-CURRENT LIABILITIES		
LONG-TERM BORROWINGS	5.000	6.000
DEFERRED TAX	1.500	1.200
	6.500	7.200
CURRENT LIABILITIES		
TRADE AND OTHER PAYABLES	3.500	4.500
SHORT-TERM BORROWINGS	0	2.000
	3.500	6.500
TOTAL EQUITY AND LIABILITIES	22.700	23.000

STATEMENT OF COMPREHENSIVE INCOME AT 30/9/2007

	UNITED CO. $ 000	NATIONAL CO. DINNAR 000
REVENUE	20.000	24.000
COST OF SALES	(12.000)	(14.500)
GROSS PROFIT	**8000**	**9.500**
OTHER OPERATING EXPENSES	(3.500)	(4.000)
PROFIT FROM OPERATIONS	**4.500**	**5.500**
INTRA-GROUP INVESTMENT INCOME	450	0
FINANCE COST	(750)	(1.000)
PROFIT BEFORE TAX	**4.200**	**4.500**
INCOME TAX EXPENSE	(1.000)	(1.500)
NET PROFIT FOR THE YEAR AFTER TAX	**3.200**	**3.000**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30/9/2007

	UNITED CO. $ 000	NATIONAL CO. DINNAR 000
BALANCE AT 1 OCTOBER 2006	11.100	7.800
NET PROFIT FOR THE YEAR	3.200	3.000
DIVIDENDS PAID	(1.600)	(1.500)
BALANCE AT 30 SEPTEMBER 2007	12.700	9.300

THE FOLLOWING NOTES ARE RELEVANT FOR THE PREPARATION OF THE FINANCIAL STATEMENTS: -

(1) WHEN UNITED COMPANY ACQUIRED NTIONAL CO. THE FAIR VALUE OF THE PLANT AND EQUIPMENTS OF NATIONAL CO.WAS **2 MILLION** DINNARS HIGHER THAN ITS CARRYING VALUE IN NATIONAL CO STATEMENT OF FINANCIAL POSITION. THESE ASSETS WERE BEING DEPRECIATED OVER THEIR ESTIMATED USEFUL ECONOMIC LIVES AND, AT THE DATE OF ACQUISITION, THE DIRECTORS ESTIMATED THAT THE FUTURE USEFUL LIVES OF THESE ASSETS WERE **FOUR YEARS**. THIS DEPRECIATION IS RECOGNISED AS PART OF COST OF SALES.

(2) ON 1 OCTOBER 2004, WHEN THE RETAINED EARNINGS OF NATIONAL CO. SHOWED A CREDIT BALANCE OF **1.3 MILLION DINNARS**, UNITED CO. PURCHASED **4.5 MILLION SHARES** IN NATIONAL CO. FOR **1.80 DINNAR EACH**. ON 30 SEPTEMBER 2007 UNITED CO. CARRIED OUT AN IMPAIRMENT REVIEW ON THE GOODWILL ARISING ON THE ACQUISITION OF NATIONAL CO. THIS REVEALED THAT THIS GOODWILL HAD SUFFERED AN IMPAIRMENT LOSS OF **30%** OF ITS ORIGINAL VALUE AND **ONE THIRD** OF THIS LOSS AROSE DURING THE YEAR ENDED 30 SEPTEMBER 2007 UNITED CO. PRESENTS IMPAIRMENT LOSSES UNDER OTHER OPERATING EXPENSES. UNITED CO. HAS NOT PROVIDED NATIONAL CO. WITH ANY LOAN FINANCE.

(3) UNITED CO. OTHER NON-CURRENT FINANCIAL ASSET IS A DEBENTURE WITH A FIXED INTEREST RATE OF **5%.** UNITED CO. INVESTED **$2 MILLION** IN THE DEBENTURE AT PAR ON ITS ISSUE DATE, 1 OCTOBER 2005 THE

DEBENTURE IS REDEEMABLE AT A PREMIUM ON 30 SEPTEMBER 2009 THE APPLICABLE EFFECTIVE INTEREST RATE OVER THE LIFE OF THE DEBENTURE IS **8%.** THE FULL ANNUAL INTEREST AMOUNT WAS RECEIVED AND RECORDED BY UNITED CO. IN SEPTEMBER 2006 AND SEPTEMBER 2007 AND THE APPROPRIATE FINANCE CHARGE WAS RECOGNISED IN THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2006 HOWEVER, NO FINANCE CHARGE HAS YET BEEN CALCULATED OR RECOGNISED IN RESPECT OF THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2007.

(4) THE CURRENT FINANCIAL ASSET OF **$1M** IN UNITED CO. REPRESENTS A HOLDING OF SHARES IN A MAJOR LISTED COMPANY. UNITED CO. MAINTAINS A PORTFOLIO OF SHARES HELD FOR TRADING. AT 30 SEPTEMBER 2007, THE ONLY HOLDING IN THE PORTFOLIO WAS **250,000 SHARES** IN HIGHLANDS PLC, A MAJOR LISTED COMPANY WITH **24 MILLION ORDINARY SHARES** IN ISSUE. THE INVESTMENT WAS RECOGNISED ON ITS DATE OF PURCHASE, 13 FEBRUARY 2007, AT A COST OF **400C** PER SHARE. AT 30 SEPTEMBER 2007, DUE TO PRESS SPECULATION OF A TAKE OVER AT HIGHLANDS PLC, THE FAIR VALUE OF THE SHARES HAD RISEN TO **500C** PER SHARE.

(5) APART FROM THE PAYMENT OF A DIVIDEND BY NATIONAL CO. ON 30 JUNE 2007, THERE WERE NO OTHER INTRAGROUP TRANSACTIONS.

(6) IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS, THE DIRECTORS OF UNITED CO. TREAT FAIR VALUE ADJUSTMENTS AND PURCHASED GOODWILL AS PART OF THE NET INVESTMENT IN NATIONAL CO. AND SO BOTH ARE SUBJECT TO EXCHANGE FLUCTUATIONS. THE FUNCTIONAL CURRENCY OF NATIONAL CO. IS THE DINNAR. GOODWILL IS TO BE ACCOUNTED FOR ON A ON A PROPORTIONATE BASIS.

(7) THE EXCHANGE RATES ON RELEVANT DATES WERE: -

DATE	EXCHANGE RATE DINNAR TO 1 DOLLAR
1 OCTOBER 2004	3
30 SEPTEMBER 2006	2.7
30 JUNE 2007	2.5
1 SEPTEMBER 2007	2.45
30 SEPTEMBER 2007	2.4
THE WEIGHTED AVERAGE EXCHANGE RATE FOR THE YEAR ENDED 30-9-20017	2.5 DINNAR = 1 DOLLAR

REQUIRED:

(i)

(a) TRANSLATE THE STATEMENT OF FINANCIAL POSITION OF NATIONAL CO. AT 30 SEPTEMBER 2007 INTO $S AND PREPARE THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF UNITED CO. AT 30 SEPTEMBER 2007.

(30 MARKS)

(b) TRANSLATE THE STATEMENT OF COMPREHENSIVE INCOME OF NATIONAL CO. FOR THE YEAR ENDED 30 SEPTEMBER 2007 INTO $S AND PREPARE THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF UNITED CO. FOR THE YEAR ENDED 30 SEPTEMBER 2007.

(10 MARKS)

(ii)

THE FINANCE DIRECTOR OF UNITED CO. HAS RECENTLY HEARD THAT THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) HAS DEVELOPED ITS OWN FRAMEWORK FOR FINANCIAL REPORTING, WHICH IDENTIFIES SEVERAL ELEMENTS OF FINANCIAL STATEMENTS AND MAKES IT CLEAR THAT ANY ITEM THAT DOES NOT FALL WITHIN ONE OF THE DEFINITIONS OF THESE ELEMENTS SHOULD BE EXCLUDED FROM THE FINANCIAL STATEMENTS.

REQUIRED:

(c) DISCUSS BRIEFLY THE IMPORTANCE OF ETHICAL BEHAVIOUR IN THE PREPARATION OF FINANCIAL STATEMENTS.

(3 MARKS)

DISCUSS WHETHER THE FOLLOWING ARE ELEMENTS OF FINANCIAL STATEMENTS:

(i) GOODWILL

(ii) PROVISIONS.

(7 MARKS)
(50 MARKS)

SECOND SECTION
Answer only two questions from this section

Q (2)

THE FOLLOWING STATEMENT OF FINANCIAL POSITION RELATES TO MIDDLE EAST CO. GROUP AT 30 JUNE 2006.

	$	$
ASSETS		
NON-CURRENT ASSETS		
PROPERTY PLANT AND EQUIPMENT		10.000
GOODWILL		6.000
OTHER INTANGIBLE ASSETS		5.000
FINANCIAL ASSETS AT COST		9.000
		30.000
CURRENT ASSETS		
TRADE RECEIVABLES	7.000	
OTHER RECEIVABLES	4.600	
CASH AND CASH EQUIVALENT	6.700	
		18.300
TOTAL ASSETS		48.300
EQUITY AND LIABILITIES		
EQUITY		
SHARE CAPITAL		9.000
OTHER RESERVES		4.500
RETAINED EARNINGS		9.130
TOTAL EQITY		22.630
NON-CURRENT LIABILITIES		
LONG TERM BORROWINGS	10.000	
DEFERRED TAX LIABILITY	3.600	
EMPLOYEE BENEFIT LIABILITY	4.000	
TOTAL NON-CURRENT LIABILITIES		17.600
CURRENT LIABILITIES		
CURRENT TAX LIABILITY	3.070	
TRADE AND OTHER PAYABLES	5.000	
TOTAL CURRENT LIABILITES		8.070
TOTAL LIABILITIES		25.670
TOTAL EQUITY AND LIABILITIES		48.300

THE FOLLOWING INFORMATION IS RELEVANT TO THE ABOVE STATEMENT OF FINANCIAL POSITION: -

(1) THE FINANCIAL ASSETS ARE CLASSIFIED AS AVAILABLE FOR SALE BUT ARE SHOWN IN THE ABOVE STATEMENT OF FINANCIAL POSITION AT THEIR COST ON 1 JULY 2005. THE MARKET VALUE OF THE ASSETS IS **$ 10.5** MILLION ON 30 JUNE 2006. TAXATION IS PAYABLE ON THE SALE OF THE ASSETS.

(2) THE STATED INTEREST RATE FOR THE LONG TERM BORROWING IS **8%.** THE LOAN OF **$10 MILLION** REPRESENTS A CONVERTIBLE BOND WHICH HAS A LIABILITY COMPONENT OF **$ 9.6 MILLION** AND AN EQUITY COMPONENT OF **$ 0.4 MILLION**. THE BOND WAS ISSUED ON 30 JUNE 2006.

(3) THE DEFINED BENEFIT PLAN HAD A RULE CHANGE ON 1 JULY 2005. MIDDLE EAST CO. ESTIMATED THAT OF THE PAST SERVICE COSTS OF **$1 MILLION**, **40%** RELATES TO VESTED BENEFITS AND **60%** RELATES TO BENEFITS THAT WILL VEST OVER THE **NEXT FIVE** YEARS FROM THAT DATE. THE PAST SERVICE COSTS HAVE NOT BEEN ACCOUNTED FOR.

(4) THE TAX BASES FOR THE ASSETS AND LIABILITIES ARE THE SAME AS THEIR CARRYING AMOUNTS IN THE STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2006 EXCEPT FOR THE FOLLOWING: -

	$ 000
PROPERTY,PLANT AND EQUIPMENT	2.400
TRADE RECEIVABLES	7.500
OTHER RECEIVABLES	5.000
EMPLOYEE BENEFITS	5.000

- OTHER INTANGIBLE ASSETS WERE DEVELOPMENT COSTS WHICH WERE ALL ALLOWED FOR TAX PURPOSES WHEN THE COST WAS INCURRED IN 2005.
- THE TRADE AND OTHER PAYABLES INCLUDES AN ACCRUAL FOR COMPENSATION TO BE PAID TO EMPLOYEES. THIS AMOUNTS TO **$ 1 MILLION** AND IS ALLOWED FOR TAXATION WHEN PAID.
- GOODWILL IS NOT ALLOWABLE FOR TAX PURPOSES.
- ASSUME TAXATION IS PAYABLE AT 30%.

REQUIRED

(1) DISCUSS THE CONCEPTUAL BASIS FOR THE RECOGNITION OF DEFERRED TAXATION USING THE TEMPORARY DIFFERENCE APPROACH TO DEFERRED TAXATION?

(10) MARKS

(2) CALCULATE THE DEFERRED TAX LIABILITY AT 30 JUNE 2006 AFTER ANY NECESSARY ADJUSTMENTS TO THE FINANCIAL STATEMENTS SHOWING HOW THE DEFERRED TAX LIABILITY WOULD BE DEALT WITH IN THE FINANCIAL STATEMENTS? (ASSUME THAT ANY ADJUSTMENTS DO NOT AFFECT CURRENT TAX).

(15) MARKS
(25) MARKS

Q (3)

(1) ON 1 APRIL 2001 THE GREEN LAND CO BUYS A MACHINE WHICH COSTS **180.000 DOLLAR** WITH EXPECTED USEFUL LIFE OF **20 YEARS**, BY THE END OF 31/3/2005 THE MACHINE IS REVALUED TO **200.000 DOLLAR**. ON 1/4/2007

THE MACHINE IS SOLD FOR **229.000 DOLLAR**. THE COMPANY FINANCIAL YEAR ENDS ON 31 ST MARCH.

REQUIRED

HOW SHOULD THE COMPANY DEAL WITH THE DISPOSAL AND THE REVALUATION RESERVE?

(6) MARKS

(2) THE GREEN LAND COMPANY HAS A FACTORY AT ITS STATEMENT OF FINANCIAL POSITION WITH A NET BOOK VALUE OF **300.000 DOLLAR**. THE FACTORY IS USED TO MANUFACTURE THE COMPANY BEST-SELLING PRODUCT RANGE, BUT THE ENTRY OF A NEW COMPETITOR TO THE MARKET HAS SEVERELY AFFECTED THE SALES .AS THE RESULT THE COMPANY BELIEVES THAT THE FUTURE SALE OF THE PRODUCT OVER THE NEXT THREE YEARS WILL ONLY BE **150.000, 100.000 AND 50.000 DOLLAR**, THE ASSET WILL THEN BE SOLD FOR **25.000 DOLLAR**. AN OFFER HAS BEEN RECEIVED TO BUY THE FACTORY IMMEDIATELY FOR **240.000 DOLLAR**, BUT THE COMPANY SHOULD HAVE TO PAY SELLING COSTS OF **5.000 DOLLAR**.

THE RISK – FREE MARKET RATE OF INTEREST IS **10%.**

REQUIRED

IDENTIFY WHETHER THERE IS AN IMPAIRMENT OR NOT AND HOW THE COMPANY COULD TREAT THE TRANSACTION IN ITS ACCOUNTS?

(6) MARKS

(3) GREEN LAND CO. PREPARES ITS FINANCIAL STATEMENTS TO 31/ MARCH EACH YEAR. ON 1 APRIL YEAR **4 GREEN LAND SOLD A FREEHOLD PROPERTY TO ANOTHER COMPANY, S LTD CO. FOR $850.000** AND THEN LEASED IT BACK UNDER A **TEN YEARS** OPERATING ARRANGEMENT, GREEN LAND CO. HAD PURCHASED THE PROPERTY EXACTLY **10 YEARS** PREVIOUSLY FOR **$ 500.000** AND HAD CHARGED TOTAL DEPRECIATION OF **$ 60.000** ON THE PROPERTY UP TO THE DATE OF DISPOSAL.

DETAILS OF THE SALE AND LEASEBACK ARRANGEMENT ARE AS FOLLOWS: -

- PROCEEDS FROM SALE **$ 850.000**
- FAIR VALUE AT DATE OF DISPOSAL **$550.000**
- OPERATING LEASE RENTAL (PAYABLES IN ARREARS) **$ 100.000**
- NORMAL MARKET RENTAL **$ 50.000.**

REQUIRED

(A) EXPLAIN AND ILLUSTRATE HOW GREEN LAND CO. SHOULD REFLECT IN ITS FINANCIAL STATEMENTS: -

(1) THE SALE OF THE PROPERTY TO S LTD CO. ON 1 APRIL YEAR 4.

(2) THE PAYMENT OF THE FIRST RENTAL TO S LTD CO. ON 31 MARCH YEAR5.

(B) DISCUSS HOW THE TREATMENT WOULD DIFFER IF THE LEASEBACK ARRANGEMENT WAS A FINANCE LEASE.

(7) MARKS

(4) ON 1 JANUARY 2006, SPRING CO. SPENT **$5M** ON ERECTING INFRASTRUCTURE AND MACHINERY NEAR TO AN AREA OF NATURAL BEAUTY. THESE ASSETS WILL BE USED.

OVER THE NEXT THREE YEARS. SPRING CO. IS WELL-KNOWN FOR ITS ENVIRONMENTALLY
FRIENDLY BEHAVIOUR AND IS THEREFORE EXPECTED TO RESTORE THE SITE AFTER ITSUSE.

THE ESTIMATED COST OF REMOVING THESE ASSETS AND CLEANING UP THE AREA ON 1 JANUARY 2009 IS **$3M.**

THE PRE-TAX, RISK-SPECIFIC DISCOUNT RATE IS **10%.** SPRING CO. HAS A REPORTING DATE OF 31 DECEMBER.

REQUIRED:

EXPLAIN HOW THE ABOVE SHOULD BE TREATED IN THE FINANCIAL STATEMENTS OF SPRING CO.

(6) MARKS
(25) MARKS

Q (4)

(1) THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) PUBLISHED A DISCUSSION PAPER ON MANAGEMENT COMMENTARY IN 2005 PREPARED BY A NUMBER OF REPRESENTATIVES FROM NATIONAL STANDARDS SETTERS WITH THE AIM OF PRESENTING USEFUL INFORMATION ACCOMPANY FINANCIAL STATEMENT.

REQUIRED

EXPLAIN WHAT IS MANAGEMENT COMMENTARY, ITS CHARACTERISTICS AND CONTENTS?

(10) MARKS

(2) THE INTERNATIONAL ACCOUNTING STANDARD BOARD (IASB) ISSUED IFRS (9) FINANCIAL INSTRUMENTS TO REPLACE IAS 39 WHEN IT BECOMES EFFECTIVE IN 2018. THE N EW STANDARD CONTAINS THREE MAIN TOPICS, CLASSIFICATION AND MEASUREMENT OF FINANCIAL INSTRUMENTS, IMPAIRMENT OF FINANCIAL ASSETS AND HEDGE ACCOUNTING.

REQUIRED

EXPLAIN THE KEY DIFFERENCES BETWEEN IAS (39) AND IFRS (9) AS REGARD

(1) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS?

(5) MARKS

(2) CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES?

(5) MARKS

(3) IMPAIRMENT AND HEDGE ACCOUNTING?

(5) MARKS
(25) MARKS

END OF QUESTIONS

A) TRANSLATION OF STATEMENT OF FINANCIAL POSITION OF NATIONAL CO

DESCRIPTION	DINNAR	RATE	DOLLAR
PRORERTY PLANT AND EQUIPMENTS	12.500	2.4	5.208
INVENTORIES	5.000	2.4	2.083
RECEIVABLES	6.000	2.4	2.500
	23.500		**9.791**
EQUITY CAPITAL	6.000	2.4	2.500
RESERVES PRE- ACQUISITION	3.300	2.4	1.375
NET ASSETS AT DATE OF ACQUISTION	9.300		3.875
POST - AQUISITION	500	2.4	208
NET ASSETS AT SOFP DATE	**9.800**		**4.083**
LONG TERM BOROWING	6.000	2.4	2.500
DEFERRED TAX	1.200	2.4	500
TRADE AND OTHER PAYABLES	4.500	2.4	1.875
SHORT TERM BORROWING	2.000	2.4	833
	13.700		**5708**
	23.500		**9.791**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2007

	$	$
ASSETS		
NON-CURRENT ASSETS		
PROPERTY PLANT AND EQUIPMENTS(8.040 + 5.208)		13.248
INTANGIBLE ASSETS - GOODWILL		328
FINANCIAL ASSETS		2.125
		15.701
CURRENT ASSETS		
INVENTORIES (3.000 + 2.083)	5.083	
RECEIVABLES (4.500 + 2.500)	7.000	
CASH AND BANK BALANCES	1.500	
OTHER FINANCIAL ASSETS	1.250	
		14.833
TOTAL ASSETS		**30.534**
EQUITY AND LIABILITIES		
EQUITY		
SHARE CAPITAL		7.500
RETAINED EARNINGS		6.305
		13.805
NON-CONTROLLING INTEREST (4.083 * 25%)		1.021
TOTAL EQUITY		14.826
LONG TERM BORROWING (5.000 + 2.500)	7.500	
DEFFERRED TAX (1.500 + 500)	2.000	
		9.500
CURRENT LIABILITIES		
TRADE AND OTHER PAYABLES (3.500 + 1.875)	5.375	
SHORT TERM BORROWING	833	
		6.208
TOTAL EQUITY & LIABILITIES		**30.534**

(B)

TRANSLATION OF STATEMENT OF COMPREHENSIVE INCOME OF NATIONAL CO.

	DINNAR	RATE	$
REVENUE	**24.000**	**2.5**	**9.600**
COST OF SALES	**(15.000)**	**2.5**	**(6.000)**
GROSS PROFIT	**9.000**		**3.600**
OTHER OPERATING EXPENSES	**(4.000)**	**2.5**	**(1.600)**

PROFIT FROM OPERATIONS	5.000		2.000
FINANCE COST	(1.000)	2.5	(400)
PROFIT BEFORE TAX	4.000		1.600
INCOME TAX EXPENSE	(1.500)	2.5	(600)
PROFIT FOR THE YEAR	2.500		1.000

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2007

	$	$
REVENUE (20.000 + 9.600)		29.600
COST OF SALES (12.000 + 6.000)		(18.000)
GROSS PROFIT		11.600
OTHER OPERATING EXPENSES (3.500 + 1.600 +45)		(5.145)
PROFIT FROM OPERATIONS		6.455
FINANCE COST (750 +400)		(1.150)
INVESTMENT INCOME (165 + 250)		415
PROFIT BEFORE TAX		5.720
INCOME TAX EXPENSE		(1.600)
PROFIT FOR THE YEAR		4.120
ATTRIBUTABLE TO ;-		
EQUITY HOLDERS OF THE PARENT	3.870	
NON – CONTROLLING INTEREST (1.000 * 25%)	250	
	4.120	
OTHER COMPREHENSIVE INCOME :		
EXCHANGE DIFF ARISING FROM CONSOLIDATION OF SUBSIDIARY		465
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		4.585
ATTRIBUTABLE TO :		
EQUITY HOLDERS OF THE PARENT	4.229	
NON-CONTROLLING INTEREST (1.000 *25%) + 106	356	
	4.585	

WORKINGS

(8) **GROUP STRUCTURE** **UNITED CO.**

75%

NATIONAL CO.

Working (2)

NET ASSETS OF NATIONAL CO.

	AT ACQUSITION	**AT REPORTING DATE**
SHARE CAPITAL	6.000	6.000
RETAINED EARNINGS	1.300	3.300
FAIR VALUE ADJUSTMENT :		
PLANT AND EQUIPMENT	2.000	2.000
DEPRECIATION (FOR 3 YEARS)	0	(1.500)
TOTAL NET ASSETS	9.300	9.800

PROPERTY PLANT AND EQUIPMENT:

PER QUESTION	12.000	
FAIR VALUE ADJUSTMENT (2.000 – 1.500)	500	
		12.500

(W 3) GOODWILL

	DINNAR
COST OF INVESTMENT (4.5 M * 1.80)	8.100
LESS NET ASSETS ACQUIRED (9.300 * 75%)	(6.975)
COST AT ACQUISITION	1.125
TRANSLATED AT CLOSING RATE :	$
RATE AT SOFP DATE (2.4)	469
LESS IMPAIRMENT LOSS (30%)	(141)
BALANCE AT REPORTING DATE	328

(W 4) RETAINED EARNINGS :

	$	$
UNITED CO.		5.**200**
INCREASE IN FINANCIAL ASSETS (165 + 250)		415
NATIONAL POST-ACQUISITION PROFIT (208 * 75%)		156
IMPAIRMENT LOSS		(141)
EXCHANGE GAIN ON RETRANSLATION OF COST OF INVESTMENT :		
AT SOFP DATE (8.100 / 2.4)	3.375	
AT ACQUISITION (8.100 /3)	(2.700)	
		6.305

(W 5) COST OF SALES NATIONAL CO.

	DINNAR
PER QUESTION	14.500
ADDITIONAL DEPRECIATION	500
	15.000
(W 6) OTHER OPERATING EXPENSES (IMPAIRMENT LOSS)	
LOSS FOR THE YEAR (1.125 * 10% / 2.5	45

w (6) OTHER OPERATING EXPENSES (IMPAIRMENT LOSSES

THE LOSS FOR THE YEAR = (1.125 X 10% ÷ 2.5 = 45

(0.5)

(w7) DENENTURE & INCOME FROM INVESTMENTS (FINANCIAL ASSETS)

(A) **ACCOUNTING TREATMENT REQUIRED FOR FINANCIAL ASSETS**

UNDER **IAS 39**, THE DEBENTURE IS CLASSIFIED UNDER 'LOANS AND RECEIVABLES' OR AS A HELD TO-MATURITY INVESTMENT. THIS MEANS THAT IT IS MEASURED AT AMORTISED COST, USING THE EFFECTIVE INTEREST RATE METHOD. THIS INVOLVES ALLOCATING THE TOTAL FINANCE COST (INTEREST RECEIVABLE AT THE COUPON RATE PLUS THE PREMIUM RECEIVABLE ON REDEMPTION) OVER THE TERM OF THE DEBENTURE SO THAT THERE IS A CONSTANT RATE OF INTEREST ON THE CARRYING AMOUNT. THE DEBENTURE SHOULD HAVE BEEN RECOGNISED INITIALLY AT ITS COST OF **$2** MILLION. EACH YEAR, THE CARRYING AMOUNT OF THE DEBENTURE IS INCREASED BY INTEREST CALCULATED AT THE EFFECTIVE RATE OF **8%** AND REDUCED BY THE ACTUAL INTEREST RECEIVABLE OF **5%.** THE EFFECT IS THAT THE CARRYING AMOUNT OF THE INVESTMENT INCREASES OVER ITS LIFE SO THAT BY THE REDEMPTION DATE IS STATED AT THE ACTUAL AMOUNT REDEEMABLE.

THE DEBENTURE SHOULD BE STATED AT **$2,124,800** IN THE STATEMENT OF FINANCIAL POSITION AND INTEREST RECEIVABLE OF **$164,800** SHOULD BE RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR (SEE WORKING).

THE HOLDING OF SHARES IS AN INVESTMENT HELD FOR TRADING AND THEREFORE **IAS 39** REQUIRES THAT IT IS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS. THE INVESTMENT SHOULD BE REMEASURED TO FAIR VALUE AT 30 JUNE 2006.

THE SHARES SHOULD BE INCLUDED IN THE STATEMENT OF FINANCIAL POSITION AT **$1,250,000** (250,000 × 500C) AND THE GAIN OF **$250,000** IS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME STATEMENT.

WORKING; CARRYING AMOUNT OF DEBENTURE

YEARS	**COST**	**EFFECTIVE RATE 8%**	**FIXED RATE 5%**	**CLOSING BALANCE**
2005 / 2006	2.000.000	160.000	(100.000)	2.060.000
2006 / 2007	2.060.000	164.800	(100.000)	2.124.800

)C)

ETHICS IN ACCOUNTING IS OF UTMOST IMPORTANCE TO ACCOUNTING PROFESSIONALS AND THOSE WHO RELY ON THEIR SERVICES. ACCOUNTING PROFESSIONALS KNOW THAT PEOPLE WHO USE THEIR SERVICES, ESPECIALLY DECISION MAKERS USING FINANCIAL STATEMENTS, EXPECT THEM TO BE HIGHLY COMPETENT, RELIABLE, AND OBJECTIVE. THOSE WHO WORK IN THE FIELD OF ACCOUNTING MUST NOT ONLY BE WELL QUALIFIED BUT MUST ALSO POSSESS A HIGH DEGREE OF PROFESSIONAL INTEGRITY. A PROFESSIONAL'S GOOD REPUTATION IS ONE OF HIS OR HER MOST IMPORTANT ASSETS.

THERE IS A VERY FINE LINE BETWEEN ACCEPTABLE ACCOUNTING PRACTICE AND MANAGEMENT'S DELIBERATE MISREPRESENTATION IN THE FINANCIAL STATEMENTS. THE FINANCIAL STATEMENTS MUST MEET THE FOLLOWING CRITERIA:-

a TECHNICAL COMPLIANCE: A TRANSACTION MUST BE RECORDED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP).

b ECONOMIC SUBSTANCE: THE RESULTING FINANCIAL STATEMENTS MUST REPRESENT THE ECONOMIC SUBSTANCE OF THE EVENT THAT HAS OCCURRED.

c FULL DISCLOSURE AND TRANSPARENCY: SUFFICIENT DISCLOSURE MUST BE MADE SO THAT THE EFFECTS OF TRANSACTIONS ARE TRANSPARENT TO THE READER OF THE FINANCIAL STATEMENTS

(D)

GOODWILL

GOODWILL FAILS TO MEET THE DEFINITION OF AN ASSET BECAUSE THE FUTURE ECONOMIC BENEFITS OF GOODWILL CANNOT BE CONTROLLED BY THE ENTITY. THEREFORE, GOODWILL IS NOT AN ELEMENT OF THE FINANCIAL STATEMENTS.

HOWEVER, THE IASB BELIEVE THAT GOODWILL FORMS A BRIDGE BETWEEN THE COST OF THE INVESTMENT IN THE ACQUIRER'S OWN FINANCIAL STATEMENTS AND THE VALUES ATTRIBUTED TO THE ACQUIRED ASSETS AND LIABILITIES IN THE CONSOLIDATED FINANCIAL STATEMENTS.

THEREFORE, GOODWILL IS NOT AN ASSET IN ITS OWN RIGHT BUT PART OF A LARGER ASSET, THE INVESTMENT IN THE ENTITY.

(II) **PROVISIONS**

PROVISIONS ARE A SUB CLASS OF LIABILITIES AND NOT A SEPARATE ELEMENT OF THE STATEMENT OF FINANCIAL POSITION.

THEY ARE LIABILITIES IN RESPECT OF WHICH THE AMOUNT OR TIMING OF THE EXPENDITURE THAT WILL BE TAKEN IS UNCERTAIN. PROVISIONS ARE DISTINGUISHED FROM OTHER LIABILITIES BY THE EXISTENCE OF THE UNCERTAINTIES.

THE CATEGORISATION OF PROVISIONS AS A SUB CLASS OF LIABILITIES IS SIGNIFICANT AS A PROVISION CAN ONLY BE CREATED IF THE ITEM THAT THE PROVISION RELATES TO SATISFIES THE DEFINITION OF A LIABILITY I.E., AN OBLIGATION (LEGAL OR CONSTRUCTIVE) TO TRANSFER ECONOMIC BENEFITS AS A RESULT OF PAST TRANSACTIONS OR EVENTS.

Q 2 /

(iii) **IAS 12**-INCOME **TAXES IS BASED ON THE IDEA** THAT ALL CHANGES IN ASSETS AND LIABILITIES HAVE UNAVOIDABLE TAX CONSEQUENCES. WHERE THE RECOGNITION CRITERIA IN **IFRS** ARE DIFFERENT FROM THOSE IN TAX LAW, THE CARRYING AMOUNT OF AN ASSET OR LIABILITY IN THE FINANCIAL STATEMENTS IS DIFFERENT FROM ITS TAX BASE (THE AMOUNT AT WHICH IT IS STATED FOR TAX PURPOSES) . THESE DIFFERENCES ARE KNOWN AS **TEMPORARY DIFFERENCE**. THE PRACTICAL EFFECT OF THIS DIFFERENCE IS THAT A TRANSACTION OR EVENT OCCURS IN A DIFFERENT ACCOUNTING

PERIOD FROM ITS TAX CONSEQUENCES. FOR EXAMPLE, DEPRECIATION IS RECOGNISED IN THE FINANCIAL STATEMENTS IN DIFFERENT ACCOUNTING PERIODS FROM ITS CAPITAL ALLOWANCES.

IAS 12 REQUIRES A COMPANY TO MAKE **FULL PROVISION** FOR THE TAX EFFECTS OF TEMPORARY DIFFERENCES . BOTH DEFFERED TAX ASSETS, AND DEFFERED TAX LIABILITIES CAN ARISE IN THIS WAY.

IT MAY BE ARGUED THAT DEFFERED TAX ASSETS AND LIABILITIES DO NOT MEET THE DEFINITION OF ASSETS AND LIABILITIES IN THE **IASB FRAMEWORK.** UNDER THE FRAMEWORK **AN ASSET IS THE RIGHT TO RECEIVE BENEFITS AS A RESULT OF PAST EVENTS**, AND A LIABILITY **IS AN OBLIGATION TO TRANSFER ECONOMIC BENEFITS**, **AGAIN AS A RESULT OF PAST EVENTS**.

UNDER **IAS 12**, THE TAX EFFECTS OF A TRANSACTIONS ARE RECOGNISED IN THE SAME PERIOD AS THE TRANSACTIONS THEMSELVES, BUT IN PRACTICE, TAX IS PAID IN ACCORDANCE WITH TAX LEGISLATION WHEN IT BECOMES A LEGAL LIABILITY. THERE IS **A CONCEPTIONAL WEAKNESS** OR **INCONSISTENCY**, IN THAT ONLY ONE LIABILITY, THAT IS TAX IS BEING PROVIDED FOR, AND NOT OTHER COSTS, SUCH AS OVERHEAD COSTS.

(iv)

	$	**$**	**$**	**$**
		ADJUSTMENTS TO FINANCIAL STATEMENTS	**TAX BASE**	**TEMPORARY DIFFERENCE**
PROPERTY, PLANT AND EQUIPMENT	10.000		2.400	7.600
GOODWILL	6.000		6.000	
OTHER INTANGIBLE ASSETS	5.000		0	5.000
FINANCIAL ASSETS (COSTS	9.000	1.500	9.000	1.500
TOTAL NON- CURRENT ASSETS	30.000			
TRADE RECEIVABLES	7.000		7.500	(500)
OTHER RECEIVABLES	4.600		5.000	(400)
CASH AND CASH EQUIVALENT	6.700		6.700	0
TOTAL CURRENT ASSETS	18.300			
TOTAL ASSETS	48.300			
SHARE CAPITAL	(9.000)			
OTHER RESERVES	(4.500)	1.500		
		400		
RETAINED EARNINGS	9.130	(520)		
TOTAL EQUITY	(22.630)			
LONG TERM BORROWINGS	(10.000)	(400)	(10.000)	400

DEFERRED TAX LIABILITY	(3.600)		(3.600)	0
EMPLOYEES BENEFITS	(4.000)	520	(5.000)	480
CURRENT TAX LIABILITY	(3.070)		(3.070)	0
TRADE AND OTHER PAYABLES	(5.000)		(4.000)	(1.000)
TOTAL LIABILITIES	(25.670)			13.080
DEFERRED TAX LIABILITY				
LIABILITY B/FWD				3.600
CHARGE (BAL FIG)				
DEFERRED TAX LIABILITY C/FWD 14.980 X 30%			4.494	
DEFERRED TAX ASSET C /FWD 1.900 X 30%			(570)	
NET DEFERRED TAX LIABILITY				3.924

NOTES ON ADJUSTMENTS

(5) THE FINANCIAL ASSETS ARE SHOWN AT COST. HOWEVER, PER IAS (39) SINCE THEY ARE CLASSIFIED AS AVAILABLE FOR SALE THEY SHOULD INSTEAD BE VALUED AT FAIR VALUE , WITH THE INCREASE ($ 10.500 -$ 9.000 = $ 1500) GOING TO EQUITY .

(6) **IAS 32** STATES THAT CONVERTIBLE BONDS MUST BE SPLIT INTO DEBT AND EQUITY COMPONENTS. THIS INVOLVES REDUCING DEBT AND INCREASING **EQUITY** BY $ 400 .

(7) THE DEFINED BENEFIT PLAN NEEDS TO BE ADJUSTED TO REFLECT THE CHANGE. THE LIABILITY MUST BE INCREASED BY 40% X 1% (60% X$ 1 M ÷ 5) = $ 520.000 . THE SAME AMOUNT IS CHARGED TO RETAINED EARNINGS.

(8) THE DEVELOPMENT COSTS HAVE ALREADY BEEN ALLOWED FOR TAX , SO THE TAX BASE IS NIL . NO DEFERRED TAX IS RECOGNIZED ON GOODWILL.

(9) THE ACCRUAL FOR THE COMPENSATION IS TO BE ALLOWED WHEN PAID , IE IN A LATER PERIOD. THE TAX BASE RELATING TO TRADE AND OTHER PAYABLES SHOULD BE REDUCED BY $ 1 M .

Q / 3 (1)

REVALUATION

COST ON 1 APRIL YEAR 1	180.000
DEPRECIATION TO YEAR 5 (180.000 ÷20) X 4	36.000
NET BOOK VALUE	144.000
REVALUATION ON 1 NAPRIL YEAR 5	200.000
GAIN ON REVALUATION **TO BE CREDITED TO REVALUATION RESERVE**	56.000

DISPOSAL

MACHINERT AT VALUATION AT 1 APRIL YEAR 7	200.000
DEPRECIATION YEAR 6 AND 7 (200.000 ÷ 16 YEAR) X 2 YEARS	25.000
NET BOOK VALUE	175.000
SALE PROCEEDS APRIL YEAR 7	229.000
PROFIT ON DISPOSAL	54.000

TRANSFER FROM REVALUATION RESERVE TO RETAINED EARNING Y,6,7	(7.000)
BALACE OF REVALUATION RESERVE AT 1 APRIL YEAR 7	49.000

ENTRY AT THE YEAR END 31 MARCH YEAR 8 IS AS FOLLOWS

	DR	CR
REVAUATION RESERVE	49.000	
RETAINED EARNING		49.000

(6) MARKS

Q3 / (2)

A MARKET CHANGES INDICATE THAT AN ASSET MAY BE IMPAIRED AND SO THE RECOVERABLE AMOUNT OF THE ASSET SHOULD BE CALCULATED .

(C)FAIR VALUE LESS COST TO SELL IS (240.000 – 5.000) = **235.000**

(D) VALUE IN USE IS THE DISCOUNTED FUTURE CASH FLOW FROM KEEPING THE ASSTE (150.000/1.1 , 100.000/ (1.1)1 , 50.000/ (1.1)3 = **275.357 .**

THE RECOVERABLE AMOUNT IS THE HIGHER OF (1) VALUE IN USE AND (2) FAIR VALUE LESS COST TO SELL WHICH IS **275.357** ..

THE ASSET HAS A CARRYING VALUE OF 300.000 WHICH IS HIGHER THAN ITS RECOVERABLE VALUE FROM USING THE ASSET . THE ASSET SHOULD BE VALUED AT THE LOWER OF ITS CARRYING VALUE AND ITS RECOVERABLE VALUE . IT MUST THEREFORE BE WRITTEN DOWN TO ITS RECOVERABLE AMOUNT AND BE IMPAIRED BY **24.643 .** **(6) MARKS**

Q3/ (3)

SALE AND OPERATING LEASEBACK:

THE NATURE OF THE LEASEBACK ARRANGEMENT AFFECTS THE TREATMENT OF THE SALE PROCEEDS. AS THE ARRANGEMENT IS AN OPERATING LEASE , IT MEANS THAT GREENLAND CO. PERMANENTLY TRANSFERS THE RISKS AND REWARDS IN THE ASSET WHEN IT MAKES THE SALE. THEREFORE, ON THE SALE , GREEN LAND CO. WILL DERECOGNISE THE ASSET AND THE LEASEBACK PAYMENTS WILL BE CHARGED AS RENTALS TO PROFIT OR LOSS.

IF THE SALE IS MADE AT FAIR VALUE , THEN THE PROFIT ON DISPOSAL IS RECOGNISED IN PROFIT OR LOSS IMMEDIATELY. HOWEVER, THE TRANSACTION HERE IS SIGNIFICANTLY ABOVE FAIR VALUE RESULTING IN AN ABNORMALLY HIGH PROFIT WHICH IS THEN COMPENSATED BY HIGHER OPERATING LEASEBACK RETALS, IN THIS SITUASION , IAS 17 REQUIRES THE EXCESS OF PROCEEDS OVER FAIR VALUE (THE ABNORMAL PROFIT) TO BE DEFERRED AND AMORTISED OVER THE PERIOD DURING WHICH THE ASSET IS EXPECTED TO BE USED. THIS WILL SERVE TO OFFSET AND NORMALISE THE HIGH FUTURE RENTAL CHARGES.

	DR	CR
SALE OF PROPERTY		
CASH	850.000	
NON-CURRENT ASSETS		440.000
PROFI&LOSS(NORMAL PROFIT 550.000 – 440.000)		110.000
DEFERRED INCOME (LIABILITY – ABNORMAL PROFIT 850.000 – 550.000)		
	DR	CR
PAYMENT OF RENTAL		
PROFIT OR LOSS - RENTAL	100.000	
CASH		100.000

DEFERRED INCOME	30.000	
PROFIT OR LOSS (AMORTISED DEFERRED INCOME (300.000 ÷ 10)		

(B) **SALE AND FINANCE LEASEBACK**

WHERE THE LEASEBACK IS A FINANCE LEASE ARRANGEMENT, TWO TREATMENT COULD APPLY.

TREATMENT (1)

AS THE ASSET HAS BEEN SOLD , THE ASSET SHOULD BE DE-RECOGNISED AND THE PROCEEDS RECORDED. ITS NOT APPROPRIATE TO SHOW A PROFIT ON THE DISPOSAL AS THE RISKS AND REWARDS OF OWNERSHIP REVERT BACK TO GREEN LAND CO. UNDER A FINANCE LEASEBACK. THE SUBSTANCE OF THE TRANSACTION IS THAT THERE HAS BEEN NO SALE AND THE LESSOR IS PROVIDING FINANCE TO THE LESSEE WITH THE ASSETAS SECURITY HENCE THE PROFIT OF 410.000 SHOULD BE DEFERRED AND AMORTISED.

ON THE LEASEBACK , THE ASSET SHOULD BE RE-STATED AND, AS A FINANCE LEASE, THIS WOULD BE AT THE FAIR VALUE (OR THE PRESENT VALUE OF THE MINIMUM PAYMENTS IF LOWER) OF 550.000. THE LEASE PAYMENTS WILL BE SPLIT INTO PAYMENT OF THE CAPITAL AND THE INTEREST. THE DEFERRED PROFIT WILL BE AMORTISED OVER THE TEN YEARS LEASE TERM.

TREATMENT (2)

IT COULD HOWEVER , BE ARGUED THAT THE ABOVE TREATMENT DOES NOT FULLY REFLECT THE SUBSTANCE OF THE TRANSACTION AS THE ORIGINAL OWNERBEARS THE RISKS AND REWARS OF OWNERSHIP BEFORE AND AFTER THE SALE AND LEASEBACK. IF THE RISKS AND REWARS WERE NOT TRANSFERRED FROM GREEN LAND CO. , THEN IT COULD BE ARGUED THAT THE ASSET SHOULD REMAIN IN THE BOOKS AT ITS ORIGINAL NET BOOK VALUE AND SHOULD NOT BE UPLIFTED TO FAIR VALUE. THERE WILL NOT BE A PROFIT OR LOSS RECORDED.

THE PROCEED FROM THE SALE REFLECT A FINANCING ARRANGEMENT SECURED ON THE PROPERTYAND SO SHOULD BE RECOGNISED AS A LIABILITY.THE SUBSEQUENT LEASEPAYMENTS WOULD AGAIN BE SPLIT INTO REPAYMENT OF THE CAPITAL 850.000 AND INTEREST 150.000 (1 M PAYMENTS – 850.000 LOAB) **(7) MARKS**

Q3 (4) SPRING CO. HAS A CONSTRUCTIVE OBLIGATION TO RESTORE THE AREA TO ITS ORIGINAL CONDITION AS A RESULT OF A PAST EVENT (ERECTING THE INFRASTRUCTURE) . THEREFORE , IT SHOULD RECOGNISE A PROVISION AT 1 JAN 2006 . THE BEST ESTIMATE OF THE EXPENDITURE IS $3 M , BUT TIS MUST BE DISCOUNTED TO ITS PRESENT VALUE OF $ 2.253.000 ($3M X 0.751).

SPRING CO. COULD NOT CARRY OUT ITS OPERATIONS WITHOUT INCURRING THE CLEAN-UP COSTS. THIS MEANS THAT INCURRING THE COSTS GIVES IT ACCESS TO FUTURE ECONOMIC BENEFITS. THE ESTIMATED CLEAN-UP COSTS ARE THEREFORE INCLUDED IN THE COST OF THE PROPERTY, PLANT AND EQUIPMENT (PPE)

	DR	CR
PPE	2.253.000	
PROVISION		2.253.000

EACH YEAR , THE DISCOUNT UNWINDS AND THE PROVISION INCREASES. THE UNWINDING OF THE DISCOUNT IS CHARGED TO THE STATEMENT OF PROFIT OR LOSS AS A FINANCE COST .

MOVEMENT IN PROVISION	2006	2007	2008	2009
OPENING BALANCE	2.253	2.478	2.727	3.000
FINANCE COST AT 10%	225	249	273	-
UTILISATION	-	-	-	(3.000)
CLOSING BALANCE	2.478	2.727	3.000	-

	$
INITIAL COST OF PPE	5.000
PV OF CLEAN-UP COSTS	2.253
TOTAL COST	7.253

THE EFFECT ON THE FINANCIAL STATEMENTS IS SHOWN BELOW :

STATEMENT OF PROFIT OR LOSS

	2006	2007	2008	2009
OPERATING COSTS				
DEPRECIATION (7.253 ÷ 3 YEARS)	2.418	2.418	2.417	-
FINANCE COSTS				
UNWINDING OF DISCOUNT	225	249	273	-

STATEMENT OF FINANCIAL POSITION

PPE	2006	2007	2008	2009
COST	7.253	7.253	7.253	-
DEPRECIATION	(2.418)	(4.836)	(7.253)	-
CARRYING VALUE	4.835	2.417	-	-
LIABILITIES				
CLEAN-UP PROVISION	2.478	2.727	3.000	

(6) MARKS

Q 4 /

(A) MANAGEMENT COMMENTARY IS INFORMATION THAT ACCOMPANIES FINANCIAL STATEMENTS AS PART OF AN ENTITY FINANCIAL REPORTING. IT EXPLAINS THE **TRENDS** AND **FACTORS** UNDERLYING THE DEVELOPMENT, PERFORMANCE AND POSITION OF THE ENTITY BUSINESS DURING THE PERIOD COVERED BY THE FINANCIAL STATEMENTS. IT ALSO EXPLAINS THE MAIN TRENDS AND FACTORS THAT **ARE LIKELY TO AFFECT** THE ENTITY FUTURE DEVELOPMENT, PERFORMANCE AND POSITION.

THE CHARACTERISTICS OF HIGH-QUALITY MANAGEMENT COMMENTARY :-

THE IASB BELIEVE THAT HIGH-QUALITY MANAGEMENT COMMENTARY MUST :

- SUPPLEMENT AND COMPLEMENT FINANCIAL STATEMENT INFORMATION.
- PROVIDE AN ANALYSIS OF THE ENTITY THROUGH THE EYES OF MANAGEMENT .
- HAVE AN ORIENTATION TO THE FUTURE.

MANAGEMENT COMMENTARY SHOULD ALSO BEPOSSESS THE ATTRIBUTES THAT MAKE THE INFORMATION USEFUL TO INVESTORE, NAMELY UNDERSTANDABILITY , RELEVANCE,SUPPORTABILITY,BALANE AND COMPARABILITY OVER TIME . THESE ARE BROADLY , THE SAME QUALITATIVE CHARACTERISTICS THAT MAKE INFORMATION IN THE FINANCIAL STATEMENTS USEFUL. **(4) marks**

THE CONTENT OF A MANAGEMENT COMMENTARY:-

THE ONUS IS ON MANAGEMENT TO DECIDE THE ACTUAL CONTENT OF THE MANAGEMENT COMMENTARY AND TO DECIDE THE BEST WAY TO PRESENT THE CONTENT.

THE ENTITY SHOULD DISCLOSE INFORMATION ON:

(3) THE NATURE OF ITS BUSINESS .
(4) ITS OBJECTIVES AND STRATEGIES .
(5) ITS KEY RESOURCES,RISKS AND RELATIONSHIPS
(6) ITS RESULTS AND PROSPECTS.
(7) ITS PERFORMANCE MEASURES AND INDICATORS

THE IASB BELIEVE THAT MANAGEMENT COMMENTARYCAN ADD SIGNIFICANTLY TO THE INFORMATION THE ENTITY PROVIDES TO INVESTORS IN FINANCIAL REPORTS. **(6) marks**

Q (4) (B)

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS

IFRS 9 REPLACES THE RULES BASED MODEL IN IAS 39 WITH AN APPROACH WHICH BASES CLASSIFICATION AND MEASUREMENT ON THE BUSINESS MODEL OF AN ENTITY, AND ON THE CASH FLOWS ASSOCIATED WITH EACH FINANCIAL ASSET. THIS HAS RESULTED IN:

(d) ELIMINATION OF THE 'HELD TO MATURITY', 'LOANS AND RECEIVABLES' AND 'AVAILABLE-FOR-SALE' CATEGORIES. INSTEAD, IFRS 9 INTRODUCES TWO CLASSIFICATION CATEGORIES: 'AMORTISED COST' AND 'FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME' TO ACCOMPANY 'FAIR VALUE THROUGH PROFIT OR LOSS'.

(e) ELIMINATION OF THE REQUIREMENT TO SEPARATELY ACCOUNT FOR (I.E. BIFURCATE) EMBEDDED DERIVATIVES IN FINANCIAL ASSETS.

HOWEVER, THE CONCEPT OF EMBEDDED DERIVATIVES HAS BEEN RETAINED FOR FINANCIAL LIABILITIES AND FOR NON-FINANCIAL ASSETS. III. ELIMINATION OF THE LIMITED EXEMPTION TO MEASURE UNQUOTED EQUITY INVESTMENTS AT COST RATHER THAN AT FAIR VALUE, IN THE RARE CIRCUMSTANCES IN WHICH THE RANGE OF REASONABLE FAIR VALUE MEASUREMENTS IS SIGNIFICANT AND THE PROBABILITIES OF THE VARIOUS ESTIMATES CANNOT REASONABLY BE ASSESSED. **(5) marks**

CLASSIFICATION AND MEASUREMENT OF FINANCIAL LIABILITIES

DURING THE DEVELOPMENT OF IFRS 9, THE IASB RECEIVED FEEDBACK THAT MOST OF THE EXISTING REQUIREMENTS FOR FINANCIAL LIABILITIES IN IAS 39 WORKED SATISFACTORILY. CONSEQUENTLY, THOSE REQUIREMENTS WERE BROUGHT FORWARD LARGELY UNCHANGED, WITH THOSE INSTRUMENTS HELD FOR TRADING BEING MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND MOST OTHERS AT AMORTISED COST. HOWEVER, IN A KEY CHANGE FOR THOSE FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS, IFRS 9 INTRODUCES A REQUIREMENT FOR MOST CHANGES IN FAIR VALUE RELATED TO AN ENTITY'S CREDIT RISK TO BE RECORDED IN OTHER COMPREHENSIVE INCOME AND NOT PROFIT OR LOSS. THIS CHANGE WAS MADE TO ELIMINATE THE COUNTER INTUITIVE EFFECT OF A DECLINE IN AN ENTITY'S CREDITWORTHINESS RESULTING IN GAINS BEING RECORDED IN PROFIT OR LOSS FOR THOSE LIABILITIES.

AS NOTED ABOVE, THE CONCEPT OF EMBEDDED DERIVATIVES HAS BEEN RETAINED FOR FINANCIAL LIABILITIES AND FOR NON-FINANCIAL ASSETS. THIS MEANS, FOR EXAMPLE, THAT CERTAIN STRUCTURED DEBT INSTRUMENTS WILL CONTINUE TO BE ACCOUNTED FOR AS AMORTISED COST HOST CONTRACTS WITH SEPARABLE EMBEDDED DERIVATIVES, RATHER THAN REQUIRING THE ENTIRE DEBT INSTRUMENT TO BE MEASURED AT FAIR VALUE (AS WOULD BE THE CASE IF EMBEDDED DERIVATIVES HAD BEEN ELIMINATED AND THE INSTRUMENT WAS ASSESSED AS A SINGLE UNIT OF ACCOUNT). **(5) marks**

IMPAIRMENT

IFRS 9 SETS OUT A NEW FORWARD LOOKING 'EXPECTED LOSS' IMPAIRMENT MODEL WHICH REPLACES THE INCURRED LOSS MODEL IN IAS 39 AND APPLIES TO:

2 FINANCIAL ASSETS MEASURED AT AMORTISED COST;

3 DEBT INVESTMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME; AND – CERTAIN LOAN **COMMITMENTS AND FINANCIAL GUARANTEE CONTRACTS.**

UNDER THE IFRS 9 'EXPECTED LOSS' MODEL, A CREDIT EVENT (OR IMPAIRMENT 'TRIGGER') NO LONGER HAS TO OCCUR BEFORE CREDIT LOSSES ARE RECOGNISED. AN ENTITY WILL NOW ALWAYS RECOGNISE (AT A MINIMUM) 12-MONTH EXPECTED CREDIT LOSSES IN PROFIT OR LOSS. LIFETIME EXPECTED LOSSES WILL BE RECOGNISED ON ASSETS FOR WHICH THERE IS A SIGNIFICANT INCREASE IN CREDIT RISK AFTER INITIAL RECOGNITION**. (2.5) marks**

HEDGE ACCOUNTING

IN CONTRAST TO THE COMPLEX AND RULES BASED APPROACH IN IAS 39, THE NEW HEDGE ACCOUNTING REQUIREMENTS IN IFRS 9 PROVIDE A BETTER LINK TO RISK MANAGEMENT AND TREASURY OPERATIONS AND ARE SIMPLER TO APPLY. THE MODEL MAKES APPLYING HEDGE ACCOUNTING EASIER, ALLOWING ENTITIES TO APPLY HEDGE ACCOUNTING MORE BROADLY, AND REDUCES THE EXTENT OF 'ARTIFICIAL' PROFIT OR LOSS VOLATILITY.

KEY CHANGES INTRODUCED INCLUDE:

4 SIMPLIFIED EFFECTIVENESS TESTING, INCLUDING REMOVAL OF THE 80-125% HIGHLY EFFECTIVE THRESHOLD;

5 MORE ITEMS QUALIFY FOR HEDGE ACCOUNTING, E.G. HEDGING THE BENCHMARK PRICING COMPONENT OF COMMODITY CONTRACTS AND NET FOREIGN EXCHANGE CASH POSITIONS;

6 **ENTITIES CAN HEDGE ACCOUNT MORE EFFECTIVELY FOR EXPOSURES THAT GIVE RISE TO TWO RISK POSITIONS (E.G. INTEREST RATE RISK AND FOREIGN EXCHANGE RISK, OR COMMODITY RISK AND FOREIGN EXCHANGE RISK) THAT ARE MANAGED BY SEPARATE DERIVATIVES OVER DIFFERENT PERIODS; (2.5) marks**