Answers

1 (a) Traveler plc

Consolidated Statement of Financial Position at 30 November 2011

	$m
Assets:	
Non-current assets:	
Property, plant and equipment (W9)	1,842·28
Goodwill (W3)	69·2
Financial assets (W4)	130·12
Defined benefit asset (W8)	38
Current assets (W10)	2,126
Total assets	4,205·6
Equity and liabilities	
Equity attributable to owners of parent	
Share capital	1,120
Retained earnings (W5)	968·4
Other components of equity (W5)	91·7
	2,180·1
Non-controlling interest (W7)	343·5
	2,523·6
Total non-current liabilities (W10)	851
Current liabilities (W6)	831
Total liabilities	1,682
Total equity and liabilities	4,205·6

Working 1

Data

	$m	$m
Fair value of consideration for 60% interest		600
Fair value of non-controlling interest		395
Fair value of identifiable net assets acquired:		
Share capital	600	
Retained earnings	299	
OCE	26	
FV adjustment – land (balance)	10	
		(935)
Goodwill		60

Further acquisition of 20%

	$m	$m
Fair value of consideration		220
NCI at 1 December 2010	395	
Increase in net assets to 30 November 2011:		
((1,079 + 10) – 935) x 40%	61·6	
NCI 30 November 2011	456·6	
Transfer to equity 20/40		228·3
Positive movement in equity		8·3

The net assets of Data have increased from $935 to $1,089 million $(1,079 + fair value adjustment 10), i.e. $154 million. The NCI proportion is 40% of $154 million, i.e. $61·6 million.

Working 2

Captive

	$m		$m
Purchase consideration			541
Less fair value of identifiable net assets:			
Share capital	390		
Retained earnings	90		
OCE	24		
FV adjustment – land (balance)	22		
	526	x 80%	420·8
Goodwill			120·2

The assets transferred as part of the consideration need to be removed from non-current assets, and the gain on disposal needs to be calculated. The proceeds of $64m credited to profit needs to be removed. The sale consideration is $64 million and the carrying amount is $56 million, giving a gain on disposal of $8 million. The adjustment required to arrive at the gain is:

Dr Retained earnings	$56m
Cr Non-current assets	$56m

Working 3

Impairment of goodwill

Data

Goodwill		60
Identifiable net assets		
Net assets	1,079	
FV adjustment – land	10	
		1,089
Total		1,149
Recoverable amount		(1,099)
Goodwill impairment		50

The goodwill impairment relating to Data will be split 80/20 between the group and the NCI. Thus retained earnings will be debited with $40 million and NCI with $10 million.

Note: *IAS 36 Appendix C, paragraphs C5 to C9 states that when NCI is valued at fair value, any goodwill impairment should be allocated on the basis of the allocation used for profit or loss. Given that the impairment review arose at the year end when Traveler's shareholding was 80%, this is now the basis of profit allocation and hence has been used in determining the split between group and NCI. It could be argued that a 60:40 allocation between group and NCI is also appropriate as this was how profits that arose in the year have been apportioned and the impairment is a loss that arose in the year, albeit at the year end.*

Captive

	$m	$m
Goodwill		120·2
Unrecognised non-controlling interest (20%)		30·05
Identifiable net assets		
Net assets	604	
FV adjustment – land	22	
		626
Total		776·25
Recoverable amount		(700)
Goodwill impairment on grossed up amount		76·25
Goodwill impairment on Traveler's share (80% x 76·25)		61

Goodwill is therefore $(60 + 120·2 – 50 – 61)million, i.e. $69·2 million.

Working 4

Financial asset

Under IFRS 9, debt instruments are subsequently measured at amortised cost if:

(a) The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows; and

(b) The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value. The classification of an instrument is determined on initial recognition and reclassifications are only permitted on the change of an entity's business model and are expected to occur only infrequently. Traveler cannot measure the instrument at fair value as the objective for holding the financial asset has not changed.

The impairment loss is calculated by discounting the annual payments using the original effective interest rate of 6·7% as follows:

			$m
Carrying value			29·00
PV of future cash flows:			
Year 1	8m x 1/1·067	7·50	
Year 2	8m x $1/1{\cdot}067^2$	7·03	
Year 3	8m x $1/1{\cdot}067^3$	6·59	
			(21·12)
Impairment to profit or loss			7·88

The carrying value will be $(108 + 10 + 20 – 7·88)m, i.e. $130·12m

Working 5

Retained earnings

	$m
Traveler – Balance at 30 November 2011	1,066
Sale of non-current asset (W2)	(56)
Impairment of goodwill (W3) $(40 + 61)m	(101)
Impairment of financial instrument (W4)	(7·88)
Defined benefit cost (W8)	(55)
Write off of defined benefit asset	(24)
Depreciation for year factory (W9)	(2·72)
Post acquisition reserves: Data (60% of $(442 – 299)m)	85·8
Captive (80% of $(169 – 90)m)	63·2
	968·4

Other components of equity

	$m
Traveler – Balance at 30 November 2011	60
Data post acqn (60% of $(37 – 26)m)	6·6
Captive (80% x $(45 – 24)m)	16·8
Positive movement in equity	8·3
	91·7

Working 6

Current liabilities

	$m
Traveler	274
Data	199
Captive	313
Defined benefit contributions (W8)	45
	831

Working 7

Non-controlling interest

	$m
Data (W1)	228·3
Impairment of Data goodwill (W3)	(10)
Captive (20% x $(604 + 22)m)	125·2
	343·5

Working 8

Defined benefit pension fund

The entries for the pension scheme would be as follows:

Dr profit or loss	$55m
Cr defined benefit asset	$55m
Pension cost	
Dr defined benefit asset	$45m
Cr current liabilities	$45m

Accrual of contributions

The defined benefit asset would be as follows:

PV of obligation at 1 December 2010	200
Fair value of assets at 1 December 2010	(250)
Actuarial losses	(22)
Pension surplus at 1 December 2010	(72)
Pension costs	55
Contributions accrued	(45)
Pension surplus at 30 November 2011	(62)
Restriction of amount recognised as asset (see below)	24
Pension surplus at 30 November 2011	(38)

There would not be any recognition of actuarial losses as the limits of the corridor (10% of the fair value of the assets, i.e. $25 million) are greater than the unrecognised losses. However, there will be a ceiling placed on the amount to be recognised as an asset. This will be the total of the unrecognised actuarial losses of $20 million and the present value of available future refunds and reductions in future contributions of $18 million. That is $38 million. Therefore the defined benefit asset will be reduced by $(62 – 38) million, i.e. $24 million.

Working 9

Property, plant and equipment

Traveler cannot treat the roof and the building as a single asset. They must be treated separately. The roof will be depreciated over five years at $1 million per annum and the remainder will be depreciated over 25 years taking into account the residual value. ($45m – 2m)/25 years, i.e. $1·72million per annum. The total depreciation for the year is $2·72 million.

	$m	$m
Traveler	439	
Data	810	
Captive	620	
		1,869
Increase in value of land – Data (W1)		10
Increase in value of land – Captive (W2)		22
Less depreciation		(2·72)
Less disposal of asset (W2)		(56)
		1,842·28

Working 10

Non-current liabilities

	$m	$m
Traveler	455	
Data	323	
Captive	73	
		851

Current assets

	$m	$m
Traveler	995	
Data	781	
Captive	350	
		2,126

(b) IFRS 8 does not prescribe how centrally incurred expenses and central assets should be allocated to segments. However, allocation of costs and expenses is an area where the basis chosen by an entity can have a significant effect on the segment results. IFRS 8, however, does require that amounts be allocated on a reasonable basis. The head office management costs could be allocated on the basis of turnover or net assets. The basis of allocation will significantly affect the results. The pension expense may be allocated on the number of employees or salary expense of each segment. Allocating the expense to a segment with no pensionable employees would however not be reasonable. The costs of managing properties could be allocated on the basis of the type, value and age of the properties used by each segment. Different bases can be appropriate for each type of cost. The standard does not require allocation of costs to be on a consistent basis. An entity may allocate interest to a segment profit or loss but does not have to allocate the related interest-bearing asset to the segment assets or liabilities. IFRS 8 calls this asymmetrical allocation.

IFRS 8 requires the information presented to be the same basis as it is reported internally, even if the segment information does not comply with IFRS or the accounting policies used in the consolidated financial statements. Examples of such situations include segment information reported on a cash basis (as opposed to an accruals basis), and reporting on a local GAAP basis for segments that are comprised of foreign subsidiaries. Although the basis of measurement is flexible, IFRS 8 requires entities to provide an explanation of:

(i) the basis of accounting for transactions between reportable segments;
(ii) the nature of any differences between the segments' reported amounts and the consolidated totals.

For example, those resulting from differences in accounting policies and policies for the allocation of centrally incurred costs that are necessary for an understanding of the reported segment information. In addition, IFRS 8 requires reconciliations between the segments' reported amounts and the consolidated financial statements.

(c) Traditional ethical conduct relating to disclosure is insufficient when applied to corporate social responsibility (CSR) disclosure because the role of company is linked with the role of citizen, which is held to a higher ethical standard. Corporate citizens are companies acting on behalf of a social interest, which may or may not affect revenues. These socially beneficial actions raise the ethical standard for such companies because of altruistic intentions, which is entirely different from the profit-generating purpose of a company. The ethical expectations of corporate citizens are thus more demanding than those for businesses without a social interest, especially in the way corporate citizens communicate their practices.

The ethics of corporate social responsibility disclosure are difficult to reconcile with shareholder expectations. Companies must remain profitable but there may be conflict. Maintaining integrity becomes more challenging when a company may report less profit and thus lower directors' bonuses. The problem that faces many companies is how to ethically, legally, and effectively disclose information while maintaining their market position.

It can be argued that increased CSR disclosure is in itself a form of socially responsible behaviour, and that by offering more information to the public, companies better meet their responsibilities to stakeholders. There are ethical implications of companies using CSR reporting for the sole purpose of improving revenue. The ethical implications are exacerbated if the desired effects of disclosing responsible conduct are solely to improve profitability. Disclosing good conduct solely for profit is unacceptable because it exploits something of much higher value (right conduct) to promote something which may be thought as being of lower value (profit).

2 (a) (i) Cash Purchase of Rant by Ceed

	Decany $m	Ceed $m	Rant $m
Non-current assets			
Tangible non-current assets at depreciated cost/valuation	600	185	35
Cost of investment in Ceed	130		11
Cost of investment in Rant		98	
Loan receivable	98		
Current assets	180	32	118
	1,008	315	164
Equity and reserves			
Share capital	140	75	35
Share premium		6	
Retained earnings	776	185·5	10
	916	266·5	45
Non-current liabilities			
Long-term loan	5	4	106
Provisions	2	9·5	
Current liabilities			
Dividend payable		25	
Trade payables	85	10	13
	1,008	315	164

Redundancy costs and provision for restructuring

The communication of the restructuring creates a valid and constructive expectation and should be provided for in the company incurring the cost. It should be provided for in Ceed's financial statements as Ceed will incur these costs.

Redundancy costs should be recognised at the present value of the future cash flows:

	$m
4m x 1/1·03	3·9
6m x $1/1{\cdot}03^2$	5·6
	9·5

The provision for restructuring of $9·5m will be shown in Ceed's and overall restructuring provision in Decany's records ($2 million).

Purchase of Rant

The cost of the investment in Ceed's financial statements will be $98 million and current assets will be reduced by the same amount. Decany will record a loan receivable of $98 million and a profit of $3 million. The loan to Rant will be recorded in long-term loans and in current assets.

Transfer of land

Nominal value of shares allotted		5
Fair value of consideration received		
Value of land	$15m	
Less mortgage	($4m)	11
Premium on shares allotted		6

The value of the shares issued to Decany would be the land less the mortgage, which is $11 million.

(ii) IAS 27 has been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary rather than its fair value. This relief is limited to reorganisations where a new parent is inserted above an existing parent of a group (or entity), and:

(i) The new parent obtains control of the original parent (or entity) by issuing equity instruments in exchange for existing equity instruments of the original parent (or entity);
(ii) The assets and liabilities of the new group and the original group are the same immediately before and after the reorganisation; and
(iii) The owners of the original parent (or entity) before the reorganisation have the same absolute and relative interests after the reorganisation.

It appears that the reorganisation meets these criteria as the shares issued for the purchase of the land are non-voting shares and all other conditions appear to be met. Any group reorganisation establishing new parent entities should be carefully assessed to establish whether it meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.

IAS 27 has also been amended, deleting the 'cost method' and therefore resolving some of the difficulties arising from the capital maintenance concept. IAS 27 will require all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in its separate financial statement. The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. An indicator of impairment exists if:

(i) The dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared; or
(ii) The carrying amount of the investment exceeds the amount of net assets (including associated goodwill) recognised in the consolidated financial statements.

None of the above criteria affect the payment of the dividend by Ceed.

Recognising dividends received from subsidiaries as income will give rise to greater income being recognised. Care will need to be taken as to what constitutes a dividend (defined as a distribution of profits). Management will also need to carefully consider the timing of the dividends, particularly as a detailed impairment test will be needed when dividends are declared.

(b) The plan has no impact on the group financial statements as all of the internal transactions will be eliminated on consolidation but does affect the individual accounts of the companies. The reconstruction only masks the problem facing Rant. It does not solve or alter the business risk currently being faced by the group. The proposed provision for restructuring has to meet the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* before it can be included in the financial statements. There must be a detailed formal plan produced and a valid expectation in those affected that the plan will be carried out. The provision appears to be large considering that the reconstruction does not involve major relocation of assets and there is a separate provision for redundancy. The transactions outlined in the plans are essentially under common control and must be viewed in this light. This plan overcomes the short-term cash flow problem of Rant and results in an increase

in the accumulated reserves. The plan does show the financial statements of the individual entities in a better light except for the significant increase in long-term loans in Rant's statement of financial position. The profit on the sale of the land from Rant to Ceed will be eliminated on consolidation.

In the financial statements of Rant, the investment in Ceed should be accounted for under IFRS 9. There is now cash available for Rant and this may make the plan attractive. However, the dividend from Ceed to Decany will reduce the accumulated reserves of Ceed but if paid in cash will reduce the current assets of Ceed to a critical level.

The purchase consideration relating to Rant may be a transaction at an overvalue in order to secure the financial stability of the former entity. A range of values are possible which are current value, carrying amount or possibly at zero value depending on the purpose of the reorganisation. Another question which arises is whether the sale of Rant gives rise to a realised profit. Further, there may be a question as to whether Ceed has effectively made a distribution. This may arise where the purchase consideration was well in excess of the fair value of Rant. An alternative to a cash purchase would be a share exchange. In this case, local legislation would need to be reviewed in order to determine the requirements for the setting up of any share premium account.

3 **(a)** The internally generated intangibles are capitalised in accordance with IAS 38, *Intangible Assets*. It appears that Scramble is correctly expensing the maintenance costs as these do not enhance the asset over and above original benefits.

The decision to keep intangibles at historical cost is a matter of choice and therefore policy. Scramble's accounting policy in this regard is acceptable.

An intangible asset can have a finite or indefinite life and IAS 38 states that an intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

An indefinite life does not mean infinite and IAS 38 comments that given the history of rapid changes in technology, computer software and many other intangible assets are susceptible to technological obsolescence and the useful life may be short.

If the life of an intangible is indefinite then, in accordance with IAS 36, an entity is required to test for impairment by comparing its recoverable amount with its carrying amount

(a) annually, and
(b) whenever there is an indication that the intangible asset may be impaired.

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. To determine whether the asset is impaired, IAS 36 must be applied and the intangible asset's recoverable amount should be compared to its carrying amount.

The way in which Scramble determines its value in use cash flows for impairment testing purposes does not comply with IAS 36 *Impairment of Assets*. Cash flow projections should be based on reasonable and supportable assumptions, the most recent budgets and forecasts, and extrapolation for periods beyond budgeted projections. Management should assess the reasonableness of its assumptions by examining the causes of differences between past cash flow projections and actual cash flows. This process does not seem to have been carried out by Scramble. Additionally, cash flow projections should relate to the asset in its current condition and future restructurings to which the entity is not committed and expenditures to improve or enhance the asset's performance should not be anticipated. The cash flows utilised to determine the value in use were not estimated for the asset in its current condition, as they included those which were expected to be incurred in improving the games and cash inflows expected as a result of those improvements. Further estimates of future cash flows should not include cash inflows or outflows from financing activities, or income tax receipts or payments. Scramble has taken into account the tax effects of future cash flows.

(b) The calculation of the discount rate is not wholly in accordance with the requirements of IAS 36 because the discount rate applied did not reflect the market assessment of the contributing factors. According to IAS 36, the discount rate to be applied in these circumstances is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimated have not been adjusted. IAS 36 specifies that a rate that reflects the current market assessment of the time value of the money and the risks specific to the assets is the return that the investors would require if they chose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the assets.

If a market-determined asset-specific rate is not available, a surrogate must be used that reflects the time value of money over the asset's life as well as country risk, currency risk, price risk, and cash flow risk. This would include considering the entity's own weighted average cost of capital, the entity's incremental borrowing rate and other market borrowing rates. Therefore, the inputs to the determination of the discount rates should be based on current credit spread levels in order to reflect the current market assessment of the time value of the money and asset specific risks. The credit spread input applied should reflect the current market assessment of the credit spread at the moment of impairment testing, irrespective of the fact that Scramble did not intend taking any additional financing.

Scramble has not complied with the disclosure requirements of IAS 36, in that neither the events and circumstances that led to the impairment loss nor the amounts attributable to the two CGUs were separately disclosed. IAS 36 requires disclosure of the amount of the loss and as regards the cash-generating unit, a description of the amount of impairment loss by class of assets. The fact that the circumstances were common knowledge in the market is not a substitution for the disclosure of the events and circumstances.

(c) According to IAS 38, the three critical attributes of an intangible asset are:

1. Identifiability;
2. control (power to obtain benefits from the asset);
3. future economic benefits (such as revenues or reduced future costs).

An intangible asset is identifiable when it is separable or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

IAS 38 requires an entity to recognise an intangible asset if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the entity; and the cost of the asset can be measured reliably.

This requirement applies whether an intangible asset is acquired externally or generated internally. The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions that will exist over the life of the asset. The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

The registration rights meet the definition and recognition criteria of IAS 38 because they arise from contractual rights. Scramble has control because the right can be transferred or extended and the economic benefits result from the fee income Scramble can earn as fans come to see the player play.

Under IAS 38 the cost of separately acquired assets comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use. IAS 38 gives examples of directly attributable costs which include professional fees arising directly from bringing the asset to its working conditions. In this business, the players' registration rights meet the definition of intangible assets and the agents' fees represent professional fees incurred in bringing the asset into use.

The requirements above apply to costs incurred initially to acquire or internally generate an intangible asset and those incurred subsequently to add to, replace part of, or service it. Thus the agents' fees paid on the extension of players' contracts can be considered costs incurred to service the player registration rights and should be treated as intangible assets.

Where an entity purchases the rights to a proportion of the revenue that a football club generates from ticket sales, it will generally have acquired a financial asset. Where the entity has no discretion over pricing or selling of the tickets and is only entitled to cash generated from ticket sales, this represents a contractual right to receive cash. If, however, Rashing had purchased the rights to sell the tickets for a football club, and was responsible for selling the tickets, then this would create an intangible asset. In this instance Rashing should recognise a financial asset in accordance with IFRS 9. The asset would be classed as either amortised cost or fair value depending on Rashing's model for managing the financial asset and the contractual cash flow characteristics of the financial asset. A financial instrument would be classed as amortised cost if both of the following conditions are met:

(a) The asset is held within a business model whose objective is to hold assets to collect contractual cash flows.
(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Rashing does not meet this criteria because although Rashing receives regular cash flows, these are not solely payments of interest and capital and are based on ticket revenues and therefore match attendance. As such, the fair value model is more appropriate.

4 **(a)** **(i)** Revenue recognition standards have been criticised because an entity applying those standards might recognise amounts in the financial statements that do not faithfully represent the nature of the transactions. This can happen because revenue recognition for the sale of goods depends largely on the transference of the risks and rewards of ownership to a customer. Thus an entity might still recognise inventory because not all of the significant risks and rewards have passed to the customer even though the customer has obtained substantial control of the good. This is inconsistent with the IASB's definition of an asset, which depends on control of the good, not the risks and rewards of owning the good.

The notion of risks and rewards in IAS 18 *Revenue* can also cause problems when a transaction involves both the sale of goods and related services. An entity often considers the transaction as a whole in order to determine when the risks and rewards of ownership are transferred. As a result, an entity can recognise all of the revenue on delivery of a good, even though it has remaining contractual obligations relating to services to be rendered, for example a warranty or maintenance agreement.

Thus the revenue recognised does not represent the pattern of the transfer to the customer of all of the goods and services in the contract. Additionally, an entity might recognise all of the profit in the contract before the entity has fulfilled all of its obligations, depending upon how the accruals for the services are measured.

Another deficiency in IFRSs relates to the lack of guidance for transactions involving the delivery of more than one good or service, often called a multiple-element arrangement. IAS 18 states that in certain circumstances, it is necessary to apply the revenue recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. IAS 18 does not state clearly when or how an entity should separate a single transaction into components. Often, IAS 18 is viewed as allowing the recognition of all the revenue for a multiple-element arrangement upon delivery of the first element if all the elements are sold together. However, a different interpretation is often placed on IAS 18 and revenue is deferred on all the elements until delivery of the final element.

Guidance on how to measure the elements in a multi-element arrangement is missing also, with entities applying different measurement approaches to similar transactions.

There is difficulty in distinguishing between goods and services. Some entities have been accounting for construction service contracts (sale of real estate), recognising revenue throughout the construction process, whilst other entities were accounting for similar contracts as contracts for goods, recognising revenue when the risks and rewards of owning the real estate were transferred to the customer. The lack of a clear distinction between goods and services has reduced the comparability of revenue across different entities.

There is inconsistency between standards. Under some standards, entities recognise revenue as the activities take place even if the customer does not control and have the risks and rewards of ownership of the item. In contrast, the principle of IAS 18 for the sale of goods is that revenue should be recognised only when an entity transfers control and the risks and rewards of ownership of the goods to the customer.

(ii) In most cases, the effect of a customer's credit risk will not be material and the entity will measure the transaction at the invoice amount. However, sometimes the customer defaults on payment for reasons other than the non-performance by the entity. There may be situations where an entity enters into similar transactions with customers and the entity expects some of those customers to default. In these cases it may be prudent to take account of the fact that some of the revenue will not be received. It also would be consistent with other standards to use a probability-weighted amount of consideration that will be expected to be received. If the amount of consideration in these cases cannot be reasonably estimated, it makes sense not to recognise revenue until the cash is collected or estimated with reasonable certainty.

Normally the time value of money will be immaterial. However in some contracts, the effect could be material if payment is received significantly before or after the goods or services have been transferred. In these cases, it may be more relevant for the entity to take into account the time value of money by discounting the consideration using a rate, which reflects the time value of money and the credit risk. Effectively it will be treated as a financing transaction. The use of discount rates is always quite a subjective way of measuring transactions.

(b) (i) Under IAS 18, revenue would be recognised of $1 million and a trade receivable of the same amount set up. The debt would be assessed periodically for impairment and, in this case, it would be deemed to be impaired by $100,000. The 5% risk of not paying does not create a receivables expense as it is the risk of not paying the entire balance and hence is insignificant. If the scenario had been that 5% of the revenue was uncollectable in this instance a receivables expense of $50,000 would be required. This impairment would be recognised as an expense rather than a reduction in revenue. However, if credit risk were taken into account in assessing revenue to be recognised, the transaction price would be reduced to $950,000. Revenue and a receivable would be recognised of this amount. The impairment of $100,000 would be recognised as an expense and not as a reduction in revenue.

(ii) Where payment is deferred, the substance of the arrangement is that there is both a sale and a financing transaction. Under IAS 18, it is already necessary to discount the consideration to present value in order to arrive at fair value. In this instance, the treatment is the same whether IAS 18 is being applied or the proposed accounting treatment.

Venue would recognise revenue of $2 million/(1·04 x 1·04), i.e. $1·85 million. The interest would then be unwound over the period of the credit given and should be recognised as such. In many situations, entities will sell the same type of goods on a cash or credit basis. In such cases, the cash price equivalent may normally be the more readily determinable indicator of fair value.

In terms of the cash payment in advance, under IAS 18, cash would be debited with $3 million and a deferred income liability set up in the financial statements of the same amount. No revenue is immediately recorded but when delivery has occurred in one year's time, revenue is recognised of $3 million.

If the time value of money was taken into account, Venue would recognise a contract liability of $3 million and cash of $3 million. During the year to the date of the transfer of the product, an interest expense of ($3 million/1·04) – $3 million, i.e. $120,000 would be recognised and the liability would be increased to $3·12 million. When the product is transferred to the customer, Venue would recognise revenue of $3·12 million.

Professional Level – Essentials Module, Paper P2 (INT)
Corporate Reporting (International) **December 2011 Marking Scheme**

				Marks
1	**(a)**	Property, plant and equipment		4
		Goodwill		7
		Financial assets		4
		Defined benefit asset		4
		Current assets/total non-current liabilities		1
		Share capital		1
		Retained earnings		7
		Other components of equity		3
		Non-controlling interest		3
		Current liabilities		1
				35
	(b)	Subjective assessment		7
		Up to 2 marks per element		
	(c)	Subjective assessment		6
		Professional marks		2
				50
2	**(a)**	**(i)**	Decany	5
			Ceed	5
			Rant	3
				13
		(ii)	IAS 27	5
	(b)	Discussion – subjective		5
		Professional marks		2
				25
3	Intangible assets –			
	Subjective assessment			7
	Cash generating units –			
	Subjective assessment			7
	Intangible assets –			
	Subjective assessment			9
	Professional marks			2
				25
4	**(a)**	Main weaknesses IAS 18		11
		Credit risk/time value		5
		Professional marks		2
	(b)	Subjective		7
				25