Answers

1 **(a)** The functional currency is the currency of the primary economic environment in which the entity operates (IAS21). The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity's management considers the following factors in determining its functional currency (IAS21):

(i) the currency that dominates the determination of the sales prices; and
(ii) the currency that most influences operating costs

The currency that dominates the determination of sales prices will normally be the currency in which the sales prices for goods and services are denominated and settled. It will also normally be the currency of the country whose competitive forces and regulations have the greatest impact on sales prices. In this case it would appear that currency is the dinar as Zian sells its products locally and the prices are determined by local competition. However, the currency that most influences operating costs is in fact the dollar, as Zian imports goods which are paid for in dollars although all selling and operating expenses are paid in dinars. The emphasis is, however, on the currency of the economy that determines the pricing of transactions, as opposed to the currency in which transactions are denominated.

Factors other than the dominant currency for sales prices and operating costs are also considered when identifying the functional currency. The currency in which an entity's finances are denominated is also considered. Zian has partly financed its operations by raising a $4 million loan from Hall but it is not dependent upon group companies for finance. The focus is on the currency in which funds from financing activities are generated and the currency in which receipts from operating activities are retained.

Additional factors include consideration of the autonomy of a foreign operation from the reporting entity and the level of transactions between the two. Zian operates with a considerable degree of autonomy both financially and in terms of its management. Consideration is given to whether the foreign operation generates sufficient functional cash flows to meet its cash needs which in this case Zian does as it does not depend on the group for finance.

It would be said that the above indicators give a mixed view but the functional currency that most faithfully represents the economic effects of the underlying transactions, events, and conditions is the dinar, as it most affects sales prices and is most relevant to the financing of an entity. The degree of autonomy and independence provides additional supporting evidence in determining the entity's functional currency.

(b) Consolidated Statement of Financial Position of Ribby Group at 31 May 2008

	$m
Assets	
Non-current assets	
Property, plant and equipment	415
Goodwill	17
Financial assets	23
	455
Current assets	51
Total assets	506
Ordinary shares	60
Other reserves	32
Retained earnings	122
Total shareholders' equity	214
Minority interests	60
Total equity	274
Non-current liabilities	89
Current liabilities	143
	506

Workings

(i) Zian – translation and calculation of goodwill

	Dinars m	Exchange loss on loan	Fair value adjustment	Rate	$m
Property, Plant and Equipment	360		66	12	35·5
Financial assets	148			12	12·3
Current assets	120			12	10
	628				57·8
Ordinary shares	209			11	19
Other reserves			66	11	6
Retained – pre-acquisition earnings	220			11	20
					45
Retained – post acquisition earnings	79	(8)			2·1 (balance)
Non-current liabilities	48	8		12	4·7
Current liabilities	72			12	6
	628				57·8

Loans between subsidiaries cannot be treated as part of the holding company's net investment in a foreign subsidiary (IAS21). Zian will recognise an exchange difference on the loan from Hall in its income statement and the exchange difference will flow through to the consolidated income statement and will not be reclassified as a separate component of equity.

	Dinars m
Loan at 1 June 2007 $4 million at 10 dinars	40
Loan at 31 May 2008 $4 million at 12 dinars	48
Exchange loss	8

The loan of $4 million should be eliminated on consolidation.

The fair value adjustment at acquisition is:

	Dinars m
Ordinary shares	209
Retained earnings	220
Fair value adjustment	66
Fair value of net assets	495

Goodwill

	Dm	Rate	$m
Cost of acquisition	330	11	30
less net assets acquired (60% of 495)	(297)	11	(27)
Goodwill	33		3

Goodwill is treated as a foreign currency asset which is retranslated at the closing rate. Therefore, goodwill at 31 May 2008 will be 33 million dinars ÷ 12, i.e. $2·8 million

Therefore, an exchange loss of $0·2 million will be recorded in retained earnings.

(ii) Consolidated statement of financial position at 31 May 2008

	Ribby	Hall	Zian	Adjustment	Total
	$m	$m	$m	$m	$m
Property, plant and equipment	250	120	35·5	(0·8)	414·7
				10	
Goodwill		14	3	(0·2)	16·8
Financial assets	10	5	12·3	(4)	23·3
Current assets	22	17	10	(4)	51
				6	
					505·8
Ordinary shares	60				60
Other reserves	30			1·8	31·8
Retained earnings	120	11·2	1·3	(0·2)	
				(0·8)	
				(1)	
				(4·8)	
				(3·5)	
					122·2
Non-current liabilities	90	5	4.7	1	
				(4)	
				3·5	
				(11)	89·2
Current liabilities	110	7	6	3	
				11	143
				6	
Minority interest					59·6
					505·8

Retained earnings of Zian is 60% of $2·1 million, i.e. $1·3 million

(iii) Minority Interest

		$m	$m
Zian: 40% of $(45 + 2·1)million			18·8
Hall: 30% of	total equity	130	
	Revaluation	10	
	Profit adjustment – inventory	(4)	
		136	
			40·8
			59·6

(iv) Building: Ribby

	$m
Carrying value at 31 May 2008	3·8
(40 million dinars ÷ 10 = $4 million)	
(Depreciation $0·2 million)	
Value after impairment review (36 million dinars ÷ 12)	(3)
Impairment loss	0·8

(v) Early repayment of loan

As the company has entered into an agreement to repay the debt early plus a penalty, it should adjust the carrying value of the financial liability to reflect actual and revised estimated cash flows (IAS39). Therefore, the carrying amount of the debt should be increased by $1 million and be transferred to current liabilities.

(vi) Past service cost

A past service cost of $3 million should be recognised immediately as those benefits have already vested and should be charged as an expense. The remaining $1 million should be recognised on a straight line basis over the two year period that it takes to vest. The pension entitlement has not yet vested fully as it is given in return for services over the remaining two year period. Thus the following entries will be required to account for the past service costs.

		$m
DR	Retained earnings $(3 + 0·5)m	3·5
CR	Non-current liabilities (defined benefit obligation)	3·5

(vii) Accounting for sale of inventory (see part (c))

The transaction should not be shown as a sale. Inventory should be reinstated at $2 million instead of $6 million and a decrease in retained earnings of $4 million should occur in the accounting records of Hall.

CR	Inventory	$4 million
DR	Retained earnings of Hall	$4 million

The cash position should be reversed also by increasing cash by $6 million and the current liabilities by $6 million.

(viii) Bonus to employees of Ribby

A liability of $3 million should be accrued for the bonus to be paid in cash to the employees of Ribby. The management should also recognise an expense of ($^2/_3$ x 90% x $3 million) $1.8 million, with a corresponding increase in equity. The terms of the share options have not been fixed and, therefore, the grant date becomes 30 November 2008 as this is the date that the terms and conditions will be fixed. However, IFRS2 requires the entity to recognise the services when received and, therefore, adjustment is required to the financial statements. Once the terms are fixed, the fair value can be calculated and any adjustments made.

		$m
DR	Expense – in retained earnings	4·8
CR	Equity	1·8
CR	Current liabilities	3

(ix) Goodwill: Hall

	$m	$m
Cost of investment	98	
less net assets acquired (70% of $120 million)	(84)	
Goodwill	14	

Alternatively

	$m	$m
Cost of investment		98
Ordinary shares	40	
Other reserves	10	
Retained earnings	60	
	110	
Fair value adjustment	10	
Fair value assets x 70%	120	(84)
Goodwill		14

Retained earnings: Hall

70% of $(80 – 4 – 60)million, i.e. $11·2 million

(x) Tangible assets

	$m	$m
Ribby	250	
Hall	120	
Zian	35·5	
		405·5
Impairment loss		(0·8)
Revaluation – Hall		10
		414·7

(xi) Retained earnings

	$m	$m
Ribby	120	
Hall	11·2	
Zian	1·3	
		132·5
Past service costs		(3·5)
Exchange loss – goodwill		(0·2)
Impairment loss – building		(0·8)
Loan (working v)		(1)
Bonus to employees (working viii)		(4·8)
		122·2

(xii) Non-current liabilities

Ribby	90	
Hall	5	
Zian	4·7	
		99·7
Increase – carrying amount of debt		1
Elimination of loan		(4)
Past service cost		3·5
Transfer to current liabilities		(11)
		89·2

(c) Accounting and ethical implications of sale of inventory

Manipulation of financial statements often does not involve breaking laws but the purpose of financial statements is to present a fair representation of the company's position, and if the financial statements are misrepresented on purpose then this could be deemed unethical. The financial statements in this case are being manipulated to show a certain outcome so that Hall may be shown to be in a better financial position if the company is sold. The retained earnings of Hall will be increased by $4 million, and the cash received would improve liquidity. Additionally this type of transaction was going to be carried out again in the interim accounts if Hall was not sold. Accountants have the responsibility to issue financial statements that do not mislead the public as the public assumes that such professionals are acting in an ethical capacity, thus giving the financial statements credibility.

A profession is distinguished by having a:

(i) specialised body of knowledge
(ii) commitment to the social good
(iii) ability to regulate itself
(iv) high social status

Accountants should seek to promote or preserve the public interest. If the idea of a profession is to have any significance, then it must make a bargain with society in which they promise conscientiously to serve the public interest. In return, society allocates certain privileges. These might include one or more of the following:

– the right to engage in self-regulation
– the exclusive right to perform particular functions
– special status

There is more to being an accountant than is captured by the definition of the professional. It can be argued that accountants should have the presentation of truth, in a fair and accurate manner, as a goal.

2 (a) Upon adoption of IFRS8,'Operating Segments', the identification of Norman's segments may or may not change depending on how segments were identified previously. IFRS8 requires operating segments to be identified on the basis of internal reports about the components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Formerly companies identified business and geographical segments using a risks and rates of return approach with one set of segments being classed as primary and the other as secondary. IFRS8 states that a component of an entity that sells primarily or exclusively to other operating segments of the entity meets the definition of an operating segment if the entity is managed that way. IFRS8 does not define segment revenue, segment expense, segment result, segment assets, and segment liabilities but does require an explanation of how segment profit or loss, segment assets, and segment liabilities are measured for each segment. This will give entities some discretion in determining what is included in segment profit or loss but this will be limited by their internal reporting practices. The core principle is that the entity should disclose information to enable users to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates.

IFRS8 'Operating Segments' defines an operating segment as follows. An operating segment is a component of an entity:

– that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
– whose operating results are reviewed regularly by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available

IFRS8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments that meet specified criteria:

– the reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
– the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss, and (ii) the combined reported loss of all operating segments that reported a loss; or
– its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments must be identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the entity's revenue is included in reportable segments. There is no precise limit to the number of segments that can be disclosed.

As the key performance indicators are set on a city by city basis, there may be information within the internal reports about the components of the entity which has been disaggregated further. Also the company is likely to make decisions about the allocation of resources and about the nature of performance on a city basis because of the individual key performance indicators.

In the case of the existing segments, the European segment meets the criteria for a segment as its reported revenue from external and inter segment sales ($203 million) is more than 10% of the combined revenue ($1,010 million). However, it fails the profit/loss and assets tests. Its results are a loss of $10 million which is less than 10% of the greater of the reported profit or reported loss which is $165 million. Similarly its segment assets of $300 million are less than 10% of the combined segment assets ($3,100 million). The South East Asia segment passes all of the threshold tests. If the company changes its business segments then the above tests will have to be reperformed. A further issue is that the current reported segments constitute less than 75% of the company's external revenue (50%), thus additional operating segments must be identified until 75% of the entity's revenue is included in reportable segments.

Norman may have to change the basis of reporting its operating segments. Although the group reports to management on the basis of three geographical regions, it is likely that management will have information which has been further disaggregated in order to make business decisions. Therefore, the internal reports of Norman will need to be examined before it is possible to determine the nature of the operating segments.

(b) Property is sometimes sold with a degree of continuing involvement by the seller so that the risks and rewards of ownership have not been transferred. The nature and extent of the buyer's involvement will determine how the transaction is accounted for. The substance of the transaction is determined by looking at the transaction as a whole and IAS18 'Revenue' requires this by stating that where two or more transactions are linked, they should be treated as a single transaction in order to understand the commercial effect (IAS18 paragraph 13). In the case of the sale of the hotel, theme park and casino, Norman should not recognise a sale as the company continues to enjoy substantially all of the risks and rewards of the businesses, and still operates and manages them. Additionally the residual interest in the business reverts back to Norman. Also Norman has guaranteed the income level for the purchaser as the minimum payment to Conquest will be $15 million a year. The transaction is in substance a financing arrangement and the proceeds should be treated as a loan and the payment of profits as interest.

The principles of IAS18 and IFRIC13 'Customer Loyalty Programmes' require that revenue in respect of each separate component of a transaction is measured at its fair value. Where vouchers are issued as part of a sales transaction and are redeemable against future purchases, revenue should be reported at the amount of the consideration received/receivable less the voucher's fair value. In substance, the customer is purchasing both goods or services and a voucher. The fair value of the voucher is determined by reference to the value to the holder and not the cost to the issuer. Factors to be taken into account when estimating the fair value, would be the discount the customer obtains, the percentage of vouchers that would be redeemed, and the time value of money. As only one in five vouchers are redeemed, then effectively the hotel has sold goods worth ($300 + $4) million, i.e. $304 million for a consideration of $300 million. Thus allocating the discount between the two elements would mean that (300 ÷ 304 x $300m) i.e. $296·1 million will be allocated to the room sales and the balance of $3·9 million to the vouchers. The deferred portion of the proceeds is only recognised when the obligations are fulfilled.

The recognition of government grants is covered by IAS20 'Accounting for government grants and disclosure of government assistance'. The accruals concept is used by the standard to match the grant received with the related costs. The relationship between the grant and the related expenditure is the key to establishing the accounting treatment. Grants should not be recognised until there is reasonable assurance that the company can comply with the conditions relating to their receipt and the grant will be received. Provision should be made if it appears that the grant may have to be repaid.

There may be difficulties of matching costs and revenues when the terms of the grant do not specify precisely the expense towards which the grant contributes. In this case the grant appears to relate to both the building of hotels and the creation of employment. However, if the grant was related to revenue expenditure, then the terms would have been related to payroll or a fixed amount per job created. Hence it would appear that the grant is capital based and should be matched against the depreciation of the hotels by using a deferred income approach or deducting the grant from the carrying value of the asset (IAS20). Additionally the grant is only to be repaid if the cost of the hotel is less than $500 million which itself would seem to indicate that the grant is capital based. If the company feels that the cost will not reach $500 million, a provision should be made for the estimated liability if the grant has been recognised.

3 Report to the directors of Sirus

Terms of Reference

This report sets out the impact of International Financial Reporting Standards on:

(a) the directors' interests in Sirus
(b) the directors' retirement benefits
(c) the acquisition of Marne
(d) the proposed repayment of the loan

(a) Directors' interests in Sirus

The capital of Sirus should be presented as either a financial liability or equity. IAS32 'Financial Instruments: Presentation' says that a financial liability is:

Any liability that is:

– a contractual obligation:

to deliver cash or another financial asset to another entity; or
to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

– a contract that will or may be settled in the entity's own equity instruments

It also defines equity as: any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Those instruments that do not meet the definition of a liability will be classified as equity. The entity must, therefore, have an unconditional right to avoid delivery of cash or another financial asset.

The definition of a financial instrument used in IAS32 is the same as that in IAS39.

The fundamental principle of IAS32 is that a financial instrument should be classified as either a financial liability or an equity instrument according to the substance of the contract, not its legal form. The enterprise must make the decision at the time the instrument is initially recognised.

The capital subscribed by the directors has a mandatory redemption feature at a future date, thus the substance is that there is a contractual obligation to deliver cash and, therefore, should be recognised as a liability. In contrast, if the return of capital was discretionary and Sirus has an unconditional right to avoid paying cash or assets to the directors, then the capital would be classed as equity. The financial liability will be stated at the present value of the redemption amount. This may be calculated by discounting the amount over the life of the service contract. Subsequently financial liabilities are carried at fair value through profit or loss or at amortised cost under IAS39. In this case, the liability is likely to be held at amortised cost.

Any distribution of profits would be classed as an appropriation of equity because the shareholders of Sirus have the right to refuse payment of profits and thus the $3 million that is to be divided between the directors will be classed as an appropriation of equity rather than as an expense. As the appropriation has not been paid or approved at the year end, it will not appear as a liability in the statement of financial position. Effectively it is being treated like a proposed dividend. The $10 million paid to directors under remuneration contracts will be treated as an expense.

(b) Directors' retirement benefits

The directors' retirement benefits are unfunded plans which may fall under IAS19 'Employee Benefits'.

Sirus should review its contractual or constructive obligation to make retirement benefit payments to its former directors at the time when they leave the firm. The payments may create a financial liability under IAS32, or may give rise to a liability of uncertain timing and amount which may fall within the scope of IAS37 'Provisions, contingent liabilities and contingent assets'. Certain former directors are paid a fixed annuity for a fixed term which is payable annually, and on death, the present value of future payments are paid to the director's estate. An annuity meets the definition of a financial liability under IAS32, if there is a contractual obligation to deliver cash or a financial asset. The latter form of annuity falls within the scope of IAS32/39. The present value of the annuity payments should be determined. The liability is recognised because the directors have a contractual right to the annuity and the firm has no discretion in terms of withholding the payment. As the rights to the annuities are earned over the period of the service of the directors, then the costs should have been recognised also over the service period.

Where an annuity has a life contingent element and, therefore, embodies a mortality risk, it falls outside the scope of IAS39 because the annuity will meet the definition of an insurance contract which is scoped out of IAS39, along with employers' rights and obligations under IAS19. Such annuities will, therefore, fall within the scope of IAS37 if a constructive obligation exists. Sirus should assess the probability of the future cash outflow of the present obligation. Because there are a number of similar obligations, IAS37 requires that the class of obligations as a whole should be considered (similar to a warranty provision). A provision should be made for the best estimate of the costs of the annuity and this would include any liability for post retirement payments to directors earned to date. The liability should be built up over the service period rather than just when the director leaves. In practice the liability will be calculated on an actuarial basis consistent with the principles in IAS19. The liability should be recalculated on an annual basis, as for any provision, to take account of changes in directors and other factors. The liability will be discounted where the effect is material.

(c) Acquisition of Marne

All business combinations within the scope of IFRS 3 'Business Combinations' must be accounted for using the purchase method. (IFRS 3.14) The pooling of interests method is prohibited. Under IFRS 3, an acquirer must be identified for all business combinations. (IFRS 3.17) Sirus will be identified as the acquirer of Marne and must measure the cost of a business combination at the sum of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of Marne; plus any costs directly attributable to the combination. (IFRS 3.24) If the cost is subject to adjustment contingent on future events, the acquirer includes the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably. (IFRS 3.32) However, if the contingent payment either is not probable or cannot be measured reliably, it is not measured as part of the initial cost of the business combination. If that adjustment subsequently becomes probable and can be measured reliably, the additional consideration is treated as an adjustment to the cost of the combination. (IAS 3.34) The issue with the increased profit share payable to the directors of Marne is whether the payment constitutes remuneration or consideration for the business acquired. Because the directors of Marne fall back to normal remuneration levels after the two year period, it appears that this additional payment will constitute part of the purchase consideration with the resultant increase in goodwill. It seems as though these payments can be measured reliably and therefore the cost of the acquisition should be increased by the net present value of $11 million at 1 May 2007 being $5 million discounted for 1 year and $6 million for 2 years.

(d) Repayment of the loan

If at the beginning of the loan agreement, it was expected that the repayment option would not be exercised, then the effective interest rate would be 8% and at 30 April 2008, the loan would be stated at $2 million in the statement of financial position with interest of $160,000 having been paid and accounted for. If, however, at 1 May 2007, the option was expected to be exercised, then the effective interest rate would be 9·1% and at 30 April 2008, the cash interest paid would have been $160,000 and the interest charged to the income statement would have been (9·1% x $2 million) $182,000, giving a statement of financial position figure of $2,022,000 for the amount of the financial liability. However, IAS39 requires the carrying amount of the financial instrument to be adjusted to reflect actual and revised estimated cash flows. Thus, even if the option was not expected to be exercised at the outset but at a later date exercise became likely, then the carrying amount would be revised so that it represented the expected future cash flows using the effective interest rate. As regards the discussions with the bank over repayment in the next financial year, if the loan was shown as current, then the requirements of IAS1 'Presentation of Financial Statements' would not be met. Sirus has an unconditional right to defer settlement for longer than twelve months and the liability is not due to be legally settled in 12 months. Sirus's discussions should not be considered when determining the loan's classification.

It is hoped that the above report clarifies matters.

4 **(a)** The transition to International Financial Reporting Standards (IFRS) involves major change for companies as IFRS introduces significant changes in accounting practices that often were not required by national GAAPs. For example financial instruments and share-based payment plans in many instances have appeared on the statements of financial position of companies for the first time. As a result IFRS financial statements are often significantly more complex than financial statements based on national GAAP. This complexity is caused by the more extensive recognition and measurement rules in IFRS and a greater number of disclosure requirements. Because of this complexity, it can be difficult for users of financial statements which have been produced using IFRS to understand and interpret them, and thus can lead to inconsistency of interpretation of those financial statements.

The form and presentation of financial statements is dealt with by IAS1 'Presentation of Financial Statements'. This standard sets out alternative forms or presentations of financial statements. Additionally local legislation often requires supplementary information to be disclosed in financial statements, and best practice as to the form or presentation of financial statements has yet to emerge internationally. As a result companies moving to IFRS have tended to adopt IFRS in a way which minimises the change in the form of financial reporting that was applied under national GAAP. For example UK companies have tended to present a statement of recognised income and expense, and a separate statement of changes in equity whilst French companies tend to present a single statement of changes in equity.

It is possible to interpret standards in different ways and in some standards there is insufficient guidance. For example there are different acceptable methods of classifying financial assets under IAS39 'Financial Instruments: Recognition and Measurement' in the statement of financial position as at fair value through profit or loss (subject to certain conditions) or available for sale.

IFRSs are not based on a consistent set of principles, and there are conceptual inconsistencies within and between standards. Certain standards allow alternative accounting treatments, and this is a further source of inconsistency amongst financial statements. IAS31 'Interests in Joint Ventures' allows interests in jointly controlled entities to be accounted for using the equity method or proportionate consolidation. Companies may tend to use the method which was used under national GAAP. Another example of choice in accounting methods under IFRS is IAS16 'Property, Plant and equipment' where the cost or revaluation model can be used for a class of property, plant and equipment. Also there is very little industry related accounting guidance in IFRS. As a result judgement plays an important role in the selection of accounting policies. In certain specific areas this can lead to a degree of inconsistency and lack of comparability.

IFRS1, 'First time Adoption of International Financial Reporting Standards', allows companies to use a number of exemptions from the requirements of IFRS. These exemptions can affect financial statements for several years. For example, companies can elect to recognise all cumulative actuarial gains and losses relating to post-employment benefits at the date of transition to IFRS but use the 'corridor' approach thereafter. Thus the effect of being able to use a 'one off write off' of any actuarial losses could benefit future financial statements significantly, and affect comparability. Additionally after utilising the above exemption, companies can elect to recognise subsequent gains and losses outside profit or loss in 'other comprehensive income' in the period in which they occur and not use the 'corridor' approach thus affecting comparability further.

Additionally IAS18 'Revenue' allows variations in the way revenue is recognised. There is no specific guidance in IFRS on revenue arrangements with multiple deliverables. Transactions have to be analysed in accordance with their economic substance but there is often no more guidance than this in IFRS. The identification of the functional currency under IAS21, 'The effects of changes in foreign exchange rates', can be subjective. For example the functional currency can be determined by the currency in which the commodities that a company produces are commonly traded, or the currency which influences its operating costs, and both can be different.

Another source of inconsistency is the adoption of new standards and interpretations earlier than the due date of application of the standard. With the IASB currently preparing to issue standards with an adoption date of 1 January 2009, early adoption or lack of it could affect comparability although IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors' requires a company to disclose the possible impact of a new standard on its initial application. Many companies make very little reference to the future impact of new standards.

(b) Management judgement may have a greater impact under IFRS than generally was the case under national GAAP. IFRS utilises fair values extensively. Management have to use their judgement in selecting valuation methods and formulating assumptions when dealing with such areas as onerous contracts, share-based payments, pensions, intangible assets acquired in business combinations and impairment of assets. Differences in methods or assumptions can have a major impact on amounts recognised in financial statements. IAS1 expects companies to disclose the sensitivity of carrying amounts to the methods, assumptions and estimates underpinning their calculation where there is a significant risk of material adjustment to their carrying amounts within the next financial year. Often management's judgement is that there is no 'significant risk' and they often fail to disclose the degree of estimation or uncertainty and thus comparability is affected.

In addition to the IFRSs themselves, a sound financial reporting infrastructure is required. This implies effective corporate governance practices, high quality auditing standards and practices, and an effective enforcement or oversight mechanism. Therefore, consistency and comparability of IFRS financial statements will also depend on the robust nature of the other elements of the financial reporting infrastructure.

Many preparers of financial statements will have been trained in national GAAP and may not have been trained in the principles underlying IFRS and this can lead to unintended inconsistencies when implementing IFRS especially where the accounting profession does not have a CPD requirement. Additionally where the regulatory system of a country is not well developed, there may not be sufficient market information to utilise fair value measurements and thus this could lead to hypothetical markets being created or the use of mathematical modelling which again can lead to inconsistencies because of lack of experience in those countries of utilising these techniques. This problem applies to other assessments or estimates relating to such things as actuarial valuations, investment property valuations, impairment testing, etc.

The transition to IFRS can bring significant improvement to the quality of financial performance and improve comparability worldwide. However, there are issues still remaining which can lead to inconsistency and lack of comparability with those financial statements.

				Marks
1	**(a)**	Consideration of factors		6
		Conclusion		2
				8
	(b)	Translation of Zian		6
		Loan		2
		Goodwill: Zian		4
		Minority interest		4
		Building		3
		Early repayment of loan		1
		Pension		2
		Inventory		1
		Bonus		3
		Goodwill: Hall		2
		Retained earnings Hall		2
		Zian		1
		Ribby		3
		Other reserves		1
				35
	(c)	Accounting		2
		Ethical discussion		3
		Quality of discussion		2
				7
			MAXIMUM	**50**
2	**(a)**	Identification of segments		2
		Definition		2
		Reporting information		2
		Norman applicability		5
				11
	(b)	Sale of businesses		4
		Vouchers		4
		Grant income		4
		Quality of discussion		2
				14
			MAXIMUM	**25**

			Marks
3	**(a)**	Definition of financial liability and equity	3
		Principle in IAS32	1
		Discussion	2
	(b)	IAS19	1
		Financial liability	2
		Provision	1
		Build up over service period	1
		Recalculate annually	1
	(c)	Purchase method	1
		Cost of business combinations	1
		Future payment	1
		Remuneration versus cost of acquisition	2
	(d)	Not exercised	2
		Expected exercise	1
		IAS39	1
		Current v non-current	2
	Communication in report		2
		MAXIMUM	**25**
4	**(a)**	Changes from national GAAP	2
		Complexity	1
		Recognition, measurement, disclosure	2
		Alternative forms of presentation	1
		Inconsistent principles	2
		Alternate accounting treatments	3
		Little industry related guidance	1
		IFRS1	2
		Interpretation of IFRS	2
		Adoption date	1
			17
	(b)	Management judgements	2
		Disclosure of sensitivity	1
		Regulatory infrastructure	2
		Training/markets	1
		Communication	2
			8
		MAXIMUM	**25**