Answers

1 (a) Angel Group

Statement of cash flows for the year ended 30 November 2013

	$m
Profit for the year (W1)	197
Adjustments to operating activities	
Financial assets – profit on sale (W5)	(14)
Retirement benefit expense (W7)	10
Depreciation (W1)	29
Profit on sale of PPE (W1)	(14)
Associate's profit (W3)	(12)
Impairment of goodwill and intangible assets (26·5 + 90) (W6)	116·5
Finance costs	10
	322·5
Movements in working capital	
Decrease in trade receivables (180 – 125 + 3)	58
Decrease in inventories (190 – 155 + 6)	41
Decrease in trade payables (361 – 155 + 4)	(210)
Cash generated from operating activities	211·5
Cash paid to retirement benefit scheme (W7)	(9)
Interest paid	(10)
Income taxes paid (W4)	(135·5)
Net cash generated by operating activities	57
Cash flows from investing activities	
Sale of financial assets (W5)	40
Purchase of financial assets	(57)
Purchase of property, plant and equipment (PPE) (W1)	(76)
Cash grant for PPE (W1)	1
Purchase of subsidiary (30 – 2) (W2)	(28)
Proceeds from sale of PPE (W1)	63
Dividend received from associate (W3)	3
Purchase of associate (W3)	(71)
Net cash flows used by investing activities	(125)
Cash flows from financing activities	
Proceeds of issue of share capital	225
Repayment of long-term borrowings	(31)
Dividends paid	(10)
Non-controlling interest dividend	(6)
Net cash generated by financing activities	178
Net increase in cash and cash equivalents	110
Cash and cash equivalents at beginning of period	355
Cash and cash equivalents at end of period	465

Workings

Working 1 Property, plant and equipment – building renovation

The following transactions would need to be made to recognise the asset in the entity's statement of financial position as of 30 November 2013.

Dr	Property, plant and equipment	$7m
Cr	OCI	$4m
Cr	Retained earnings (to correct)	$3m

The accounting policy of the Angel Group is to treat capital-based grants as deferred income.

However, the grant of $2m relates to capital expenditure and revenue. The grant should be split equally over revenue and capital.

The correcting entries should therefore be:

Dr	PPE	$2m
Cr	Retained earnings	$1m
Cr	Deferred income (long-term liabilities)	$1m

Thus from a cash flow perspective, net profit before taxation should be adjusted by $3 million and additions to PPE increased by $3 million. Additionally, cash flows from investing activities should show the grant received of $1 million, net profit before taxation should increase by $1 million and additions to PPE increase by $2 million.

Current carrying amount of PPE before adjustments

	$m
Opening balance at 1 December 2012	465
Revaluation	8
Additions	66
Disposals	(49)
Subsidiary acquisition	14
Depreciation	(29)
Closing balance at 30 November 2013	475

Additions for the year are $66m above, plus the adjustments re the grant and building of $3 million and $2 million and the construction costs of $5 million, i.e. $76 million.

Thus profit before tax will be $188 million + $3 million + $1 million (grant) + $1 million capitalised interest + $4 million construction costs charged to other expenses, i.e. $197 million.

Working 2 Purchase of subsidiary

The purchase of the subsidiary is adjusted for in the statement of cash flows by eliminating the assets and liabilities acquired, as they were not included in the opening balances. The fair values will be used, as they will be the values utilised on acquisition.

Calculation of deferred tax arising on acquisition:

	$m
Fair values of Sweety's identifiable net assets excluding deferred tax	20
Less tax base	(15)
Temporary difference arising on acquisition	5
Net deferred tax liability arising on acquisition (30% x $5m)	1·5

Calculation of goodwill:

	$m
Purchase consideration	30
Fair value of net assets (net of deferred tax)	(20)
Deferred taxation	1·5
Goodwill arising on acquisition	11·5

Working 3 Associate

	$m
Balance at 30 November 2013	80
Less profit for period $40m x 30%	(12)
Add dividend received $10m x 30%	3
Cost of acquisition (cash)	71

Therefore, cash paid for the investment is $71 million, and cash received from the dividend is $3 million.

Working 4 Taxation

	$m	$m
Opening tax balances at 1 December 2012		
Deferred tax	31	
Current tax	138	
		169
Charge for year		46
Deferred tax on acquisition (W2)		1·5
Tax on revaluation PPE		2
Tax on financial assets		1
Less closing tax balances at 30 November 2013:		
Deferred tax	35	
Current tax	49	
		(84)
Cash paid		135·5

Working 5 Financial assets

The sale proceeds of the financial assets were $40 million. Thus, an adjustment for the profit of $14 million on the sale of the financial assets has to be made. The deferred tax of $1 million arose on the gain on revaluation.

Working 6 Goodwill

	$m
Opening balance at 1 December 2012	120
Current year amount on subsidiary (W2)	11·5
Impairment	(26·5)
Closing balance at 30 November 2013	105

Impairments of other intangibles ($240m – 150m) $90m + $26·5m = $116·5m

Working 7 Retirement benefit

	$m
Opening balance at 1 December 2012	74
Remeasurement – actuarial losses	4
Current year service cost plus interest	11
Contributions paid	(9)
Closing balance at 30 November 2013	80

An adjustment has to be made in the statement of cash flow for the current year amount ($11 million) and the purchase of the subsidiary ($1 million), giving a net adjustment of $10 million.

(b) There are two classification principles which could be used to determine the classification of cash flows. Cash flows can be classified in accordance with the nature of the activity to which they relate which is most appropriate to the business of the entity, or cash flows can be classified consistently with the classification of the related or underlying item in the statement of financial position. Generally speaking, cash flows in IAS 7 should be classified in accordance with the nature of the activity to which they relate which is the most appropriate to the business of the entity.

The following elements could be used to help identify the nature of the cash flows being analysed:

– the cause or reason for which the cash flow is received or paid,
– the counterparty who receives or pays the cash flow,
– whether cash flows result from transactions which enter into the determination of profit or loss, or
– the predominant source of cash flows.

The statement of cash flows analyses changes in cash and cash equivalents during a period. Cash and cash equivalents comprise cash in hand and demand deposits, together with short-term, liquid investments which are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. IAS 7 does not define 'short term' but does state 'an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition'.

Consequently, equity or other investments which do not have a maturity date are excluded from cash equivalents unless they are, in substance, cash equivalents. This three-month time limit is somewhat arbitrary but is consistent with the concept of insignificant risk of changes in value and a purpose of meeting short-term cash commitments.

As regards the deposits, the following is the case:

(i) Although the principal ($3 million) will be recoverable with early withdrawal, the entity will lose all accumulated interest over the term, which seems to be a significant penalty. The cash is not needed to meet short-term cash commitments and so would not qualify as a cash equivalent.

(ii) Although the deposit is stated to have a 12-month maturity period, it can be withdrawn with 21 days' notice. Although this incurs a penalty, the reduction in the rate of interest from 3% to 2% is unlikely to be considered significant. The intention of management is to keep these funds available for short-term cash needs and so this deposit is likely to qualify as a cash equivalent.

(c) The directors should be persuaded that professional ethics are an inherent part of the profession as well as other major professions such as law and engineering. Professional ethics are a set of moral standards applicable to all professionals. Each professional body has its own ethical code such as the ACCA's *Code of Ethics and Conduct*, which requires its members to adhere to a set of fundamental principles in the course of their professional duty, such as confidentiality, objectivity, professional behaviour, integrity and professional competence and due care.

The main aim of professional ethics is to serve as a moral guideline for professional accountants. By referring back to the set of ethical guidelines, the accountant is able to decide on the most appropriate course of action, which will be in line with the professional body's stance on ethics. The presence of a code of ethics is a form of declaration by the professional body to the public that it is committed to ensuring the highest level of professionalism amongst its members.

Often there may be ethical principles which conflict with the profit motive and it may be difficult to decide on a course of action. Ethical guidelines can help by developing ethical reasoning in accountants by providing insight into how to deal with conflicting principles and why a certain course of action is desirable. Individuals may hold inadequate beliefs or hold on to inadequate ethical values. An accountant has an ethical obligation to encourage the directors to operate within certain boundaries when determining the profit figure. Users are becoming reactive to unethical behaviour by directors. This is leading to greater investment in ethical companies with the result that unethical practices can have a greater impact on the value of an entity than the reporting of a smaller profit figure. Ethical guidelines enable individuals to understand the nature of one's own opinion and ethical values. Ethical guidelines help identify the basic ethical principles which should be applied. This will involve not only code-based decisions but also the application of principles which should enable the determination of what should be done in a given situation. This should not conflict with the profit motive unless directors are acting unscrupulously. Ethical guidance gives a checklist to be applied so that outcomes can be determined. Ethical issues are becoming more and more complex and it is critical to have an underlying structure of ethical reasoning, and not purely be driven by the profit motive.

2 **(a)** Havanna's recognition of revenue with respect to the contracts does not comply with IAS 18 *Revenue*, which requires income from services to be recognised by reference to the stage of completion of the transaction at the end of the reporting period. IAS 18 states that the rendering of services typically involves the performance by an entity of a contractually agreed task over an agreed period. When the outcome of a transaction involving the rendering of services can be estimated reliably, the standard requires the revenue to be recognised by reference to the stage of completion of the transaction at the end of the reporting period. This requirement applies to all transactions, irrespective of the length of the contract term. Thus, there is no basis for Havanna failing to apportion income arising from contracts over the period of the contract. Income from contracts which extend over two financial reporting periods cannot be recognised in full in the financial year in which they were entered into simply because the agreements are deemed to have 'limited obligations'. Havanna has argued that it only assumes limited obligations under the contract and that this could not be seen as the rendering of services.

Under IAS 18, income should be recognised on a basis which reflects 'the extent to which services are performed' and on this basis, the income should be recognised as services are rendered.

IAS 18 para 25 is also relevant. Where services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion.

(b) According to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the carrying amounts of all the assets and liabilities in a disposal group are to be measured in accordance with applicable IFRSs, immediately before the initial classification of the disposal group as held for sale. Resulting adjustments are also recognised in accordance with applicable IFRSs. After classification as held for sale, non-current assets or disposal groups which are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment must be considered both at the time of classification as held for sale and subsequently. At the time of classification as held for sale, immediately prior to classifying an asset or disposal group as held for sale, the entity should measure and recognise impairment in accordance with the applicable IFRSs. Any impairment loss is recognised in profit or loss unless the asset had been measured at a revalued amount under IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets*, in which case the impairment is treated as a revaluation decrease. After classification as held for sale, the entity should calculate any impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell. Any impairment loss which arises by using the measurement principles in IFRS 5 must be recognised in profit or loss. For assets carried at fair value prior to initial classification, the requirement to deduct costs to sell from fair value will result in an immediate charge to profit or loss.

The division should recognise an additional impairment loss of $20 million. The initial impairment loss of $30 million is not sufficient as there will be a further impairment loss based on the difference between the adjusted carrying amounts of the asset/disposal group and fair value less costs to sell.

Additionally, the trade receivable should have been tested for impairment immediately before classification of the division as held for sale and the resulting loss should have been recognised against the net carrying amount of the disposal group at initial classification as held for sale. Since the sales contract stipulated that the division would refund the trade receivable in the event that the proceeds were not collected, the expected sales price of the disposal group should have been adjusted to take into account the potential refund.

As regards the expense relating to the discounting effect, the 'fair value less costs to sell' of the disposal group should have incorporated the effect of discounting given that payment was deferred until 2015. As regards the provision for transaction costs, the expected transaction costs should be considered as an additional cost of the transaction and, therefore, are a component of the costs to sell. All three items should therefore have been taken into account in the calculation of fair value less costs to sell and not be presented as provisions relating to continuing operations in the statement of financial position.

(c) As Havanna has decided that the leaseback is in substance an operating lease, then:

- it recognises the lease payments in expenses over the life of the lease
- it treats the property, plant and equipment asset as an asset held for sale, measuring and classifying it in accordance with IFRS 5. It derecognises the property, plant and equipment asset and transfers any associated revaluation reserve balance to retained earnings. As a point of principle, when a leaseback is an operating lease and the sales price is at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately.

However, in recognising the sale proceeds, Havanna should consider how the sale price compares with the fair value of the asset, and should account for the proceeds as follows:

(i) If the sale proceeds match the fair value of the asset, then the whole gain or loss on disposal is recognised immediately. Thus if the asset is sold for $5 million, a gain of $0·8 million will be recognised in profit or loss.

(ii) If the sale proceeds are greater than the fair value of the asset, which is unlikely in the current market, this implies the creation of an artificial gain. The sale proceeds are treated differently to the above. The difference between the fair value of the asset and its carrying value is recognised immediately in profit or loss.

The excess amount of the sale proceeds over the fair value of the asset is deferred and released to profit or loss over the life of the leaseback. Thus if the selling price were $6 million, a gain of $0·8 million would still be recorded but the balance of $1 million would be credited to profit or loss over the lease period of 10 years at $100,000 per annum.

(iii) Where the sale proceeds are less than the fair value of the asset, then any profit or loss is recognised immediately, unless it is clear that the loss is compensated for by lower lease rentals, in which case the loss is deferred and amortised to expenses over the life of the leaseback.

As property valuations are, by their nature, estimates and therefore include a degree of tolerance, if the asset were sold for $4·8 million, the difference between the sale proceeds and the fair value of the asset is relatively small and probably indicates that the sale is genuinely at fair value. The sale proceeds would therefore be recognised in full and a gain of $0·6 million recorded.

If the sale proceeds were $4 million, there is a large difference between the fair value of the asset and the sale proceeds which cannot be explained by estimation tolerances in the valuation. It appears that the sale proceeds are artificially low which in turn is likely to be reflected in artificially low lease rentals charged. Therefore the sale proceeds of $4 million are recognised but the resulting $0·2 million loss on disposal is not recognised immediately. Instead, it is deferred and amortised to expenses over the 10-year life of the lease at $20,000 per annum.

3 (a) Bental's decision to classify B-shares as non-controlling interests is incorrect and the shares with a contingent put option are a financial liability in accordance with IAS 32 *Financial Instruments: Presentation*. Bental has a clear contractual obligation to buy B-shares from the non-controlling interest under agreed terms and thus this contractual obligation is a financial liability as defined in IAS 32. IAS 32 defines a financial liability as a contractual obligation to deliver cash or another financial asset to another entity. If there were an unconditional right to avoid delivering cash or another financial liability, the instrument would be considered as an equity instrument. Otherwise, a financial instrument qualifies as a financial liability if the contingent payment condition is beyond the control of both the entity and the holder of the instrument. A contingent settlement provision which requires settlement in cash or variable number of the entity's own shares only on the occurrence of an event which is very unlikely to occur is not considered to be genuine and, hence, an instrument including such a provision would be an equity instrument (IAS 32). A financial liability is partly defined (IAS 32) as any liability which is a contractual obligation to deliver cash or another financial asset to another entity. However, Bental does not have an unconditional right to avoid delivering cash or another financial asset to settle the obligation. Thus, the minority shareholders' holdings of B-shares should be treated as a financial liability in the consolidated financial statements.

(b) According to IAS 39 *Financial Instruments: Recognition and Measurement*, when a hedging instrument expires or is sold, terminated or exercised, the entity discontinues prospectively the hedge accounting. If hedge accounting ceases for a cash flow hedge relationship because the forecast transaction is no longer expected to occur, gains and losses deferred in other comprehensive income must be taken to profit or loss immediately. If the transaction is still expected to occur and the hedge relationship ceases, the amounts accumulated in equity will be retained in equity until the hedged item affects profit or loss. Therefore, on termination of the hedge, Bental should recognise the cash payment against the fair value of the swaps. Hence, there would be no effect on profit or loss at the date of termination. The reclassification of the gain or loss accumulated in other comprehensive income should be reflected in the period during which the hedged cash flows will affect profit or loss.

IAS 39 does not allow an equity investment to be a hedged item in a fair value hedge because the equity method recognises in profit or loss the investor's share of the associate's profit or loss rather than changes in the investment's fair value. It may be possible to designate such an investment in its separate financial statements if the fair value can be measured reliably.

(c) IFRS 3 *Business Combinations* requires an acquirer to be identified in all business combinations, the acquirer being the combining entity which obtains control of the other combined entity. Guidance to be applied in determining the acquirer is provided in IFRS 10 *Consolidated Financial Statements*. IFRS 10 says that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 states that power arises from rights. Sometimes it is straightforward to assess power by looking at the voting rights obtained. When the parent acquires more than half of the voting rights of the entity, it normally has power if the relevant activities of the investee are directed by a vote or if a majority of the members of the governing body are appointed by a vote of the holder of the majority of the voting rights. Other rights which may give the investor power are:

– rights to appoint, reassign or remove members of key management personnel
– rights to appoint or remove another entity which directs the relevant activities
– rights to direct the investee to enter into or veto any changes to transactions for the benefit of the investor, and other rights (such as decision-making rights specified in a management contract).

There is a presumption that an entity achieves control over another entity by acquiring more than one half of the voting rights, unless it can be demonstrated that such ownership does not constitute control. If the guidance in IFRS 10 does not clearly indicate which of the combining entities is the acquirer, IFRS 3 sets out other factors to be considered. The acquirer is usually the entity which transfers cash or other assets. In this scenario, as Bental is the entity giving up a cash amount corresponding to 45% of the purchase price, this represents a significant share of the total purchase consideration. When there is an exchange of equity interests in a business combination, the entity which issues the equity interests is normally the acquirer. In this case, as the majority of the purchase consideration is settled in equity instruments, Bental would appear to be the acquirer. However, all pertinent facts and circumstances should be considered to determine which of the combining entities has the power to govern the financial and operating policies of the other entity. The acquirer is usually the combining entity whose shareholders retain or receive the largest portion of the voting rights in the combined entity. The shareholders of Bental, the smaller of the two combining entities, appear to have obtained control since their share amounts to 51% of the voting rights after the transaction. A controlling ownership, however, does not necessarily mean that the entity has the power to govern the combined entity's financial and operating policies so as to obtain benefits from its activities. Additionally, the acquirer could be deemed to be the entity whose owners have the ability to appoint or remove a majority of the members of the governing body of the combined entity. Five out of six members of the board here are former board members of Bental, which again suggests that Bental is the acquirer. Additionally, the acquirer could be deemed the entity whose former management dominates the management of the combined entity. However, the management team consists of the COO plus two former employees of Lental as compared to two former employees of Bental. Therefore, the former management of Lental has a greater representation. Although the board nominates the management team, the COO will have significant influence through his share ownership and the selection of the team.

Other indications implying control may be the relative size of the combining entities in terms of, for example, assets, revenues or profit. As the fair value of Lental ($90 million) is significantly greater than Bental ($70 million), this would point towards Lental as the acquirer.

The arguments supporting Bental or Lental as the acquirer are finely balanced and therefore it is difficult to identify an acquirer in this case. It can be argued that Bental can be identified as the acquirer, on the basis that:

- Bental issued the equity interest
- Bental is the entity transferring the cash or other assets and
- Bental has the marginal controlling interest (51%).

4 (a) (i) The selection of accounting policy and estimation techniques is intended to aid comparability and consistency in financial statements. Entities should follow the requirements of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, when selecting or changing accounting policies, changing estimation techniques, and correcting errors. An entity should determine the accounting policy to be applied to an item with direct reference to IFRS but accounting policies need not be applied if the effect of applying them would be immaterial. IAS 8 also notes that it is inappropriate to make or leave uncorrected immaterial departures from IFRS to achieve a particular position. Where IFRS does not specifically apply to a transaction, judgement should be used in developing or applying an accounting policy, which results in financial information which is relevant to the decision-making and assessment needs of users. In making that judgement, entities must refer to guidance in IFRS, which deals with similar issues and then subsequently to definitions, and criteria in the Framework. Additionally, entities can refer to recent pronouncements of other standard setters who use similar conceptual frameworks. Entities should select and apply their accounting policies consistently for similar transactions. If IFRS specifically permits different accounting policies for categories of similar items, an entity should apply an appropriate policy for each of the categories in question and apply these accounting policies consistently for each category. For example, for different classes of property, plant and equipment, some may be carried at fair value and some at historical cost.

(ii) A change in accounting policy should only be made if the change is required by IFRS, or it will result in the financial statements providing reliable and more relevant financial information. Significant changes in accounting policy other than those specified by IFRS should be relatively rare. IFRS specifies the accounting policies for a high percentage of the typical transactions which are faced by entities. There are therefore limited opportunities for an entity to choose an accounting policy, as opposed to a basis for estimating figures which will satisfy such a policy.

IAS 8 states that the introduction of an accounting policy to account for transactions where circumstances have changed is not a change in accounting policy. Similarly, an accounting policy for transactions which did not occur previously or which were immaterial is not a change in accounting policy and therefore would be applied prospectively.

For example, where an entity changes the use of a property from an administration building to a residential space and therefore an investment property, this would result in a different treatment of revaluation gains and losses. However, this is not a change in accounting policy and so no restatement of comparative amounts should be made.

A change in accounting policy is applied retrospectively unless there are transitional arrangements in place. Transitional provisions are often included in new or revised standards and may not require full retrospective application.

Sometimes it is difficult to achieve comparability of prior periods with the current period where, for example, data might not have been collected in the prior periods to allow retrospective application. Restating comparative information for prior periods often requires complex and detailed estimation. This, in itself, does not prevent reliable adjustments.

When making estimates for prior periods, the basis of estimation should reflect the circumstances which existed at the time and it becomes increasingly difficult to define those circumstances with the passage of time. Estimates and circumstances might be influenced by knowledge of events and circumstances which have arisen since the prior period.

IAS 8 does not permit the use of hindsight when applying a new accounting policy, either in making assumptions about what management's intentions would have been in a prior period or in estimating amounts to be recognised, measured or disclosed in a prior period.

When it is impracticable to determine the effect of a change in accounting policy on comparative information, the entity is required to apply the new accounting policy to the carrying amounts of the assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable. This could actually be the current period but the entity should attempt to apply the policy from the earliest date possible.

(iii) IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires prior period errors to be amended retrospectively by restating the comparatives as if the error had never occurred. Hence, the impact of any prior period errors is shown through retained earnings rather than being included in the current period's profit or loss. Managers could use this treatment for prior period errors as a method for manipulating current period earnings. Restatements due to errors and irregularities can be considered to indicate poor earnings quality, and to threaten investor confidence, particularly if they occur frequently. Thus, it might appear that the factors associated with earnings corrections could be linked to earnings management.

Arguments against the approach in IAS 8 are:

– that the standard allows inappropriate use of hindsight;
– that the treatment renders errors less prominent to users; and
– that it allows amounts to be debited or credited to retained profits without ever being included in a current period profit or loss.

Managers have considerable discretion regarding the degree of attention drawn to such changes. The information content and prominence to users of disclosures regarding prior period errors are issues of significance, with potential economic and earnings quality implications. Expenses could be moved backward into a prior period, with the result that managers are given a possible alternative strategy with which to manage earnings. It is possible to misclassify liabilities, for example, as non-current rather than current, or even simply miscalculate reported earnings per share. Under IAS 8, the prior period error can then be amended the following year, with no lingering effects on the statement of financial position as a result of the manipulation.

(b) IAS 23 *Borrowing Costs* states that such costs which are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and, therefore, should be capitalised. Other borrowing costs are recognised as an expense. Thus the change in accounting policy actually only brings Zack in line with IFRS, with the result that there is an accounting error which will require a prior period adjustment. In applying the new accounting policy, Zack has identified that there is another asset where there is a material impact if borrowing costs should have been capitalised during the construction period. This contract was completed during 2012. Thus, the financial statements for the year ended 30 November 2012 should be restated to apply the new policy to this asset. The effects of the restatement are as follows: at 30 November 2012, the carrying amount of property, plant and equipment is restated upwards by $2 million less depreciation for the period and this would result in an increase in profit or loss for the period of the same amount. Disclosures relating to prior period errors include: the nature of the prior period error for each prior period presented, to the extent practicable; the amount of the correction for each financial statement line item affected; and for basic and diluted earnings per share, the amount of the correction at the beginning of the earliest prior period presented. The disclosure would include the nature of the prior period error.

The line items in the statement of profit or loss and other comprehensive income would also change. For the current period, Zack would disclose the impact of the prior period error of $3 million. It can be assumed that, because the asset is under construction, there will be no depreciation on the asset.

The change in the depreciation method is not a change in an accounting policy but a change in an accounting estimate. For changes in accounting estimates, Zack should disclose the nature and the amount of the change which affects the current period or which it is expected to have in future periods. It should be noted that IAS 8 does permit an exception where it is impracticable to estimate the effect on future periods. Where the effect on future periods is not disclosed because it is impracticable, that fact should be disclosed. The revision results in an increase in depreciation for 2013 of $6m and the disclosure of an estimated increase for 2014 of $8m.

The systems error has resulted in a prior period error. In order to correct this error, Zack should restate the prior year information for the year ended 30 November 2012 for the $2m in the statement of profit or loss and other comprehensive income. Additionally, the trade creditors figure in the statement of financial position is overstated by $2 million and should be restated. The movement in reserves note will also require restating. This is not a correction of an accounting estimate.

Professional Level – Essentials Module, Paper P2 (INT)
Corporate Reporting (International) **December 2013 Marking Scheme**

			Marks
1	**(a)**	Net profit before taxation	4
		Net cash generated from operations	16
		Cash flow from investing activities	10
		Cash flow from financing activities	5
			35
	(b)	Subjective assessment of discussion	9
	(c)	Subjective assessment – 1 mark per point	6
			50
2	**(a)**	Revenue recognition up to	6
	(b)	IFRS 5 explanation	9
	(c)	Leases	8
	Professional marks		2
			25
3	**(a)**	Financial instrument explanation up to	7
	(b)	Hedged items	6
	(c)	IFRS 3 explanation	10
	Professional marks		2
			25
4	**(a)**	Subjective	15
	(b)	Subjective	8
	Professional marks		2
			25