CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P1: ADVANCED FINANCIAL REPORTING

MONDAY 3 MARCH 2014

TOTAL MARKS – 100 TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.

2. This paper is divided into TWO sections:

   Section A: Attempt this ONE compulsory question.

   Section B: Attempt any THREE questions.

3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must NOT appear anywhere on your answer booklet.

4. Do NOT write in pencil (except for graphs and diagrams).

5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.

6. All workings must be done in the answer booklet.

7. Present legible and tidy work.

8. Graph paper (if required) is provided at the end of the answer booklet.

9. Present Value and Annuity tables are attached at the end of this question paper.

SECTION A

This question is compulsory and must be attempted.

QUESTION ONE

The following draft financial statements relate to A, B and C all public limited companies:

Statements of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013:

		A K'm		B K'm		C SAR'm
Revenue		850		480		1,100
Cost of Sales		(500)		(220)		(480)
Gross Profit		350		260		620
Distribution Costs	(102)		(65)		(220)	
Administrative Expenses	(118)	(220)	(45)	(100)	(80)	(300)
Operating Profit		130		160		320
Gain on disposal of equity investment		60				
Gain remeasurement of financial assets		10		5		15
Interest payable		(20)		(15)		(55)
Profit Before Tax		180		150		280
Income Tax Expense		(30)		(32)		(22)
Profit for the year		150		118		258
Other Comprehensive Income:						
Items not for recycling in profit or loss:						
Gain on remeasurement of equity investments		110		-		-
Property Revaluation gains		15		24		17
		125		24		17
Items that will be recycled to profit or loss		-		-		-
Other comprehensive Income for the year		125		24		17
Total Comprehensive Income for the Year		275		142		275

Statements of Financial Position as at 31 December 2013:

	A	B	C
Assets:	K'm	K'm	SAR'm
Non Current			
Property Plant and Equipment	1,050	820	1,430
Financial Assets	1,640	110	205
	2,690	930	1,635
Current Assets	320	280	405
Total Assets	3,010	1,210	2,040
Equity and Liabilities:			
Equity			
Share Capital	1,000	300	750
Retained Earnings	1,345	560	510
Other Components of Equity	263	145	100
	2,608	1,005	1,360
Non Current Liabilities	250	125	440
Current Liabilities	152	80	240
Total Equity and Liabilities	3,010	1,210	2,040

The following information relates to the companies above:

1. A plc acquired 75 % of B plc's equity on 1 January 2010 at a cost of K800 million when B plc's retained earnings and other components of equity were K395 million and K80 million respectively. The fair value of B plc's identifiable net assets at 1 January 2010, before incorporating deferred tax effects of fair value adjustments, was K900 million. Any difference between the fair value and book value of B plc's identifiable net assets was attributable to an item of plant which had a remaining useful economic life of 6 years at that date. A plc and B plc are liable to income tax at 30 % and 10 % respectively. Fair value adjustments have not been incorporated in the above financial statements.

2. A plc acquired 80 % of C plc's equity, a company based in the Republic of South Africa, on 1 April 2013 at a cost of SAR1,200 million when the fair value of C plc's identifiable net assets, before incorporating deferred tax effects of fair value adjustments, was SAR1,300 million. Any difference between the fair value and book value of C plc's identifiable net assets was attributable to an item of plant which had a remaining useful economic life of 8 years at that date. C plc is liable to income tax at 45% in its jurisdiction. Fair value adjustments have not been incorporated in the above financial statements.

3. In all cases, assume that revenues, gains, expenses and losses accrue evenly, on a monthly basis, unless indicated otherwise.

4. A plc's policy is to initially recognize non-controlling interests at fair value at date of acquisition in respect of all acquisitions. For that purpose, the fair value of non-controlling interests in B plc and C plc on their dates of acquisition by A plc were K260 million and SAR295 million respectively.

5. On 1 July 2013, A plc disposed of a 15 % holding in B plc for K230 million reporting a gain of K60 million in its profit or loss as shown above. A plc's financial assets shown in its statement of financial position above include the carrying amount at fair value at 31 December 2013 of the remaining 60 % in B plc of K725 million. The carrying

amount of A plc's investment in B plc at 31 December 2012 (date of last remeasurement prior to 31 December 2013) was K850 million.

The fair value of A plc's holding in C plc at 31 December 2013 was SAR1,250 million.

A plc has classified its investments in B plc and C plc as Fair Value Through Other Comprehensive Income (FVTOCI) assets in accordance with *IFRS 9, Financial Instruments, Recognition and Measurement* in the above financial statements.

Investments in B plc and C plc are the only FVTOCI investments owned by A plc.

6. C plc is based in the Republic of South Africa. Its functional currency is the South African Rand (SAR). Exchange rates between the Zambian Kwacha (K) and South African Rand (SAR) have moved as follows:

Date	Rate (K/SAR)
1 April 2013	0.55
31 December 2013	0.58
Average for 9 months to 31 December 2013	0.56

7. During the year to 31 December 2013, A plc commenced a cash bonus scheme whereby its directors would be paid a bonus based on the increase in the market price of A plc shares between 1 January 2013 and 31 December 2015. Each of its ten directors would receive a bonus equal to the increase per share multiplied by 100,000 shares as long as the director is in employment throughout the three years to 31 December 2015.

Of the ten directors initially in the scheme, two left during the year to 31 December 2013 and one more is expected to leave over the next two years. The market price of each A plc share has been or is forecast to move as follows:

Date	Market price(K)
1 January 2013	20.45
31 December 2013	45.85
31 December 2014	50.15 (forecast)
31 December 2015	60.12 (forecast)

The forecast market prices are purely opinions of A plc directors and not based on market fundamentals.

For tax purposes, any expense from the bonus scheme is only tax deductible in the year when the bonus is paid. The bonus will be paid on 15 January 2016.

A plc has not yet incorporated the effects of the bonus scheme in the above financial statements.

8. Apart from those arising from notes 1, 2 and 7, ignore all tax effects of the above notes in addressing the requirement below.

Required:

Prepare, for the A plc Group, the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013 and the Consolidated Statement of Financial Position at 31 December 2013.

[Total 40 marks]

QUESTION TWO

The following draft financial statement extracts relate to the Zanga plc Group for the year to 31 December 2013:

Zanga Plc Group Consolidated Statement of Profit or Loss and Other Comprehensive Income :

	K'm
Operating Profit	800
Interest Payable	(120)
Share of Associate's Profit for the Year	45
Income Tax Expense	(50)
Profit for the Year from Continuing Operations	675
Loss from Discontinued Operations	(100)
Profit for the Year	575
Other Comprehensive Income:	
Property Revaluation Gains (net of tax)	300
Share of Associate's Other Comprehensive Income	33
Other Comprehensive Income for the Year	333
Total Comprehensive Income for the Year	908
Profit for the Year attributable to:	
Owners of the Parent	580
Non Controlling Interests	(5)
	575
Total Comprehensive Income attributable to:	
Owners of the Parent	833
Non Controlling Interests	65
	908

Additional information:

1. On 1 January 2013, Zanga Plc had an ordinary share capital of K1 050 million composed of 50 Ngwee shares. The company made an issue at fair value of 50 million ordinary shares on 1 April 2013. A rights issue of one for every four existing shares was made on 1 September 2013 at K15 per share.

   The company has not declared any dividends for the year ended 31 December 2013. Instead, its shareholders were given bonus shares at a ratio of one for every ten existing shares on 31 December 2013.

   The average fair value of each Zanga Plc ordinary share during the year ended 31 December 2013 was K20.

2. Zanga plc issued 10 million 10 % K10 convertible loan notes on 1 January 2012 at a premium of 1 %. The notes, which pay interest on 31 December each year, can be converted at the holders' option into 12 ordinary shares per note before 1 January 2016 or 15 ordinary shares per note if conversion is after 31 December 2015. If not converted, the notes will be redeemed at par on 31 December 2016. Zanga plc was in a position to issue similar notes but without conversion rights at a market interest rate of 12 %.

   The interest payable expense in the draft Statement of Profit or Loss only includes the interest paid during the year ended 31 December 2013 on the loan notes (and not the interest at the effective interest rate on the liability component of the notes).

3. Zanga Plc has a scheme where its directors acquire ordinary shares in the company through exercising options granted to them by the company.

   On 1 October 2013, 100 million options were exercised at K14 per share. These options were granted three years earlier. The company granted a further 50 million options on 1 November 2013 exercisable on 30 June 2016 at K25 per share.

4. The loss for the year from discontinued operations attributable to non controlling interests amounted to K80 million.

5. Zanga Plc is liable to income tax at 30 %.

   Required:

   (a) Compute the Zanga Plc Group's basic and diluted earnings per share to be disclosed in its consolidated financial statements for year ended 31 December 2013. (15 marks)

   (b) Discuss the usefulness of an entity's earnings per share figure in general and the diluted earnings per share in particular. (5 marks)

[Total: 20 marks]

QUESTION THREE

Yobe Plc is a large entity in the retail sector within Zambia. The entity was incorporated several years ago but recently got listed on the Lusaka Stock Exchange. The company has grown organically over the years.

During the year ended 31 December 2013, Yobe plc had the following transactions:

Transaction 1

Yobe leased warehouse equipment from Simbi Plc commencing on 1 July 2013 for a term of five years. The fair value of the plant on 1 July 2013 was K500,000. Yobe was required to pay a deposit on 1 July 2013 of K100,000. In addition, Yobe incurred legal and other direct costs relating to the lease on 1 July 2013 amounting to K10,000.

Subsequently,Yobe is required to pay a lease rental of K98,000 per year in arrears (on 30 June each year). In addition, Yobe was required to guarantee Simbi a residual value at the end of the lease term of K15,000. The equipment has an estimated useful economic life of 5.5 years.

The interest rate implicit in the lease is 4.3 %. **(4 marks)**

Transaction 2

Yobe is renting a retail outlet in Kitwe under an operating lease for a term of five years commencing 1 April 2013. Under the agreement, Yobe will initially be required to make annual rental payments of K500,000 per annum in advance (i.e, on 1 April each year). However, the amount payable will be increased by 10 % of the previous amount per annum. Increases will be with effect from 1 April 2016.

Yobe has incorporated fittings and fixtures in the leased property at a cost of K300,000 during the year ended 31 December 2013. The lease agreement requires that these fittings and fixtures must be removed at end of the lease term and the property restored to its condition at inception of the lease. Yobe estimates that the cost of restoration will be

K250,000 of which K150,000 relates to removing the fittings and fixtures and K100,000 to remedying the wear and tear of the property through usage.

A discount rate of 10 % must be used where appropriate. **(8 marks)**

Transaction 3

Yobe Plc runs a funded defined benefit retirement pension plan for its employees. Pension is paid as a lump sum at the time of retirement in addition to monthly payments over the pensioner's remaining life of up to a maximum of 45 years.

The present value of accrued employee pension benefits not yet settled at 1 January 2013 amounted to K50 million and the fair value of plan assets at the same date was K55 million. Yobe Plc was still owing contributions to the fund amounting to K2 million in respect of past periods as at 1 January 2013.

During the year to 31 December 2013, the following transactions took place:

Total contributions paid to the pension fund amounted to K10 including the K2 million arrears above. The amount paid also includes employee contributions amounting to K3 million. Yobe made total pension payments to pensioners amounting to K18 million.

The present value of pension benefits accruing during the year to 31 December 2013 arising from employee services rendered in that year amounted to K20 million.

The benefit formula was amended during the year for the benefit of its employees. As a result of the improved benefit formula, additional benefits accrued at 1 January amounting to K10 million. This figures relates to employees remaining in the plan membership after redundancies referred to below.

During year ended 31 December 2013, Yobe undertook a restructuring plan in which a number of employees previously members of the plan were rendered redundant. Accrued pension benefits amounting to K15 million relating to those rendered redundant were forfeited. Instead, Yobe Plc made redundancy and compensation for loss of office payments to these employees amounting to K30 million.

The present value of accrued employee pension benefits not yet settled at 31 December 2013 amounted to K75 million and the fair value of plan assets at the same date was K68 million.

Yobe Plc is still owing contributions to the fund amounting to K3 million in respect of past periods as at 31 December 2013.

A discount rate of 10 % must be used where appropriate. **(8 marks)**

Required:

In all cases above, explain how the directors must account for the transactions according to IFRSs.

[Total: 20 marks]

QUESTION FOUR

Traditionally, corporate reporting has focused on Financial Reporting aspects and disclosures compelled by local regulatory requirements. Most constituents of users of annual reports have, however, in the recent past expressed concern about the inadequacy of corporate reporting. They have pointed out that annual reports do not include information to enable users appreciate the reporting entities' objectives and their performance towards those objectives. One response by the International Accounting Standards Board (IASB) has been the publication of Practice Statement 1, Management Commentary.

Required:

(a) Explain the framework for the preparation of and the elements to be contained in a Management Commentary. **(12 marks)**

(b) From both perspectives of the reporting entity and the users of annual reports, discuss the case for and against publishing a Management Commentary as part of the annual report. **(8 marks)**

[Total: 20 marks]

QUESTION FIVE

IAS 12, *Income Taxes, prescribes accounting for income taxes*. With regard to accounting for deferred tax, some constituents from both users and preparers of financial statements have expressed concern on whether entities must account for deferred tax in the financial statements. Some constitutes have argued that whereas it is easy to identify timing differences between the tax effects of transactions and their accounting treatment, it may not be easy to ascertain temporary differences. The basis of providing for deferred tax has also been a source of concern. Main arguments in that regard have centered on whether to provide for deferred tax using the partial basis or the full basis.

Required:

(a) Explain the general requirements of IAS 12 relating to accounting for deferred tax. **(5 marks)**

(b) Explain how Taonga Plc must account for the following transactions, including the deferred tax effects, in its financial statements for the year ended 31 December 2013. Taonga is liable to income tax at 30%.

Transaction one

Taonga plc had acquired an item of plant at a cost of K250 million on 1 April 2011. The plant's useful economic life and the residual value at end of its life were initially estimated at 10 years and K10 million respectively.

Subsequently, the plant was revalued, for the first time, to a fair value of K210 million. During the year to 31 December 2013, the total useful economic life of the plant has been revised to 8 years and the residual value at end of that life to K5 million. The plant must be revalued at 31 December 2013 at K130 million.

For tax purposes, Taonga is given tax depreciation (wear and tear allowances) at 25% on cost per annum starting with the year of acquisition (in full). Accounting depreciation is disallowed. **(8 marks)**

Transaction two

On 1 January 2012, Taonga Plc acquired a trade from an unincorporated business at a cost of K200 million when the fair value of that trade's identifiable net assets were K150 million. The book values of the acquired business's net assets were equal to their fair values except for an item of plant whose book value was K60 million (original cost K80 million) and fair value was K75 million. This item of plant had a remaining life of 3 years at 1 January 2012. The plant is depreciated on a straightline basis with a nil residual value.

The acquired trade made a loss of K20 million during the year to 31 December 2012 of which K5 million is expected to be relieved in the year to 31 December 2013. At 31 December 2012, Taonga had anticipated to relieve the whole loss within the next five years. Taonga now estimates that the trade will make losses over the next two years.

For tax purposes, Taonga is given tax depreciation (wear and tear allowances) at 25% on its cost of plant per annum starting with the year of acquisition (in full). Accounting depreciation is disallowed. There is no tax relief for any goodwill. Any trading losses are relieved by carry forward for set off against future first available profits from the same trade in the next five years. **(7 marks)**

[Total: 20 marks]

END OF PAPER

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
n = number of periods until payment

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	0·980	0·961	0·943	0·925	0·907	0·890	0·873	0·857	0·842	0·826	2
3	0·971	0·942	0·915	0·889	0·864	0·840	0·816	0·794	0·772	0·751	3
4	0·961	0·924	0·888	0·855	0·823	0·792	0·763	0·735	0·708	0·683	4
5	0·951	0·906	0·863	0·822	0·784	0·747	0·713	0·681	0·650	0·621	5
6	0·942	0·888	0·837	0·790	0·746	0·705	0·666	0·630	0·596	0·564	6
7	0·933	0·871	0·813	0·760	0·711	0·665	0·623	0·583	0·547	0·513	7
8	0·923	0·853	0·789	0·731	0·677	0·627	0·582	0·540	0·502	0·467	8
9	0·941	0·837	0·766	0·703	0·645	0·592	0·544	0·500	0·460	0·424	9
10	0·905	0·820	0·744	0·676	0·614	0·558	0·508	0·463	0·422	0·386	10
11	0·896	0·804	0·722	0·650	0·585	0·527	0·475	0·429	0·388	0·305	11
12	0·887	0·788	0·701	0·625	0·557	0·497	0·444	0·397	0·356	0·319	12
13	0·879	0·773	0·681	0·601	0·530	0·469	0·415	0·368	0·326	0·290	13
14	0·870	0·758	0·661	0·577	0·505	0·442	0·388	0·340	0·299	0·263	14
15	0·861	0·743	0·642	0·555	0·481	0·417	0·362	0·315	0·275	0·239	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	0·812	0·797	0·783	0·769	0·756	0·743	0·731	0·718	0·706	0·694	2
3	0·731	0·712	0·693	0·675	0·658	0·641	0·624	0·609	0·593	0·579	3
4	0·659	0·636	0·613	0·592	0·572	0·552	0·534	0·516	0·499	0·482	4
5	0·593	0·567	0·543	0·519	0·497	0·476	0·456	0·437	0·419	0·402	5
6	0·535	0·507	0·480	0·456	0·432	0·410	0·390	0·370	0·352	0·335	6
7	0·482	0·452	0·425	0·400	0·376	0·354	0·333	0·314	0·296	0·279	7
8	0·434	0·404	0·376	0·351	0·327	0·305	0·285	0·266	0·249	0·233	8
9	0·391	0·361	0·333	0·308	0·284	0·263	0·243	0·225	0·209	0·194	9
10	0·352	0·322	0·295	0·270	0·247	0·227	0·208	0·191	0·176	0·162	10
11	0·317	0·287	0·261	0·237	0·215	0·195	0·178	0·162	0·148	0·135	11
12	0·286	0·257	0·231	0·208	0·187	0·168	0·152	0·137	0·124	0·112	12
13	0·258	0·229	0·204	0·182	0·163	0·145	0·130	0·116	0·104	0·093	13
14	0·232	0·205	0·181	0·160	0·141	0·125	0·111	0·099	0·088	0·078	14
15	0·209	0·183	0·160	0·140	0·123	0·108	0·095	0·084	0·074	0·065	15

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1-(1+r)^{-n}}{r}$

Where r = discount rate
n = number of periods

Discount rate (r)

Periods (n)	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	
1	0·990	0·980	0·971	0·962	0·952	0·943	0·935	0·926	0·917	0·909	1
2	1·970	1·942	1·913	1·886	1·859	1·833	1·808	1·783	1·759	1·736	2
3	2·941	2·884	2·829	2·775	2·723	2·673	2·624	2·577	2·531	2·487	3
4	3·902	3·808	3·717	3·630	3·546	3·465	3·387	3·312	3·240	3·170	4
5	4·853	4·713	4·580	4·452	4·329	4·212	4·100	3·993	3·890	3·791	5
6	5·795	5·601	5·417	5·242	5·076	4·917	4·767	4·623	4·486	4·355	6
7	6·728	6·472	6·230	6·002	5·786	5·582	5·389	5·206	5·033	4·868	7
8	7·652	7·325	7·020	6·733	6·463	6·210	5·971	5·747	5·535	5·335	8
9	8·566	8·162	7·786	7·435	7·108	6·802	6·515	6·247	5·995	5·759	9
10	9·471	8·983	8·530	8·111	7·722	7·360	7·024	6·710	6·418	6·145	10
11	10·37	9·787	9·253	8·760	8·306	7·887	7·499	7·139	6·805	6·495	11
12	11·26	10·58	9·954	9·385	8·863	8·384	7·943	7·536	7·161	6·814	12
13	12·13	11·35	10·63	9·986	9·394	8·853	8·358	7·904	7·487	7·103	13
14	13·00	12·11	11·30	10·56	9·899	9·295	8·745	8·244	7·786	7·367	14
15	13·87	12·85	11·94	11·12	10·38	9·712	9·108	8·559	8·061	7·606	15

(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0·901	0·893	0·885	0·877	0·870	0·862	0·855	0·847	0·840	0·833	1
2	1·713	1·690	1·668	1·647	1·626	1·605	1·585	1·566	1·547	1·528	2
3	2·444	2·402	2·361	2·322	2·283	2·246	2·210	2·174	2·140	2·106	3
4	3·102	3·037	2·974	2·914	2·855	2·798	2·743	2·690	2·639	2·589	4
5	3·696	3·605	3·517	3·433	3·352	3·274	3·199	3·127	3·058	2·991	5
6	4·231	4·111	3·998	3·889	3·784	3·685	3·589	3·498	3·410	3·326	6
7	4·712	4·564	4·423	4·288	4·160	4·039	3·922	3·812	3·706	3·605	7
8	5·146	4·968	4·799	4·639	4·487	4·344	4·207	4·078	3·954	3·837	8
9	5·537	5·328	5·132	4·946	4·772	4·607	4·451	4·303	4·163	4·031	9
10	5·889	5·650	5·426	5·216	5·019	4·833	4·659	4·494	4·339	4·192	10
11	6·207	5·938	5·687	5·453	5·234	5·029	4·836	4·656	4·486	4·327	11
12	6·492	6·194	5·918	5·660	5·421	5·197	4·988	4·793	4·611	4·439	12
13	6·750	6·424	6·122	5·842	5·583	5·342	5·118	4·910	4·715	4·533	13
14	6·982	6·628	6·302	6·002	5·724	5·468	5·229	5·008	4·802	4·611	14
15	7·191	6·811	6·462	6·142	5·847	5·575	5·324	5·092	4·876	4·675	15

P1 SUGGESTED SOLUTIONS
SERIES: MARCH 2014

SOLUTION ONE

A Plc Group Consolidated Statement of Profit or Loss and Other Comprehensive Income:

		K'm
Revenue	(850+480+9/12X1100X0.56)	1,792
Cost of Sales	(W1.)	(950)
Gross Profit		842
Distribution Costs	(102+65+9/12X220X0.56)	(259)
Administrative Expenses (W3.)	(203)	(462)
Operating Profit		380
Remeasurement Gains on financial assets	(10+5+9/12X15X0.56)	21
Interest Payable	(20+15+9/12X55X0.56)	(58)
Profit Before Tax		343
Income Tax Expense (W4.)		(63)
Profit for the Year		

Other Comprehensive Income:

Items that are not recycled to profit or loss:		
Property Revaluations gains	(15+24+9/12X17X0.56)	46
Items that are recycled to profit or loss:		
Exchange Differences on retranslation of foreign operations (W5.)		48
Other Comprehensive Income for the Year		94
Total Comprehensive Income for the Year		374
Profit for the Year attributable to:		
Owners of the Parent (280-51)		229
Non Controlling Interests		51
		280
Total Comprehensive Income attributable to:		
Owners of the Parent (364-70)		294
Non Controlling Interests		70
		364

Workings to the Statement of Profit or Loss and Other Comprehensive Income:

W1. Cost of sales:

000		SAR'm		K'm
Given amounts:				
A Plc				500
B plc			z1	220
C plc (9 months) 480X9/12		360		
Adjustments to C plc's COS:				
Fairvalue Deprec	147(W2.)/8X9/12 =	14		
	374X0.56 =			209
Other adjustments:				
Fairvalue Deprec. on B Plc's plant:	125(W2.)/6			21
				950

W2. Fair value gain/loss (before deferred tax effects) on acquisition of:

	B Plc K'm	C Plc SAR'm
Fair value of identifiable net assets at acq.	900	1,300
Book value of net assets at acq.:		
Share capital	300	750
Retained earnings	395	316 -see below
Other components of equity	80	87 -see below
	775	1,153
Fair value difference before deferred tax	125	147

C Plc's reserves at date of its acquisition by A plc:

Retained earnings:	
Balance at 31.12.2013	510
Less last 9 months profits 9/12X258	(194)
Balance at 1.04.2013	316
Other Components of equity:	
Balance at 31.12.2013	100
Less last 9 months property gainss 9/12X17	(13)
Balance at 1.04.2013	87

W3. Administrative Expenses:

		K'm
Given amounts:		
A Plc		118
B Plc		45
C plc	9/12X80X0.56	34
		197
Adjustments:		
Accrual of bonus scheme expense (cash settled SBP)	(45.85-20.45)X100000X(10-2-1)x1/3	6
		203

W4. Income Tax Expense:

		K'm
Given Amounts:		
A Plc		30
B Plc		32
C Plc	9/12X22X0.56	9
		71

Adjustments:
Deferred tax effects of:
Fair depreciation on net assets of :
B Plc 21(see COS)X10% (2)
C Plc 14X.56(see COS)X45% (4)
Share Based Payment – Bonus scheme: 6 X30% (2) ___
63 ___

W5. Exchange Differences on Retranslation of net assets of foreign operations:

	K'm
Exchange difference on retranslation of net assets of C Plc (W6.)	41
Exchange difference on retranslation of goodwill on acq. of C Plc (W7.)	7
	48

W6. Exchange Differences on the retranslation of financial statements of foreign operations – C Plc.

	SAR'm	K'm
C plc's Net Asset at 1.04.2013 (opening)	1,300(given)	
Less deferred tax on FV gain:		
45%X 147(W2.)	(66)	
	1,234X0.55	679
Changes before exchange difference:		
Comprehensive income for 9 months:		
Given 9/12X275	206	
FV deprec – 147/8X9/12	(14)	
Deferred tax effect	14X45% 6	
	198X0.56	111

___

C Plc's Net Assets at 31.12.2013 before exchange difference		790
Exchange Difference (Balancing figure) =	(831-790)	
41		
C plc's Net Asset at 31.12.2013 (closing)	1,360(given)	
Add FV gain	147	
Less accum. FV deprec. 147/8X9/12	(14)	
deferred tax liability on unrealized FV gain:		
45%X(147-14) =	(60)	
	1,433X0.58	

831

W7. Exchange difference on retranslation of goodwill on acq of C Plc:

Goodwill as a foreign currency asset:		SAR'm
Cost of acquisition by A plc		1,200
FV of NCI at acq		295
		1,495
Fair Value of Idenifiable Net Asset	(1,300 – 45%X147)	(1,234)
Goodwill		261

Goodwill as a Kwacha asset:

		K'm
At 1.04.2013 (opening balance)	261X0.55	144
Impairment losses		-
Exchange differences (balancing figure)	(151-144)	7
At 31.12.2013 (closing balance)	261X0.58	151

W8. Profit for the Year Attributable to Non controlling Interests:

		K'm
Share of given profit for the year:		
B Plc	6/12X118X25% + 6/12X118X40%	38
C Plc	9/12X258X0.56X20%	22
Share of adjustments:		60
Fair value depreciation:		
B Plc	21X6/12X25% + 21X6/12X40%	(7)
C Plc	147/8X9/12X0.56X20%	(2)
		51

W9. Total Comprehensive Income for the year attributable to Non Controlling Interests:

	K'm
Share of profit for the year (W8.)	51
Share of other comprehensive income:	
Property revaluation gains:	
B Plc 6/12X24X25% + 6/12X24X40%	8
C Plc 9/12X17X0.56X20%	1
Exchange Differences:	
C Plc 20% X 48	
	70

A Plc Group Consolidated Statement of Financial Position:

	K'm
Assets:	
Non Current	
Property Plant and Equipment(W1.)	2,818
Goodwill (W2.)	324
Financial Assets (W3.)	419
	3,562

Current Assets(320+280+405X0.58)	834
Total Assets	4,395
Equity and Liabilities:	
Equity	
Share Capital	1,000
Retained Earnings (W4.)	1,425
Other Components of Equity (W5.)	251
Equity Attributable to Owners of the Parent	2,676
Non Controlling Interests (W6.)	675
Total Equity	3,351
Non Current Liabilities (W8.)	673
Current Liabilities (152+80+240X0.58)	371
Total Equity and Liabilities	4,395

Workings to the Statement of Financial Position:

W1. Property Plant and Equipment:

			SAR'm	K'm
Given Amount:				
A Plc				1,050
B Plc				820
C Plc			1,430	
Adjustments to C Plc's PPE:				
FV gain on C Plc's PPE		147		
Accum. FV deprec	147/8X9/12		(14)	
			1,563X0.58 =	907
Other adjustments to PPE:				
FV gain on B Plc's PPE			125	
Accum. FV deprec to B Plc's PPE	125/6X4			(83)
				2,819

W2. Goodwill:

	K'm
Goodwill on acquisition of B Plc:	
Cost of investment by A Plc	800
FV of NCI at acqu.	260
	1,060
Less FV of B Plc's identifiable net assets at acqu.:	
Before deferred tax on FV adjustments	900
Deferred tax liability on FV gain 10% X 125	(13)
	(887)
	173
Goodwill on acqu. Of C Plc (W7 for SPLOCI)	151
Total Goodwill	324

W3. Financial Asset:

		K'm
Given amounts:		
A Plc		1,640
B Plc		110
C Plc	205X0.58	119
		1,869
Adjustments:		
Carrying amounts of investments in subsidiaries of A Plc:		
B Plc		(725)
C Plc	1,250X0.58	(725)
		419

W4. Group Retained Earnings:

		K'm
A Plc retained earnings – given		1,345
Share of post acqu. retained earnings of:		
B Plc:	- 75% (560-395-6/12X118)	80
	- 60%X6/12X118	35
C Plc	- 80%X258X9/12X0.56	87
Adjustments:		
Share of Accum. Fair value depreciation of:		
B Plc	75%X125/6X3.5 + 60%X125/6X0.5	(61)
C Plc	80%X147/8X9/12X0.56	(6)
Reversal of gain on disposal of shares in subsidiary without Loss of control		(60)
Share Based Payment (Bonus scheme) expense (see W6. To SPLOCI)		(6)
Share of decrease in deferred tax liabilities on FV gains on acqu. of:		
B Plc	(75%X125/6X3.5 + 60%X125/6X0.5) X 10%	6
C Plc	80%X147/8X9/12X0.56 X 45%	3
Deferred tax on accrued bonus liability	6X30%	2
		1,425

W5. Group Other Components of Equity (OCE):

		K'm
A Plc OCE – given		263
Share of post acqu. OCE of:		
B Plc:	- 75% (145-80-6/12X24)	40
	- 60%X6/12X24	7
C Plc	- 80%X17X9/12X0.56	6
Adjustments:		
Share of Exchange Differences on C Plc	80%X48	38
Net Adjustment to Group reserves on reducing		

holding in B Plc:		
Disposal proceeds	0230	
Net Assets transferred to NCI (W6.)	(173)	
		57
Reversal of accum. remeasurement gains on investment in:		
B Plc	(850-800)+(725-850X60/75)	(95)
C Plc	1250X0.58-1200X0.55	(65)
		251

W6. Non Controlling Interests in:

B Plc:

	K'm
At acqu. (Fair value)	260
Post acqu. changes:	
Share of post acqu. retained earnings of B Plc:	
- 25% (560-395-6/12X118)	27
- 40%X6/12X118	23
Share of post acqu. OCE of B Plc:	
- 25% (145-80-6/12X24)	13
-40%X6/12X24	5
Share of Accum. Fair value depreciation of B Plc:	
- 25%X125/6X3.5 + 40%X125/6X0.5	(22)
Share of decrease in deferred tax liabilities on FV gains on acq Of B Plc:	
(25%X125/6X3.5 + 40%X125/6X0.5) X 10%	2
Net Asset transferred to NCI of disposal of 15% in B Plc (W7)	173
	481

C Plc:

		K'm
At acqu.	295X0.55	162
Post acqu. changes:		
Share of post acqu. retained earnings of C Plc:	- 20%X258X9/12X0.56	22
Adjustments:		
Share of Accum. Fair value depreciation of C Plc:	- 20%X147/8X9/12X0.56	(2)
Share of decrease in deferred tax liabilities on FV gains on acqu. of C Plc:	- 20%X147/8X9/12X0.56 X 45%	1
Share of post acqu. OCE of C Plc:	- 20%X17X9/12X0.56	1
Share of Exchange Differences on C Plc	20%X48	10
		194
Total NCI in Equity	(481+194) =	675

W7. Net assets transferred to NCI on disposal of 15 % holding in B plc:

		K'm
B Plc's Net Assets consolidated at 1.07.2013:		
Before adjustments	1005-6/12X142	934
Adjustments:		
FV gain		125
Accum. FV deprec	125/6X3.5	(73)
Deferred tax liability on unrealized FV gain:	(125-73)X10%	(5)
Goodwill		173
		1,154
B's net assets attributable to holding disposed of =	15% X 1154 =	173

W8. Non Current Liabilities:

		K'm
Given amounts:		
A Plc		250
B Plc		125
C Plc	440X0.58	225
Adjustments:		630
Accrual of bonus scheme (SBP) liability	6	
Deferred tax liabilities on Unrealised FV gains on acquisition of:		
B Plc	(125-125/6X4)X10%	4
C Plc	(147-147/8X9/12)X45%X0.58	35
Deferred tax asset on accrued bonus scheme liability	6X30%	(2)
		673

SOLUTION TWO

a.) Earnings per share figures to be disclosed in Zanga Plc's financial statements for the year ended 31 December 2013:

1. Basic earnings per share:

$$\text{Eps} = \frac{\text{Profit for the year attributable to owners of the parent}}{\text{Weighted average number of shares in circulation during the year}}$$

$$= \frac{578.7\ (w1.) \times 100}{1{,}366.32(w2)} = \underline{42 \text{ ngwee.}}$$

2. Diluted earnings per share:

$$\text{Eps} = \frac{\text{Profit for the year attributable to owners of the parent}}{\text{Weighted average number of shares in circulation during the year}}$$

$$= \frac{586.59(w3.) \times 100}{1{,}538.82(w4)} = \underline{38 \text{ ngwee.}}$$

Workings:

W1. Profit for the year attributable to owners of the parent:

	K'm
Given amount	580
Adjustment to interest payable on convertible notes (see below)	(1.27)
Profit for the year attributable to owners of the parent	578.73

Carrying amount of liability component of convertible notes at initial recognition:

Date		Cashflow	PV factor@12%	PV
		K'm		K'm
31.12.2012	10%X10milliomxK10	10	0.893	8.93
31.12.2013		10	0.797	7.97
31.12.2014		10	0.712	7.12
31.12.2015		10	0.636	6.36
31.12.2016	(10+K10X10million)	110	0.567	62.37
Fair value of liability component at 1 January 2012				92.75

Adjustment to interest payable in profit or loss for year ended 31.12.2013:

		K'm
Correct interest charge for y/e 31.12.2013 (see table below)		11.27
Amount charged in draft accounts	10%X10millionXK10	(10)
Adjustment		1.27

Amortised cost amounts on the convertible loan notes – correct interest charge for y/e 31.12.2012:

Y/e 31.12	open. Balance	finance cost@12%	cashflow	cl. Bal
2012	92.75	11.13	(10)	93.88
2013	93.88	11.27	(10)	95.15

W2. Weighted average number of shares for basic eps:

:

Balance	Period	Weighting for			Weighted balance
'm	Period	Rights	Bonus	'm	
1,050	1.1 – 31.3	3/12	20/19	11/10	303.95
1,100	1.4 – 31.8	5/12	20/19	11/10	530.70
1,375	1.9 – 30.9	1/12	-	11/10	126.04
1,475	1.10 – 31.12	3/12	-	11/10	405.63
Weighted average number of shares					1,366.32

Rights weight = cum rights price/theoretical ex rights price = 20/19

Theoretical ex rights price = (4X20+1X15)/(4+1) = 19.

W3. Diluted eps earnings:

	K'm
Basic eps earnings	578.7
Additional earnings from confirmed dilutants (see test below):	
Share Options	0
Convertible loan notes	7.89
Diluted eps earnings	586.59

W4. Diluted eps shares:

	K'm
Basic eps shares	1,366.32
Additional shares from confirmed dilutants (see test below):	
Share Options (W6.)	22.5
Convertible loan notes (W8.)	150
Diluted eps shares	1,538.82

W4. Test on whether potential dilutants are dilutive:

Dilutant	Earnings (K'm)	Shares ('m)	Eps	Conclusion
Basic eps	600(w5)	1,366.32	43.91	
Share options	0	22.5(w6)		
		600		1,388.82
43.20 Dilutive	Loan notes	7.89(w7)		

150(w8)			607.89
1,538.82	39.50	Dilutive	

W5. Basic eps earnings for testing potential dilutants:

For the purpose of the test, the basic eps earnings must be the profit for the year from continuing operations. These are computed as follows:

	K'm	K'm
Total profit for the year from continuing operations		675
Less Profit from continuing operations attributable to NCI:		
Profit for the year attributable to NCI	(5)	
Less loss from discontinued operations for NCI	80	
		(75)
Profit from continuing operations attributable to owners of parent		600

W6. Free shares from share options:

		'm
From Shares exercised during the year	9/12X100(20 – 14)/20	22.5
From options issued during the year (none, exercise price exceeds fair value)		0
Total free shares from options		22.5

W7. Additional earnings from convertible loan notes:

	K'm
Finance cost for the year on the convertible notes (see W1.)	11.27
Tax on additional income 30%X11.27	(3.38)
Additional earnings	7.89

W8. Additional shares from convertible loan notes:
These equal to the number of shares on converting the notes using the ratio that gives the largest number of shares (most dilution) and are:

- 15 shares per note X 10 million notes = 150 million shares.

b.) The eps figure is a measure of profits generated by the entity for each share during the reporting period. It should therefore be a good measure of profitability of an entity. Ideally, the eps of an entity must be increasing year on year. However caution must be exercised in using eps to compare profitability of two or more entities as the entities shares will have different market prices.

Historically, the main use of the eps is for computing the Price per Earnings (P/E) ratio which is a measure of future prospects of an entity as judged by the stock market investors. A higher P/E ratio indicates the market is confident of good prospects. Even then, an entity's P/E ratio must be compared with other entities in the same industry.

The diluted earnings per share serves as a warning to investors of a potential fall in an entity's eps in future. This is the reason why it incorporates dilutive effects of existing obligations to issue shares in future. To that extent, the diluted eps gives predictive value information. However, the diluted eps figure is primarily based on the historic earnings and shares for the current period. It is not based on forecast future earnings and shares in circulation.

SOLUTION THREE

Transaction one

The lease appears to be a finance lease for two reasons:

1. The useful economic life of the plant (5.5 years) is almost the same as the lease term. This is indicative that substantially all economic benefits from the plant will be consumed by Simbi plc.

2. The present value (PV) of Simbi's Minimum Lease Payments (MLPs) (see working below) on the lease is about the same as the fair value of the plant at inception of the lease.

Simbi should therefore account for the lease as a finance lease recognizing the asset under lease and a corresponding finance lease liability at the lower of the PV of MLPs and the fair value of the asset. The asset must be depreciated over the shorter of the lease term (5 years) and its useful economic life (5.5 years).

The following are the financial statement extracts for the year ended 31 December 2013 in respect of the lease:

	K
Statement of Financial Position	
Non Current Assets	
Property Plant and Equipment (500000 – 500000/5X6/12)	450,000
Non current liabilities	
Fianance lease Liability(W	308,770
Current liabilities	
Fianance lease Liability(W4)	89,615
Statement of Profit or Loss	
Operating expenses to include depreciation on leased plant 500000/5X6/12	50,000
Finance costs (W2)	8,375

Workings:

W1. Present value of Simbi's MLPs:

Date		Cash flow K	PV factor @ 4.3%	PV K
01.07.2013	(100000+10000)	110,000	1	110,000
30.06.2014		98,000	0.959	93,960
30.06.2015		98,000	0.919	90,086
30.06.2016		98,000	0.881	86,372
30.06.2017		98,000	0.845	82,811
30.06.2018	(98000+15000)	113,000	0.810	91,550
				554,779

W2. Finance cost
K

	K
Initial liability	500,000
Payments at 1.7.2013	(110,000)
Balance during year ended 30.06.2014	390,000

Finance cost for year ended 30.06.2014 = 390000X4.3% = 16,770
Finance cost for 6 months to 31.12.3013 = 16,770X6/12 = 8,385

W3. Finance lease liabilities (at amotised cost)

Liability after initial payments	390,000
Finance costs for 6 months to 31.12.2013	8,385
Liability at 31.12 2013	398,385

W4. Current portion of liability at 31.12.2013

Total payment within 1 year	98,000
Less payment for interest between 31.12.2013 and 30.6.2014:	(8,385)
Current liability at 31.12.2013	89,615

W5. Non current liability

Total liability	398,385
Less current portion	(89,615)
	308,770

Transaction two

Since this is an operating lease, Simbi will not capitalize the lease but spread the total rentals payable over the lease term as an expense in profit or loss on a straight basis as follows:

Total rentals payable:

Date		Rental(K)
01.04.2013		500,000
01.04.2014		500,000
01.04.2015		500,000
01.04.2016	1.1X500000	550,000
01.0402017	1.1X550000	605,000
Rental expense to charge in Profit or Loss for year to 31.12.2013:		2,655,000
2655000/5X6/12		265,500

At each reporting date, Simbi will recognize a liability (accrual)in respect of the excess of accumulated rental expenses over accumulated payments or an asset (prepayment) in respect of the excess of accumulated payments over rental expense. At 31 December 2013, Simbi will report a prepayment asset equal to K234.500 (ie 500,000 – 265,500).

The fittings incorporated in the leased property must be capitalized and depreciated over the lease term. A provision (liability) must be recognized in respect of the obligation to restore the leased property in its state at inception of the lease in accordance with IAS 37. The amount relating to removal of fittings arises as a provision at the time the fittings are incorporated and should be capitalized as part of the cost of the fittings according to IAS 16. However, the amount required to remedy wear and tear arises as a liability over the lease term and must therefore be charged in profit or loss as it arises. In all cases the provisions must be discounted in accordance with IAS 37. Financial statement extracts relating to the fittings and the provisions for the year to 31.12.2013 are as follows:

		K
Fittings to report as part of PPE in the SFP		
Cost before decommissioning provision		300,000
Decommissioning Provision	150000X0.0.620	93,000
Total Cost		393,000
Accum. Depreciation	393000/5X6/12	(58,950)
Carrying amount of fittings		334050
Decommissioning provision to report in the SFP (150000 +100000/5) X 0.667 (end of year 4.25 DF)		113,390

Amounts to report as expenses in profit or loss for the year to 31.12.2013:

Depreciation of fittings		58,950
Increase in decommissioning provision:		
Provision at 31.12.2013	113,390	
Provision at 1.4.2013	(93,000)	
		20,390
		79,340

Transaction three

In the Statement of financial position at 31 December 2013, Simbi will report a Net Defined Benefit Pension Scheme liability computed as follows:

	K'm
Plan Liabilities at 31.12.2013	75
Plan Assets at 31.12.2013	(68)
Net Defined Benefit Pension liability	7

The unpaid employer contributions do not affect the pension liability to recognize in accordance with IAS 19.

Simbi Plc will recognize the following amounts in the Statement of Profit or Loss and Other Comprehensive Income:

In profit or loss:

	K'm	K'm
Costs of reorganization net of curtailed pension liabilities (30 – 15)		15
Pension cost for the year:		
Current service cost	20	
Past service cost	10	
Service component of pension cost	30	
Net Interest component 10%X(50-55) =	(0.5)	
		29.5
Total expense to charge in profit or loss		44.5

In other comprehensive income, items that will not be recycled to profit or loss, Simbi will report the Remeasurement component of the pension cost for the year. This will be computed as follows:

	Plan Assets K'm	Plan Liabilities K'm
Value at 1.01.2013	55	50
Changes in period before Remeasurement Component:		
Current service cost	-	20
Past service cost	-	10
Interest @ 10% of opening amount	5.5	5
Curtailment	-	(15)
Pension paid	(18)	(18)
Cash contributions	10	-
Value at 31.12.2013 before Remeasurement Component:	52.5	52
Remeasurement component (balance)	15.5 gain	23 loss
Value at 31.12.2013	68	75

Therefore, the net remeasurement component to report will be a loss of K7.5 million (ie 15.5 -23).

SOLUTION FOUR

(a) IFRS Practice Statement 1, Management Commentary (MC) is a non binding framework for the presentation of management commentary that relates to the financial statements prepared in accordance with IFRS. The Management Commentary is a narrative report that provides context within which to interpret an entity's financial performance, financial position and cash flows.

The MC must be prepared with the following principles:

1. It must provide management's view of the entity's performance, position and progress towards meeting its objectives.
2. It must supplement information in the financial statements

The MC must derive from information that is important to management in managing the business. Information relating to the following elements must be included:

1. Nature of the entity's business
2. Management objectives and strategies for meeting those objectives
3. The entity's most significant resources, risks and relationships.
4. Results from operations and an entity's prospects.
5. Critical performance measures and indicators that management uses to evaluate the entity's performance against its objectives.

In conclusion, the MC will enable external users of the annual report access to some information that internal management normally uses for planning and control.

(b) From a user's point of view a MC must a source of valuable information previously unavailable in published reports. Users will interpret performance in the context of an entity's objectives and strategies pursued to achieve those objectives. It will therefore, be possible for users to assess the entity's objectives and whether the chosen strategies are the appropriate ones in achieving those objectives. Users will also benefit from knowing how management assesses risks and the performance of the organization. Management's attitude to risk will be inferred from a MC. The MC will also enable users appreciate any future prospects of an entity.

The main argument against including a MC from a user's point of view would be the possibility of information overload. Financial statements already include a lot of information mainly from the disclosure requirements of IFRS.

A reporting entity will normally benefit from publishing a MC in that its users will be in a better position to assess its performance, especially where it is good performance! Even where performance for a particular period is bad, the context of the bad performance will be appreciated. An entity will therefore be more concerned about the overall long term performance as opposed to being preoccupied by short term financial performance.

However, there are some drawbacks from the entity's point of view of publishing a MC. These include:

1. The additional cost of preparing and publishing the MC.
2. Competitors may have access to highly sensitive information in the entity's MC.

SOLUTION FIVE

(a) IAS 12 requires that an entity must provide for deferred tax on all temporary differences. This is known as the full provision basis. A temporary difference is any difference between an item's (primarily, a reported asset or liability) accounting base and that item's tax base to the extent the difference has future tax consequences. An item's accounting base is its value as reported in the SFP whereas its tax base is the item's value for tax purposes. An entity has to accrue deferred tax liabilities in respect of all taxable differences. However, deferred tax assets can only be recognized to the extent they are recoverable, for example, in respect of trading losses where the entity anticipates adequate profits for cover the loss available for relief.

In calculating deferred tax amounts, the liability method must be used. This requires that deferred tax amounts are based on tax rates applicable at the various points in time in future when the differences reverse.

The tax deferred tax expense for each period will arise from the change in the deferred tax asset or liability during the period and will normally be presented in profit or loss. However, any expense relating to Other comprehensive income must be presented against other comprehensive income.

(b) **Transaction one**.

The plant will be reported in the SFP at 31.12.2013 within PPE at its fair value of K130million in accordance with the entity's Revaluation model per IAS 16. The plant's depreciation charge will be based on its carrying amount of K210 million during the year to 31.12.2013, its revised residual value of K5 million and the revised remaining life of 6.25 years (8 – 1.75). This gives a depreciation charge of K32.8 million = (210 -5)/6.25 to report in profit or loss for the year to 31.12.2013.

The revaluation at 31.12.2013 will give a revaluation loss as follows:

		K'm
Carrying amount after revaluation		130
Carrying amount before revaluation	(210-32.8)	(177.2)
Loss on revaluation		(47.2)

Accounting for the revaluation loss:

Without revaluation, the cost model carrying amount of the plant at 31.12.2013 would be:

		K'm
Cost		250
Depreciation up to 31.12.2012	(250-10)/10X1.75	(42)
		208
Depreciation for y/e 31.12.2013	(208-5)/6.25	(32.5)
Carrying amount at 31.12.2013		175.5

With the above in mind, of the total loss of K47.2 million at 31.12.2013, a loss equal to K1.7 million (ie 177.2 -175.2) reverses a past unrealized gain on the plant and will therefore be reported in other comprehensive income (no recycling to profit or loss). The balance of the loss amounting to K45.5 million must be reported in profit or loss.

In accounting for deferred tax, Taonga must consider any temporary difference between the accounting base and the tax base of the plant as follows:

	K'm	K'm
Accounting base at 31.12.2013		130
Tax base at 31.12.2013 (250-25%X250X3)		(62.5)
Taxable difference at 31.12.2013		67.5

Therefore, at 31.12.2013, Taonga must report a deferred tax liability of K20.3 million under non current liabilities.

The total deferred tax expense or credit to SPLOCI will be computed as follows:

		K'm
Liability at 31.12.2013		20.3
Less opening liability:		
Accounting base	210	
Tax base 250 -250X25%X2	(125)	
Taxable difference	85	
Deferred tax liability 85X30%		(25.5)
Total credit to SPLOCI for the y/e 31.12.2013(decrease in liability)		(5.2)

Of the total decrease in the deferred tax liability of K5.2 million, a credit of K0.5 million (ie 30%X1.7) will be reported in OCI against the loss of K1.7 million. The balance of the credit equal to K4.7 million will be in profit or loss as part of the income tax expense.

Transaction two.

On acquiring the trade, Taonga had recognized the fair values of the seperable assets and liabilities as the historic cost values of the identifiable net assets. Goodwill was recognized at K50 million (ie 200 -50)

Subsequently, the plant was depreciated over the remaining life of three years. This gives a carrying amount at 31.12.2013 of K25 million (ie 75 -75X2/3) to be included within PPE of Taonga. A depreciation amount of 75/3 = 25m must be charged in profit or loss.

The goodwill was initially reported at its fair value on acquisition. However, the fact of the trade making losses is an indicator of possible impairment and Taonga must therefore review the trade including the goodwill for impairment.

Deferred tax amounts will arise on the plant as follows:

Temporary differences at:

31.12.2013:	Accounting Base	(75-75/3X2)	25
	Tax Base	(75-75X25%X2)	(37.5)
	Tax deductible difference		(12.5)
31.12.2012:	Accounting Base	(75-75/3X1)	50
	Tax Base	(75-75X25%X1)	(56.25)
	Tax deductible difference	000	(6.25)

Arising from the temporary difference at 31.12.2013, Taonga will recognize a deferred tax asset at 31.12.12013 of K3.75 million (ie 30%X12.5).

Taonga will charge (debit) as an expense in profit or loss for the year to 31.12.2013, as part of the income tax expense, decrease in the deferred tax asset of K1.89 million, ie 30%(12.5 – 6.25).

Based on the earlier expectation that the trading loss would be relieved, Taonga must have recognized a deferred tax asset on the unrelieved trading loss at 31.12.2013 of K6 million, ie 30%X20. However the unrelieved loss at 31.12.2013 of K15 million (ie 20-5) should not lead to recognizing any deferred tax asset as the likelihood of relieving the loss is remote. Taonga will, therefore charge (debit) as an expense in profit or loss for the year to 31.12.2013, as part of the income tax expense, decrease in the deferred tax asset of K6 million.

Any difference on the goodwill will be a permanent difference as the value of goodwill has no tax effect .