ANSWERS TO EXAMPLES

Chapter 1

Answer to Example 1

Accruals	Inventory should be included in cost of sales. The premises should be included in Property, Plant and Equipment and depreciated over their estimated useful life. Goodwill should be capitalised and reviewed annually for impairment.
Consistency	How has Laima treated similar purchases in the past?
Going Concern	Capitalising the premises and goodwill is only appropriate if Laima's business is likely to continue into the foreseeable future.
Materiality	Adjust Laima's incorrect treatment of property and goodwill only if their value is material in Laima's business financial statements.
Offsetting	The expenses and assets should not be offset against revenues and liabilities.

Chapter 2

No Examples

Chapter 3

Answer to Example 1

Statement of Income

Profit for the year from continuing operations		421

Statement of Profit or Loss and Other Comprehensive Income

Profit for the period		421
Other recognised income and expense		
Surplus on property revaluation	105	
Impairment loss	(25)	
		80
		501

Statement of Changes in Equity

	Share capital $'000	*Share premium $'000*	*Revaluation surplus $'000*	*Retained earnings $'000*	*Total $'000*
Brought forward	400	50	165	310	925
Profit for the period				421	421
Property revaluation			80		80
Dividend				(98)	(98)
Share issue	200	50			250
	600	100	245	633	1,578

Chapter 4

Answer to Example 1

Ruta Co Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2009

	$000	$000
	2009	2008
Revenue	640	480
Cost of sales	(260)	(215)
Gross Profit	380	265
Administrative expenses	(60)	(48)
Distribution costs	(87)	(56)
Profit from continuing operations	233	161
Discontinued operations	(3)	(1)
	230	160

Chapter 5

Answer to Example 1

Adomas Statement of Income for the year ended 31 December, 2009

	2009	2008
	$'000	$'000
Revenue	2,600	2,500
Costs and expenses	(1,400)	(1,200)
Profit for the year	1,200	1,300

Adomas Statement of Financial Position as at 31 December, 2009

	2009	2008
	$'000	$'000
		as restated
TNCA	2,300	1,500
Current assets	1,700	800
	4,000	2,300
$1 Equity shares	600	600
Retained earnings	2,700	1,500
Revaluation reserve	300	–
	3,600	2,100
Current liabilities	400	200
	4,000	2,300

Adomas Statement of Profit or Loss and Other Comprehensive Income

	2009	2008
	$000	$'000
Surplus on revaluation of properties	300	–
Net gains not recognised in the Statement of Income	300	–
Net profit for period	1,200	800
Total recognised gains and losses	1,500	800
Affect of material error		(500)

Answers to Examples

Adomas Statement of Changes in Equity

	Share capital	*Revaluation reserve*	*Retained earnings*	*Total*
	$'000	*$'000*	*$'000*	*$'000*
Balance at 31 December, 2008	600	–	2,000	2,600
Material error	–	–	(500)	(500)
Restated balance	600	–	1,500	2,100
Surplus on revaluation of properties		300		300
Net gains not recognised in the Statement of Income		300		300
Net profit for the year			1,200	1,200
Balance at 31 December, 2009	600	300	2,700	3,600

Chapter 6

Answer to Example 1

The investment in Gediminas will be recorded as:

Dr Investment in Gediminas	$3,000	
Cr Cash		$3,000

Vytautas's Statement of Financial Position will now comprise:

	$	*$*
Assets		
Non-current assets		
Plant and equipment		50,000
Investment in Gediminas		3,000
		53,000
Current assets		
Inventory	8,000	
Receivables	6,000	
Cash	1,000	
		15,000
		68,000
Equity		
$1 Equity shares		40,000
Retained earnings		20,000
		60,000
Current liabilities		8,000
Total equity and liabilities		68,000

Answer to Example 2

Size of Investment	*Extent of influence achieved*	*Accounting treatment*
0% to < 20%	No significant influence	As an investment, accounting only for dividends received
20% to ≤ 50%	Significant	As an associate under the Equity Method
> 50%	Total control	Acquisition accounting

Chapter 7

Answer to Example 1

Rasa Group Consolidated Statement of Financial Position as at 1 January, 2009

		$
Other assets	(30 + 20)	50,000
$1 Equity shares	Only Rasa	20,000
Retained earnings	See note (p34)	22,000
		42,000
Liabilities	(6 + 2)	8,000
		50,000

Answer to Example 2

Rasa Group Consolidated Statement of Financial Position as at 31 December, 2009.

		$
Other assets	(40 + 26)	66,000
$1 Equity shares	Only Rasa	20,000
Retained earnings	((31 + 100% (14 - 10))	35,000
		55,000
Liabilities	(7 + 4)	11,000
		66,000

Answer to Example 3

Aurimas Group Consolidated Statement of Financial Position as at 31 December, 2009

		$
Other assets	(40 + 30)	70,000
$1 Equity shares	Only Aurimas	10,000
Retained earnings	(W3)	49,000
		59,000
Liabilities		11,000
		70,000

Workings

W1

A
| 100%
O

W2 Goodwill

not yet applicable

W3 Consolidated retained earnings

	A	O
per question	42,000	15,000
– pre acquisition	–	(8,000)
∴ post acquisition	42,000	7,000
Aurimas' share	7,000	100%
	49,000	

Answers to Examples

Answer to Example 4

Maruta Group Consolidated Statement of Financial Position as at 1 December, 2009.

		$
Goodwill	(W2)	10,000
Other assets	(40 + 27)	67,000
		77,000
$1 Equity shares	Only Maruta	25,000
Retained earnings	(W3)	36,000
		61,000
Liabilities	(9 + 7)	16,000
		77,000

Workings

W1

M
| 100%
L

W2 Goodwill

Cost of investment		30,000
Net assets @ doa		
$1 Equity shares	15,000	
Retained earnings	5,000	
		20,000
Goodwill		10,000

W3 Consolidated retained earnings

	M	*L*
per question	36,000	5,000
– pre acquisition	–	(5,000)
∴ post acquisition	36,000	–
M's share	–	100%
	36,000	

Answer to Example 5

Remigijus Group Consolidated Statement of Financial Position as at 31 March, 2010.

	$
Goodwill (W2)	11,000
Other assets (100 + 150)	250,000
	261,000
$1 Equity shares	50,000
Retained earnings (W3)	118,500
NCI (W4)	32,500
	201,000
Liabilities (40 + 20)	60,000
	261,000

W1

R
75%
I — 25%

W2 Goodwill

Cost of investment		80,000
NCI investment valuation		23,000
		103,000
NA @ DOA		
$1 Equity shares	32,000	
Ret earnings	60,000	
		92,000
Goodwill		11,000

W3 Consolidated retained earnings

	R	*I*
per q	90,000	98,000
- pre acq		60,000
∴ post acq		38,000
our share	28,500	75%
	118,500	

W4 NCI (25%)

Value @ doa	23,000
Share of S post acq ret'd 25% x 38,000	9,500
	32,500
Less their share of impairment – none, originally valued on a proportional basis	–
	32,500

Answers to Examples

Answer to Example 6

	$
Goodwill (W2)	33,000
Other net assets (60 + 190)	250,000
	283,000
$1 Equity shares	70,000
Retained earnings (W3)	132,000
NC Interest (W4)	81,000
	283,000

W1

I
60%
G —— 40%

W2 Goodwill

Cost of investment		100,000
Nci investment valuation ((40% x 120) + 5)		53,000
		153,000
Net assets @ doa		
$1 Equity shares	80,000	
Retained earnings	40,000	
		120,000
Goodwill		33,000

W3 Consolidated retained earnings

	Ivona	*Guido*
per q	90,000	110,000
- pre acq		(40,000)
∴ post acq		70,000
our share	42,000	60%
	132,000	

W4 NCI (40%)

Value @ doa	53,000
Share of S post acq ret'd 40% × (110,000 - 40,000)	28,000
	81,000

Answer to Example 7

	$
Goodwill (W2)	35,000
Other net assets (60 + 190)	250,000
	285,000
$1 Equity shares	70,000
Retained earnings (W3)	132,000
NC Interest (W4)	83,000
	285,000

W1

I
60%
G —— 40%

W2 Goodwill

Cost of investment		100,000
Nci investment valuation		55,000
		155,000
Net assets @ doa		
$1 Equity shares	80,000	
Retained earnings	40,000	
		120,000
Goodwill		35,000

W3 Consolidated retained earnings

	Ivona	*Guido*
per q	90,000	110,000
- pre acq		40,000
∴ post acq		70,000
our share	42,000	60%
	132,000	

W4 NCI (40%)

Value @ doa	55,000
Share of S post acq ret'd 40% × (110,000 - 40,000)	28,000
	83,000

Answer to Example 8

	$
Goodwill (W2)	32,800
Other assets (60 + 190)	250,000
	282,800
$1 Equity shares	70,000
Retained earnings (W3)	132,000
Nci (W4)	80,800
	282,800

Answers to Examples

W1 No change

W2 Goodwill

Cost of investment		100,000
Nci investment valuation 40% x 80,000 x $1.65		52,800
		152,800
Net assets @ doa		
$1 Equity shares	80,000	
Retained earnings	40,000	
		120,000
Goodwill		32,800

W3 No change

W4 NCI (40%)

Value @ doa	52,800
Share of S post acq ret'd 40% × 70,000	28,000
	80,800

Answer to Example 9

Ivona / Guido (1) impairing goodwill

		$
Goodwill	(W2)	31,500
Other net assets		250,000
		281,500
$1 Equity shares		70,000
Retained earnings	(W3)	129,900
NC Interest	(W4)	81,600
		281,500

W1 No change

W2 Goodwill

Goodwill as calculated	35,000
Impair by 10%	3,500
	31,500

W3 Consolidated retained earnings

As calculated	132,000
Less goodwill impairment, Ivona's share only (60% × 3,500)	(2,100)
	129,900

W4 NCI (40%)

Value @ doa	55,000
Share of post acq retained (40% × 70,000)	28,000
	83,000
Less: share of impairment (40% × 3,500)	1,400
	81,600

Answer to Example 10

Robertas Group Consolidated Statement of Financial Position as at 31 December, 2009.

	$
TNCA (12 + 30)	42,000
Other assets (13 + 4)	17,000
	59,000
$1 Equity shares	5,000
Retained earnings (W3)	41,875
NC Interest (W4)	7,625
	54,500
Liabilities (1 + 3.5)	4,500
	59,000

W1

R
| 75%
I —— 25%

W2 Goodwill

Cost of investment		15,000
Nci investment valuation		7,000
		22,000
Net assets @ doa		
$1 Equity shares	3,000	
Premium	1,500	
Ret ears b/f	20,000	
7 months profit	3,500	
		28,000
Goodwill		(6,000) to S of CI

W3 Consolidated retained earnings

	R	*I*
per question	34,000	26,000
– pre acquisition	–	(23,500)
∴ post acquisition	34,000	2,500
our share	1,875	75%
	35,875	
Goodwill	6,000	
	41,875	

W4 Nci (25%)

Value @ doa	7,000
Share of S post acq ret'd 25% x 2,500	625
	7,625

Answers to Examples

Answer to Example 11

Dalius Group Consolidated Statement of Financial Position as at 31 December, 2009.

		$
INCA	(W2)	99,500
Non-depreciable non-current		15,000
Depreciable non-current		18,000
Other assets	(350 + 300)	650,000
		782,500
$1 Equity shares	D Only	200,000
Retained earnings	(W3)	393,600
NC Interest	(W4)	78,900
		672,500
Liabilities	(40 + 70)	110,000
		782,500

W1

D
| 70%
R —— 30%

W2 Goodwill

Cost of investment		250,000
Nci investment valuation		64,500
		314,500
Net assets @ doa		
$1 Equity shares	130,000	
Retained earnings	20,000	
Fair value adjustments		
Inventory	20,000	
Non-depreciable non-current	15,000	
Depreciable non-current	30,000	
		215,000
		99,500

W3 Consolidated retained earnings

	Dalius	*Ramuna*
per question	360,000	100,000
Fair value adjustments as at today		
Inventory		–
Non-depreciable non-current		15,000
Depreciable non-current (2 years after acquisition) 30,000 × 60%		18,000
		133,000
Less pre -acq		85,000
		48,000
Dalius's share	33,600	70%
CSFP	393,600	

W4 Nci (30%)

Value @ doa	64,500
Share of S post acq ret'd 30% x 48,000	14,400
	78,900

Chapter 8

Answer to Example 1

Jurate Group Consolidated Statement of Financial Position as at 31 December, 2009.

			$
TNCA	(400 + 150)		550,000
CA			
Inventory	(70 + 50 + 10)	130,000	
Receivables	(80 + 70)	150,000	
Cash	(30 + 30 + 20)	80,000	
			360,000
			910,000
$1 Equity shares	J Only		500,000
Retained earnings	(W3)		221,000
NC Interest	(W4)		69,000
			790,000
Liabilities	(110 + 10)		120,000
			910,000

W1 J

70%

D —— 30%

W2 Goodwill

Cost of investment		140,000
Nci investment valuation		60,000
		200,000
Net assets @ doa		
$1 Equity shares	200,000	
Retained earnings	–	
		200,000
No Goodwill		–

W3 Consolidated retained earnings

	Jurate	*Dovile*
per question	200,000	30,000
less pre-acq		–
∴ post acq		30,000
Jurate's share	21,000	70%
	221,000	

W4 NC Interest (30%)

Value @ doa	60,000
Share of S post acq ret'd 30% x 30,000	9,000
	69,000

Answers to Examples

Answer to Example 2

Petras Group Consolidated Statement of Financial Position as at 31 December, 2009.

		$'000	*$'000*
TNCA	(500 + 250)		750
CA			
Inventory	(130 + 70 - 12)	188	
Other current assets	(100 + 60)	160	
			348
			1,098
$1 Equity shares	P Only		450
Retained earnings	(W3)		403.5
NC Interest	(W4)		84.5
			938
Liabilities	(130 + 30)		160
			1,098

W1 P

75%

S —— 25%

W2 Goodwill

Cost of investment		150,000
Nci investment valuation		50,000
		200,000
Net assets @ doa		
$1 Equity shares	200,000	
Retained earnings	–	
		200,000
No Goodwill		–

Provision for Unrealised Profit calculation (PUP)

C	+	π	=	SP
100	+	25	=	?
			=	125

So 25/125 or 1/5 is the profit element
1/5 × 60,000 = 12,000 pup.
Reduce inventory and **SIGNE'S** retained earnings.

W3 Consolidated retained earnings

	Petras	Signe
Per question	300,000	150,000
Less pup		(12,000)
		138,000
Less pre acq		–
∴ post acq		138,000
P's share	103,500	75%
	403,500	

W4 Nci (25%)

Value @ doa	50,000
Share of post acq ret'd 25% x 138,000 (net of pup)	34,500
	84,500

Answer to Example 3

Linas Group Consolidated Statement of Financial Position as at 31 December, 2009.

		$'000
TNCA	(400 - 5 + 240)	635
Current assets	(440 + 510)	950
		1,585
$1 Equity shares	L Only	300
Retained earnings	(W3)	767
NC Interest	(W4)	288
		1,355
Current liabilities	(200 + 30)	230
		1,585

W1 L

60%

A — 40%

W2 Goodwill

Cost		160,000
Nci investment valuation		158,000
		318,000
Net assets @ doa		
$1 Equity shares	120,000	
Retained earnings	275,000	
		395,000
Goodwill		(77,000)

Pup calculation

Asset cost	200,000	
Acc dep	120,000	
	80,000	
Sold for		90,000
Pup of 10,000		
Dep for 2009	40,000	45,000
∴ excess dep is	5,000	

W3 Consolidated retained earnings

	Linas	Asta
Per question	500,000	600,000
Less pup	(10,000)	
Excess depreciation	5,000	
	495,000	
Less pre acq		(275,000)
∴ post acq		325,000
Linas's share	195,000	60%
	690,000	
Plus goodwill	77,000	
	767,000	

W4 NC Interest (40%)

Value @ doa	158,000
Share of S post acq ret'd 40% x 325,000	130,000
	288,000

Answers to Examples

Answer to Example 4

Laimonas Group Consolidated Statement of Financial Position

		$
INCA	(W2)	1,100
TNCA	(23 + 16)	39,000
Current assets	(36 + 64)	100,000
		140,100
$1 Equity shares	L Only	60,000
Retained earnings	(W3)	38,040
NC Interest	(W4)	6,060
		104,100
Current liabilities	(9 + 10)	19,000
NCI prop div.		1,000
Proposed dividend	(for L)	16,000
		140,100

W1

L

90%

K — 10%

W2 Goodwill

Cost of investment		50,000
Nci investment valuation		5,500
		55,500
Net assets @ doa		
$1 Equity shares	20,000	
Retained earnings	30,000	
		50,000
Goodwill		5,500
Impaired since acquisition 80% x 5,500		(4,400)
CS of FP		1,100

W3 Consolidated retained earnings

	Laimonas	Kristine
per q	40,000	50,000
divs pble	(16,000)	(10,000)
divs rble	9,000	–
	33,000	40,000
less pre acq		30,000
∴ post acq		10,000
Laimonas' share	9,000	90%
	42,000	
Less: L's share of goodwill impairment 90% x 4,400	(3,960)	
	38,040	

W4 NC Interest (10%)

Value at doa	5,500
Share of S post acq ret'd 10% x 10,000	1,000
	6,500
Less goodwill impairment 10% x 4,400	(440)
on CSFP	6,060

Chapter 9

Answer to Example 1

Ausra Group Consolidated Statement of Financial Position as at 31 October, 2011.

		$
INCA (W2)		37,500
TNCA (260 + 200 – 27)		433,000
		470,500
Inventory (100 + 50 – 5.85)	144,150	
Receivables (90 + 80 – 6.5 + 1.8 – 1.8 – 11.5)	152,000	
Cash (5 + 6.5 + 36)	47,500	
		343,650
		814,150
$1 Equity shares (100 + 20)		120,000
Share premium 30 + (20 x 3.30)		96,000
Retained earnings (W3)		194,275
NC Interest (W4)		43,025
		453,300
3% Debentures (30 + 80)	110,000	
Deferred cash (30 + 3 - 1.25)	31,750	
		141,750
		595,050
Current Liabilities		
Creditors (116 + 102 – 11.5)	206,500	
Dividend payable	12,000	
NCI prop div	600	
		219,100
		814,150

W1 A — 5m pre — 7m post

A
| 75%
D —— 25%

Profit split for Danute		
profit for the year per question		60,000
– profit on TNCA transfer		(36,000)
Normal profits		24,000
Split 5 : 7		
	10,000	14,000
TNCA transfer profit	–	36,000
	10,000	50,000
Inventory fair value adjustment	12,000	(12,000)
	22,000	38,000

Answers to Examples

W2 Goodwill

Cost of acquisition		
Share capital 75% x 40,000 x 2/3 x 1 x $4.30		86,000
Deferred cash payment 75% x 40,000 x 2/2 x $1.21 x 1/1.10 x 1/1.10		30,000
Cash payment 75% x 40,000 x 2 x $0.60		36,000
Value of nci investment 25% x 40,000 x 2 x $2.20		44,000
		196,000
Fair value of SNA @ DOA		
Share capital	40,000	
Share premium	20,000	
retained earnings brought forward	64,000	
retained earnings 5 months	22,000	
		146,000
Goodwill		5,000
Impaired since acquisition 25%		(12,500)
		37,500

#2 **Pup on TNCA**

Profit recognised by Danute	36,000	
Depreciation on TNCA unrealised profit	(9,000)	
	27,000	Pup in Danute

#3 **Pup on Inventory**

Cost + profit = selling price

30% = 100%

profit element in closing inventory is ∴ 30%

30% x 26,000 x 3/4 5,850 in Ausra

#4 In Ausra ⇑ Cash 6,500

⇓ Receivables 6,500

and then cancel $11,500 receivables in Ausra against
$11,500 payables in Danute

#7 **Dividends**

In Ausra	120,000 x 10c	dividend payable
In Danute 40,000 x 2 x 3c		2,400 dividend payable
of which Ausra wants to receive 75% ie		1,800 dividend receivable

and now cancel 1,800 receivable by Ausra
against 1,800 of the 2,400 payable by Danute

#8 **Nci investment**

25% x 40,000 x 2 x $2.20 $44,000

W3 Consolidated Retained Earnings

	Ausra	*Danute*
per question	215,000	124,000
pup on TNCA		(27,000)
pup on Inventory	(5,850)	
unrolled discount on deferred consideration	(1,750)	
dividends payable	(12,000)	(2,400)
dividends receivable	1,800	
	197,200	94,600
– pre acquisition		(86,000)
∴ Post-acquisition		8,600
		75%
our share	6,450	
	203,650	
Less goodwill impairment (just our share 75% × 12,500)	(9,375)	
	194,275	

W4 Non controlling interest

Value at date of acquisition	44,000
Share of post acquisition retained 25% x 8,600	2,150
	46,150
– Share of goodwill impairment since acquisition 25% × 12,500	(3,125)
	43,025

Chapter 10

Answer to Example 1

Mantas Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2009.

		$
Revenue	(26 + 12)	38,000
Cost of sales and expenses	(10 + 7)	17,000
Profit before tax		21,000
Income tax expense	(6 +1.5)	7,500
Profit after tax		13,500 *
NCI 20% x 3,500		(700)
		12,800
Dividend Mantas only		5,000
		7,800

Proof	
M own	7,000
+	
M's share of R's post acq ret'd 80% × 1,000	800
	7,800

* Of this amount, 700 relates to the NC interest and 12,800 relates to the members of Mantas.

Answers to Examples

Answer to Example 2

Lina Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2009.

		$
Revenue	(40 + 30 - 4)	66,000
Cost of sales and expenses	(27 + 16 - 4)	39,000
Profit before tax		27,000
Taxation	(4.8 +4.2)	9,000
Profit after tax		18,000 *

* Of this amount, 3,920 relates to the NC interest and 14,080 relates to the members of Lina

Answer to Example 3

Karolis Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 May, 2009.

		$
Revenue	(60 + 55 – 14)	101,000
Cost of sales and expenses	(32 + 30 – 14 + 1,867)	49,867
Profit before tax		51,133
Income tax expense	(10 + 7)	17,000
Profit after tax		34,133 *

* Of this amount, 8,100 relates to the non-controlling interest and 26,033 relates to the members of Karolis.

Working

Pup on inventory

Cost	+	Profit	=	Selling Price
60	+	40	=	100

So profit on the transfer was 40% × 14,000 = 5,600

One third is still in inventory

So we need a pup of ⅓ × 5,600 in Karolis' Statement of Profit or Loss and Other Comprehensive Income ie 1,867

Reduce Karolis' inventory by 1,867 by increasing K's cost of sales and ∴ reduce K's profits.

Answer to Example 4

Viktorija Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 September, 2009.

		$
Revenue	(90 + 100 - 30)	160,000
Cost of sales and expenses	(32 + 40 - 30 + 2.7)	44,700
Profit before tax		115,300
Taxation	(20 + 18)	38,000
Profit after tax		77,300 *

* Of this amount, 15,720 relates to the NC interest and 61,580 relates to the members of Viktorija.

Answer to Example 5

Didzis Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June, 2009.

			$
Revenue	(300 + 160)		460,000
Cost of sales	(192 + 105 + 9,125)		306,125
Gross profit			153,875
Distribution costs	(18 + 10)	28,000	
Administrative expenses	(14 + 17)	31,000	
			59,000
Profit before tax			94,875
Income tax expense	(21 + 16)		37,000
Profit after tax			57,875 *

* Of this amount, 3,000 relates to the non-controlling interest and 54,875 relates to the members of Didzis.

W1 Structure

D
| 75%
A —— 25%

W2 Goodwill

Cost of investment		65,000
Nci investment valuation		9,500
		74,500
Net assets @ doa		
$1 Equity shares	20,000	
Retained earnings	18,000	
		38,000
Goodwill		36,500
Impaired b/f		(27,375)
Impaired this year		9,125

W3a Retained earnings brought forward

	Didzis	***Ansis***
per question	174,000	37,000
pre acq		(18,000)
post acq		19,000
D's share	14,250	75%
	188,250	
– goodwill impaired	27,375	
	160,875	

W3b Retained earnings carried forward

	Didzis	***Ansis***
per question	212,000	41,000
div rble	6,000	
– pre acq		(18,000)
post acq		23,000
D's share	17,250	75%
	235,250	
– goodwill impaired 100% D (nci valued on a proportionate basis)	36,500	
	198,750	

W4a Nci (25%) brought forward

Value @ doa	9,500
share of S post acq ret'd 25% x 19,000	4,750
	14,250

W4 Nci (25%)

Value @ doa	9,500
share of S post acq ret'd 25% x 23,000	5,750
	15,250

W4b NC interest (25%)

A's profit after tax	12,000
NC Interest share 25% × 12,000	3,000

Answers to Examples

Answer to Example 6

Lasma Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 August 2009

		$'000
Revenue	15,600 + 7/12 × 2,900	17,291.7
Cost of sales and expenses	8,400 + 7/12 × 1,300	9,158.3
Profit before tax		8,133.4
Income tax expense	2,000 + 7/12 × 420	2,245
Profit after tax		5,888.4 *

* Of this amount, 68.8 (1,180 × 7/12 × 10%) relates to the non-controlling interest and 5,819.6 relates to the members of Lasma.

Answer to Example 7

Consolidated Statement of Financial Position

Receivable	400,000
Other net assets	750,000
	1,150,000
$1 equity shares	500,000
Retained earnings (W3)	635,000
nci	–
	1,135,000
tax payable	15,000
	1,150,000

Consolidated Statement of Profit or Loss and Other Comprehensive Income

profit before tax	170,000
gain / (loss) on disposal	(137,500)
	32,500
tax 30 + 21 + 15	(66,000)
	(33,500)

Consolidated Statement of Changes in Equity

	Shares	Ret Earnings	NCI	Total
brought forward	500,000	680,750	162,750	1,343,500
for the year		(33,500)	–	(33,500)
non-controlling interest		(12,250)	12,250	–
on disposal			(175,000)	(175,000)
	500,000	635,000	–	1,135,000

W1
D full year
75%
L —— 25%

W2 Goodwill

Cost of investment		350,000
Nci investment valuation 25% × 450,000		112,500
		462,500
NA @ doa		
$1 equity shares	300,000	
Retained earnings	150,000	
		450,000
Our share		12,500
		all sold

W3A	Gain in parent		
	proceeds		400,000
	Carrying value sold		350,000
			50,000
	Tax @ 30%		15,000
			35,000
W3B	Gain in group		
	Sale proceeds		400,000
	NA @ DOD		
	$1 equity shares	300,000	
	Retained earnings	400,000	
		700,000	
	sold	75%	525,000
			(125,000)
	Goodwill sold		(12,500)
			(137,500)
	tax		(15,000)
	(loss) in Group		(152,500)
W3 b/f	Consolidated retained earnings	**D**	**L**
	per question	530,000	351,000
	- pre acquisition		150,000
	∴ post acq		201,000
	D's share	150,750	75%
		680,750	
W3 c/f			
		D	
	per question	600,000	
	gain on disposal	35,000	
		635,000	
W4A b/f	nci (25%)		
	Value @ doa		112,500
	Share of post acq ret'd b/f		
	25% × (400,000 – 150,000 - 49,000)		
	25% × 201,000		50,250
			162,750
W4B	nci (25%)		
	25% × 49,000		12,250

Answers to Examples

Chapter 11

Answer to Example 1

Laura Group Consolidated Statement of Financial Position as at 31 December, 2009.

	$
Investment in Associate (W5)	9,250
Other assets	180,000
Total assets	189,250
$1 Equity shares	70,000
Retained earnings (W3)	104,250
	174,250
Liabilities	15,000
	189,250

W1

L —35%— G

100% | Subsids

W3 Consolidated retained earnings

	Laura	Gunta
per question	99,000	18,000
– pre acq		(3,000)
∴ post acq		15,000
L's share	5,250	35%
	104,250	

W5A Investment in Associate

Cost	4,000
Share of post acq ret'd 35% (18 – 3)	5,250
	9,250

Answer to Example 2

Maris Group Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2009.

	$
Revenue	18,000
Cost of sales	(9,500)
Gross profit	8,500
Expenses	(2,900)
	5,600
Finance income	1,010
Finance cost	(700)
	5,910
Group's share of associate profit after tax (28% × 2,300)	644
Profit before tax	6,554
Taxation	(2,000)
Profit after tax	4,554

Chapter 12

No examples

Chapter 13

Answer to Example 1

(a) At the end of year 1

If the contract is not sufficiently advanced that the outcome is capable of estimation with reasonable certainty, then the percentage completed will be applied to revenues and costs will be the same amount, thereby recognising no profit.

If the contract is sufficiently advanced (say 30%) then it would be appropriate to recognise 30% of the $1 million contract value and 30% of the total estimated costs

If the contract is so far advanced (say 57%) that the probability of earning the additional $300,000 is high, then there is a case for recognising also a proportion of the $300,000. It really would only be appropriate if the probability was "virtually certain". This may be viewed in either of two ways:

Either

57% × $1,300,000	741,000
Less 57% × total estimated costs	(x)
	?

or

57% × $1,000,000	570,000
+	
95% × $300,000	285,000
	855,000
Less 57% × total estimated costs	(x)
	?

The bonus of $100,000 would be ignored in all circumstances, until received on completion (if at all!)

(b) At the end of year 2

If the contract is not sufficiently advanced that the outcome is capable of estimation with reasonable certainty, then revenues and costs will be recognised but no profit.

If the contract is sufficiently advanced, (say 40%) then it would be appropriate to recognise 40% of the $1 million contract value and 40% of the total estimated costs.

If the contract is ≥ 60% advanced, (say 65%) then it would be appropriate to recognise 65% of $1 million plus 100% of $300,000, and 65% of total estimated costs.

The bonus of $100,000 would be ignored in all circumstances, until received on completion (if at all!)

Answer to Example 2

Statement of Profit or Loss and Other Comprehensive Income

		$
Revenue recognised	55% ×1,000,000	550,000
Costs recognised	(55% × (400,000 + 350,000)	412,500
Profit recognised		137,500

Statement of Financial Position

Costs to date	400,000
Attributable profit (from above)	137,500
	537,500
Less amounts invoiced	500,000
Amounts due from customers	37,500
Amounts invoiced	500,000
Amounts received	470,000
Amounts due from customers (Accounts Receivable)	30,000

Answers to Examples

Answer to Example 3

Statement of Profit or Loss and Other Comprehensive Income

			$
Revenue recognised 60% ×1,200,000			720,000
Costs recognised	– period specific	200,000	
	– general (60% ×850,000)	510,000	
			(710,000)
Profit recognised			10,000

Statement of Financial Position

Costs to date	750,000
Attributable profit (from above)	10,000
	760,000
Less amounts invoiced	790,000
Amounts due to customers	(30,000)
Amounts invoiced	790,000
Amounts received	700,000
Amounts due from customers (Accounts Receivable)	90,000

Answer to Example 4

Statement of Profit or Loss and Other Comprehensive Income

		$
Revenue recognised	(65% ×500,000)	325,000
Costs recognised (balancing figure)		(375,000)
Loss recognised		(50,000)

Statement of Financial Position

Costs to date	300,000
Attributable loss (from above)	(50,000)
	250,000
Amounts invoiced	(270,000)
Amounts due to customers	(20,000)
Amounts invoiced	270,000
Amounts received	(240,000)
Amounts due from customers (Accounts Receivable)	30,000

Answer to Example 5

Statement of Profit or Loss and Other Comprehensive Income

	Year 1	Year 2	Year 3
	$	$	$
Revenue recognised	300,000	350,000	550,000
Costs recognised	(280,000)	(510,000)	(200,000)
Profit/(Loss) recognised	20,000	(160,000)	350,000

Statement of Financial Position			
Amounts due from customers			50,000
Amounts due from customers			50,000
Amounts due to customers	40,000	230,000	-

Workings

Statement of Profit or Loss and Other Comprehensive Income

		Year 1	Year 2	Year 3
		$	$	$
Revenue recognised		300,000	650,000	1,200,000
Costs recognised	– specific	(40,000)	(40,000)	(190,000)
	– general	(240,000)	(750,000)	(800,000)
Profit/(Loss) recognised		20,000	(140,000)	210,000

Statement of Financial Position

Costs to date	340,000	540,000	990,000
Attributable profit (from above)	20,000	(140,000)	210,000
	360,000	400,000	1,200,000
Less amounts invoiced	390,000	610,000	1,150,000
Amounts due from/(to) customers	(30,000)	(210,000)	50,000

Amounts invoiced	390,000	610,000	1,150,000
Amounts received	400,000	630,000	1,100,000
	(10,000)	(20,000)	50,000

For the Statement of Profit or Loss and Other Comprehensive Income, the figures in the workings are cumulative. So, for each year's details, it is necessary to deduct the cumulative amount brought forward in order to arrive at the current year's figures.

Chapter 14

No examples

Answers to Examples

Chapter 15

Answer to Example 1

(a) Yes, a legal obligation under the purchase contract

(b)

Give notice, and buy the cloth for 2 more months and produce		Give notice, buy the cloth, and sell immediately		Cancel the contract without notice	
Cost 2 × 900 × $7	12,600	2 × 900 × $7	12,600	2 × $700	1,400
Labour cost 2 ×900/3 × $4	2,400				
	15,000				
Sell 2 × 300 dresses × $22	13,200	Sell 2 × 900 × $6.25	11,250		
Loss	(1,800)	Loss	(1,350)	Loss	(1,400)

There is therefore an unavoidable loss of $1,350. This should be provided for in the Statement of Financial Position and expensed through the Statement of Profit or Loss and Other Comprehensive Income. In the Notes to the Financial Statements, there should be an explanation of the circumstances and the uncertainties concerning timings, amounts and assumptions

Answer to Example 2

(a) There is neither a legal nor constructive obligation, because no obligating event has yet occurred. The directors could change their minds, and decide to keep the Kaunas factory open. Therefore, no provision is appropriate.

(b) There is a detailed plan, the impact of which has been communicated to suppliers and the workforce. Paulius has therefore raised the valid expectation in the minds of those affected. Although not a legal obligation, there is a constructive obligation arising from some past event, involving the probable outflow of economic resource. A provision is therefore appropriate in the amount which represents the best estimate of the costs of closing the Kaunas factory.

Answer to Example 3

If she has a 42% chance of losing, then she must have a 58% chance of winning. It is, therefore, not probable that she has an obligation. No provision would be appropriate.

However, there is a possible obligation, arising from some past event, which may involve the outflow of economic resource.

The appropriate treatment in Justina's financial statements for the year ended 31 August, 2009 would therefore seem to be to treat the matter as a contingent liability. This involves

- a disclosure note of the past event,
- the legal action outstanding,
- an explanation of the uncertainties upon which the outcome depends, and
- an estimate of the costs, were she to lose the case

Answer to Example 4

(a) $130,000 is a certain liability. It should be provided for on her Statement of Financial Position and expensed through the Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December, 2009.

(b) It is more likely than not that Seimas will pass the new legislation. When it is passed, Ginta will have to pay to clear her mining sites, so an outflow of economic resource will probably occur arising from some past event, her mining activities. A provision would therefore seem appropriate. If she is unable to measure reliably the probable cost, then the matter should be treated as a contingent liability.

(c) Ginta has no obligation here. If faced with costs necessary to change her mining processes, she has the option to cease her mining activities. Any estimate of costs involved in the change are irrelevant, since there is no obligation arising from a past event. Any obligation lies in the future, and provision should not be made for the costs of future events.

Chapter 16

Answer to Example 1

Fair value	17,500
Deposit	460
	17,040
yr 1 int	1,704
	18,744
1	3,500
	15,244
yr 2 int	1,524
	16,768
2	3,500
	13,268
yr 3 int	1,327
	14,595
3	3,500
	11,095

Answer to Example 3

Giedrius

1.1.09		
Fair value		16,000
Deposit		(1,152)
		14,848
Interest to 30.6.09	14,848 × 10% × 6/12	742
		15,590
Paid 30.6.09		1,500
		14,090
Interest to 31.12.09	14,080 × 10% × 6/12	705
		14,795
Paid 31.12.09		1,500
		13,295
Interest to 30.6.10	13,295 × 10% × 6/12	665
		13,960
Paid 30.6.10		1,500
		12,460
Interest to 31.12.10	12,460 × 10% × 6/12	623
		13,083
Paid 31.12.10		1,500
		11,583

Answers to Examples

Extracts from the Financial Statements
Statement of Financial Position

TNCA (16,000 – 2,286)	13,714
Long term liabilities	
Obligations under finance leases	11,583
Current liabilities	
Obligations under finance leases (13,295 – 11,583)	1,712

Statement of Profit or Loss and Other Comprehensive Income

	$
Depreciation (16,000 / 7)	2,286
Finance lease interest (742 + 705)	1,447

Notes
Accounting policy

Depreciation
Depreciation is charged on a straight line basis on tangible non-current assets in order to write them off over their estimated useful lives. In the case of assets acquired under finance lease, depreciation is charged in order to write off the asset over the lease term.

Finance lease interest
Finance lease interest is calculated using the rate of interest implicit in the lease.

	Asset held under finance lease
Non-current assets	
Cost brought forward	–
Additions	16,000
Disposals	–
Cost carried forward	16,000
Depreciation brought forward	–
Charge for the year	2,286
On disposals	–
Depreciation carried forward	2,286
Net book value at 31 December, 2009	13,714
Net book value at 1 January, 2009	–
Long term liabilities	
Obligations under finance leases falling due more than 12 months hence	11,583

Reconciliation of Obligations under Finance Leases with the present value of the minimum lease payments

	gross	*or*	*net*
Payable within 1 year	3,000		2,790
Payable more than 1 year, less than 5 years	12,000		8,793
Payable more than 5 years	3,000		1,712
	18,000		
Less: finance lease interest not yet accrued	4,705		
	13,295		13,295

Giedruola

Fair value	16,000
Deposit	1,910
	14,090
Interest to 30.6.09	705
	14,795
Paid 1.7.09	1,500
	13,295
Interest to 31.12.09	665
	13,960
Paid 1.1.10	1,500
	12,460
Interest to 30.6.10	623
	13,083
Paid 1.7.10	1,500
	11,583
Interest to 31.12.10	579
	12,162
Paid 1.1.11	1,500
	10,662

Extracts from the Financial Statements
Statement of Financial Position

TNCA	(16,000 – 2,286)	13,714
Long term liabilities		
Obligations under finance leases		11,583
Current liabilities		
Obligations under finance leases	(13,295 – 11,583)	1,712
Finance lease interest accrued		665

Statement of Profit or Loss and Other Comprehensive Income

		$
Depreciation	(16,000 / 7)	2,286
Finance lease interest	(705 + 665)	1,370

Notes
Accounting policy - same as Giedris
TNCA - same as Giedris

Long term liabilities
Obligations under finance leases falling more than 12 months hence 11,583

Reconciliation of Obligations under Finance Leases with the present value of the minimum lease payments
Obligations under finance leases

	gross	*or*	*net*
Payable within 1 year	3,000		2,790
Payable more than 1 year, less than 5 years	12,000		8,793
Payable more than 5 years	3,000		1,712
	18,000		
Less: finance lease interest not yet accrued	4,705		
	13,295		13,295

Answers to Examples

Chapter 17

Answer to Example 1

Date	*Cumulative Borrowing*	*Invested*	*Spent*
	$M	*$M*	*$M*
1.1.08	100	50	50
28.2.08		20	30
1.4.08	220	90	50
31.5.08		30	60
31.8.08	300	90	20
1.11.08	work suspended		
1.1.09	work restarted	-	90
28.2.09	work completed		

Cost of completing the project				300,000,000
Borrowing costs				
January to March	$100 \times 3/12 \times 0.07$	1,750,000		
April to August	$220 \times 5/12 \times 0.07$	6,416,666		
September to October	$300 \times 2/12 \times 0.07$	3,500,000		
January to February	$300 \times 2/12 \times 0.07$	3,500,000		
			15,166,666	
Investment income				
January to February	$50 \times 2/12 \times 0.05$	416,666		
March	$20 \times 1/12 \times 0.05$	83,333		
April to May	$90 \times 2/12 \times 0.05$	750,000		
June to August	$30 \times 3/12 \times 0.05$	375,000		
September to October	$90 \times 2/12 \times 0.05$	750,000		
			2,375,000	
Capitalised borrowing costs				12,791,666
Carrying value immediately before sale				$312,791,666

Chapter 18

Answer to Example 1

	2009	*2010*
	$ '000	*$ '000*
Profit from operations	700	700
Royalty receivable	60	–
Profit	760	700
Tax – current	(175)	(190)
– deferred	(15)	15
Profit after tax	570	525
Deferred tax liability	15	–

Answer to Example 2

		2009	2010	2011	Total
		$	$	$	$
Profit before depreciation		1,800,000	2,300,000	2,500,000	6,600,000
Depreciation		(200,000)	(200,000)	(200,000)	(600,000)
Profit		1,600,000	2,100,000	2,300,000	6,000,000
Tax	– current (WI)	300,000	575,000	625,000	1,500,000
	– deferred (W2)	100,000	(50,000)	(50,000)	-
		1,200,000	1,575,000	1,725,000	4,500,000
Deferred tax liability		100,000	50,000	-	

The temporary difference in this example is the difference between the carrying value of the asset (net book value) and its tax written down value after deducting the tax allowances.

(W1) Income Tax working

	2009	2010	2011
	$	$	$
Profit before depreciation	1,800,000	2,300,000	2,500,000
Tax allowances	600,000	-	-
	1,200,000	2,300,000	2,500,000
At 25%	300,000	575,000	625,000

(W2) Deferred tax working

	2009	2010	2011
Book value	400,000	200,000	–
Tax written down value	–	–	–
	400,000	200,000	–
At 25%	100,000	50,000	–

Answer to Example 3

Revaluation	Carrying value	342,000	
	Revalued to	600,000	
		258,000	
	less deferred tax	37,500	
	Revaluation reserve	220,500	
Deferred tax	Revalued amount	600,000	
	Tax written down value	450,000	
	Temporary difference	150,000	
	@ 25%	37,500	Deferred tax

Answer to Example 4

		2009	2010
		$'000	$'000
Profit from operations		660	660
Warranties		(160)	-
		500	660
Tax	– current	165	125
	– deferred	(40)	40
Profit after tax		375	495
Deferred tax asset		40	-

The temporary difference is equivalent to the difference between the Statement of Financial Position accrual for warranties and the tax base of the warranty payments liability which is nil in 2009, because nothing has yet been paid.

Answers to Examples

Chapter 19

Answer to Example 1

T Accounts

PPE A/c

b/f	960	Disposals	110
Revaluation	250		
Therefore cash	220	c/f	1,320
	1,430		1,430

PPE Acc Dep A/c

		b/f	390
Disposals	70		
c/f	520		
		Therefore dep.	200
	590		590

Disposals A/c

Cost of disposals	110	Dep on disposals	70
		Proceeds	47
∴ Gain on disposals	7		
	117		117

Schedules

Cost	
Brought forward	960,000
Increased by revaluation	250,000
	1,210,000
Decreased by disposal	110,000
	1,100,000
Carried forward	1,320,000
Therefore purchased	220,000
Depreciation	
Brought forward	390,000
Decreased by disposal	70,000
	320,000
Carried forward	520,000
Therefore charge for year	200,000
Disposal	
Net book value disposed of	40,000
Proceeds	47,000
Therefore profit on disposal	7,000

Statements of Cash Flows extracts

Operating activities	
Add back depreciation	200
Less profits on disposal	(7)
Investing activities	
Purchases of property, plant and equipment	(220)
Proceeds of sale of property, plant and equipment	47

Answer to Example 2

Share Capital A/c

		b/f	35,000
		Bonus	5,000
c/f	58,000	Therefore new issue	18,000
	58,000		58,000

Share Premium A/c

		b/f	17,600
c/f	29,700	Therefore new issue	12,100
	29,700		29,700

Schedules

Share capital

Brought forward	35,000
Increased by bonus issue	5,000
	40,000
Carried forward	58,000
Therefore new issue	18,000

Share premium

Brought forward	17,600
Carried forward	29,700
Therefore premium on new issue	12,100

Cash proceeds from the issue of shares is therefore 18,000 + 12,100 ie $30,100

Answer to Example 3

Int Payable A/c

Therefore cash	273,000	b/f	74,000
c/f	18,000	SOCI	217,000
	291,000		291,000

Obligations under finance leases A/c

Cash paid	9,000	Fair value	?
		Finance lease interest	1,800
c/f	?		

Finance lease interest A/c

Transfer from Obligations a/c	1,800	SOCI	1,800

Answers to Examples

Schedules

Interest

Int liability b/f	74,000
Statement of Profit or Loss and Other Comprehensive Income - interest for the year	217,000
	291,000
less liability c/f	18,000
Therefore paid	273,000

Obligations

Fair value b/f	?
Reduced by (incorrectly)	9,000
	?
Add back the interest element	1,800
Obligations c/f	?

Statement of Cash Flows extracts

Operating activities	
Add back interest charged	217,000
Less interest paid	(273,000)
Finance lease interest paid	(1,800)
Financing activities	
Obligations under finance leases paid	(7,200)

Answer to Example 4

Taxation A/c

Therefore paid	430	b/f	420
		SOCI	400
c/f	390		
	820		820

Schedules

Taxation liability b/f	420
Increased by charge for the year	400
	820
less liability c/f	390
Therefore paid	430

Answer to Example 5

Dividend payable A/c

paid	831	b/f	831
paid	600	SOCI	1,515
c/f	915		
	2,346		2,346

Schedule

Dividend liability b/f	831
Increased by interim dividend	600
Increased by final dividend	915
	2,346
less liability c/f	915
	1,431

Answer to Example 6

Zita Statement of Cash Flows for the year ended 31 December, 2009

	$'000	$'000
Cash flows from operating activities		
Net profit before taxation		723
Add back depreciation		50
amortisation		43
interest charge		110
movement in provision		23
loss on disposal of assets		6
Operating profit before working capital changes		955
Decrease in inventory	82	
Increase in receivables	(92)	
Decrease in payables	(12)	
		(22)
Cash generated from operations		933
Interest paid	(40)	
Dividend paid	(140)	
Taxation paid	(228)	
		(408)
Net cash flow from operating activities		525
Cash flows from investing activities		
Purchase of TNCA	(200)	
Purchase of INCA	(641)	
Proceeds of asset disposal	103	
Purchase of investments	(239)	
Net cash flow from investing activities		(977)
		(452)
Cash flows from financing activities		
Proceeds of share issue (125 + 103)	228	
Proceeds of debenture issue	132	
Net cash flow from financing activities		360
Net decrease in cash and cash equivalents		(92)
Cash and cash equivalents at start of the year		81
Cash and cash equivalents at end of the year (17 + 32 – 60)		(11)

Note 1 Property, plant and equipment

During the year, the entity bought property, plant and equipment at a cost of $200,000. There were no acquisitions in the year under finance lease agreements.

Note 2 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances at banks and investments in Treasury Bills. The figure for cash and cash equivalents in the Statement of Cash Flows comprises the following Statement of Financial Position amounts:

	2009 $'000	2008 $'000
Cash in hand and balances with banks	17	81
Investment in Treasury Bills	32	–
Cash and cash equivalents	49	81

Answers to Examples

Answer to Example 7

(a) Indirect method

		$'000
Profit before tax		430
Add back depreciation		84
Less profit on disposal of asset		(15)
		499
Changes in working capital		
Increase in inventory	(129)	
Decrease in receivables	134	
Decrease in payables	(72)	
		(67)
Net cash flow from operating activities		432

(b) Direct method

Cash received from customers (W1)	3,050
Cash paid to suppliers and for expenses (W2)	(2,495)
	555
Cash paid to employees	(123)
Net cash flow from operating activities	432

Workings

W1 Cash received from customers

Receivables A/c

b/f	625	Bad debts	17
Sales	2,933	c/f	491
		∴ Cash	3,050
	3,558		3,558

Schedule

Receivables b/f	625
Increased by sales	2,933
	3,558
Reduced by bad debt w/o	17
	3,541
Receivables c/f	491
Therefore cash received	3,050

W2 Cash paid to suppliers for goods and expenses

First we need to find cost of goods purchased by reconstructing the cost of sales figure

Opening inventory	518
Purchases	?
	2,395
Less closing inventory	(647)
Cost of sales	1,748
Purchases of goods is therefore	1,877

Payables A/c

		b/f	401
Therefore cash	2,495	purchases	1,877
		admin W3	108
c/f	329	distribution	438
	2,824		2,824

Schedule

b/f	401
Increased by goods purchased	1,877
Admin costs	108
Distribution costs	438
	2,824
c/f	(329)
	2,495

W3 Administrative expenses

per Q	317	
less depreciation	84	not cash
	233	
less employee costs	123	shown separately
	110	
less bad debts w/o	17	not cash
	93	
add back profit on asset disposal	15	not cash
	108	

Chapter 20

Answer to Example 1

Benefits for users of Financial Statements from ratio analysis:

(a) Shareholders
- assess management performance
- use the results when making a decision to buy, or sell, shares in the entity
- compare the return on their investment with some benchmark, for example the rate of interest offered by banks

(b) Potential investors
- identify a better yield were they to invest in the entity as compared with any current yield which they are at present enjoying
- see the opportunity for acquisition of the entity in order to achieve a greater market share, or enjoy economies of scale

(c) Banks and other capital providers
- assess financial strength
- decide whether the entity is capable of servicing existing, or increased, levels of loans and borrowings

(d) Employees
- assess the results of their efforts
- use the ratios as a basis for rate of pay negotiations

(e) Management
- identify areas where improvements could be made
- use the ratios to defend against rate of pay increases!
- compare their own performance with the industry average or with the performance of competitors

(f) Suppliers
- decide whether to advance further credit to the entity
- assess whether the entity is a going concern

(g) Government
- use the results for statistical purposes
- determine whether, for example, the tax revenues from the entity are realistic.

Answers to Examples

Answer to Example 2

To: Elchin
From: Ann Alyste
Date: 23 February 2010

Subject: Analysis of Aurelija's Financial Statements 2008 and 2009

1 Introduction

1.1 This report analyses, with the use of ratios, the performance and financial position of Aurelija. Ratio calculations can be found in the Appendix to this report.

2 Profitability

2.1 Whereas revenue has increased by 22%, and profit margin has been improved by almost 24% from 7.6% to 9.4%, the figures are not in themselves particularly useful because they are so small

2.2 A Return on Capital Employed which has improved by more than 50% has to be seen in the light of the fact that it is still less than 1% of the assets available to Aurelija.

2.3 Asset turnover also shows an improvement of 21%, but an ability to turn assets over fewer than once every 14 years is not normally an indication of efficient management.

3 Efficiency and Liquidity

3.1 It is generally accepted that a current ratio of 2:1 is, dependent upon the nature of the industry in which the entity operates, a sign of reasonable liquidity and efficiency. Unless Aurelija is, for example, a supermarket with fast turnover and no receivables, the current ratio of ·6:1 must be considered potentially as a sign of poor liquidity, particularly when compared with the 2008 position of 1.5:1

3.2 As a measure of short term liquidity, the fall in the quick ratio from (almost) parity to ·3:1 is a further cause for concern, even more so in light of the fact that Aurelija raised $200,000 during the year by way of debenture issue.

3.3 Inventory/turnover has fallen from a respectable 6.3 times (just under 2 months) to a disappointing 4 times (every 3 months). Instead of having 6 opportunities each year to sell goods and make profits, this has fallen to just 4 opportunities.

3.4 The receivables collection period has increased alarmingly, from 46 days to 84 days. It may be that Aurelija has accumulated some doubtful debts, which should be written off, or it may indicate a change in the mixture of cash and credit sales.

3.5 Whatever the cause, when combined with the inventory turnover ratio, Aurelija is only able to collect cash from inventory after (91 + 84) 175 days or 6½ months. (2008 104 days, 3½ months)

3.6 Meanwhile, in acquiring that inventory, Aurelija is paying the suppliers within 176 days, compared with just 80 days in 2008.

3.7 All the above points suggest that Aurelija is suffering major cash flow problems, and could experience difficulty in the future buying goods from suppliers at competitive prices.

4 Debt and financing

4.1 Aurelija has borrowed $200,000 in 2009, accounting for 2/3 of the interest charge in the Statement of Profit or Loss and Other Comprehensive Income. In addition, the bank position has deteriorated by $409,000, and $280,000 has been "borrowed" from suppliers

4.2 It is not apparent from the financial statements (without a Statement of Cash Flows for the year) to see where this $889,000 has been used.

4.3 Clearly only very little, if any, has been invested in new property, plant and equipment, but it does seem that a new car has been purchased!

5 Other matters

5.1 Distribution costs as a percentage of revenue have decreased from 9% to 8.6%, and administrative expenses have risen from 7.4% of revenue to just over 8%. It would be interesting to identify the causes of these variations.

5.2 The dividend policy appears to be consistent in that 37% of profits available are distributed in both years.

6 Conclusion

6.1 Unless Aurelija is in a highly competitive industry/market, the initial impression is one of major underachievement. If Aurelija were to close operations, and invest the proceeds in the bank, it would probably achieve a return of 4% net on $16,000, a return of $640 compared with $64 in 2009 and $54 in 2008.

6.2 Further investigation is required in areas such as the age of tangible non-current assets, nature of the industry and Aurelija's position within the industry, but on the surface this does not look to be a good entity to invest in.

Appendix

	2009		2008	
Return on capital employed	$\frac{115}{16,248}$	0.75%	$\frac{76}{16,008}$	0.48%
Profit margin	$\frac{115}{1,220}$	9.4%	$\frac{76}{1,000}$	7.6%
Asset turnover	$\frac{1,220}{16,248}$	0.075%	$\frac{1,000}{16,008}$	0.062%
Return on equity	$\frac{64}{16,048}$	0.40%	$\frac{54}{16,008}$	0.34%
Current ratio	520 : 872	.6 : 1	310 : 202	1.5 : 1
Quick ratio	295 : 872	.3 : 1	190 : 202	.95 : 1
Inventory turnover	$\frac{900}{225}$	4 ×	$\frac{760}{120}$	6.3 ×
Receivables days	$\frac{280 \times 365}{1,220}$	83.7 days	$\frac{125 \times 365}{1,000}$	46 days
Payables days	$\frac{440 \times 365}{900}$	176 days	$\frac{160 \times 365}{760}$	80 days
Debt / equity	$\frac{200}{16,048}$	1.25%		N/A
Interest cover	$\frac{115}{24}$	4.87 ×		N/A
Dividend cover	$\frac{64}{24}$	2.7	$\frac{54}{20}$	2.7

Chapter 21

Answer to Example 1

Rights fraction

	Shares	Value	Investment
Before	4	4	16
Rights	1	3	3
After	5		19

After the rights issue, an existing investor has an investment of 5 shares worth $19 ie $3.80 per share.

The rights fraction is therefore $\frac{\text{CRAP}}{\text{TERP}}$ ie $\frac{4.00}{3.80}$

Do not reduce this to a decimal calculation. A degree of accuracy is unnecessarily lost.

Basic EPS calculation

Date	Number	Period	Fraction	WANES
1.1.09	5,000,000	7/12	4/3.8	3,070,175
1.8.09	6,250,000	5/12		2,604,166
				5,674,341

EPS $\frac{3,000,000}{5,674,341} = 52.9c$

2008 as originally disclosed 54c

as restated $\frac{54 \times 3.8}{4} = 51.3c$

Answers to Examples

Answer to Example 2

Date	*Number*	*Period*	*Fraction*	*WANES*
1.3.08	2,000,000	6/12	9/7	1,285,714
31.8.08	5,000,000	2/12	9/7	1,071,428
1.11.08	6,428,571	4/12		2,142,857
				4,500,000

Basic EPS $\frac{600,000}{4,500,000} = 13.3c$

Last year, as originally disclosed 16c
as restated 12.4c

Answer to Example 3

Basic EPS $\frac{2,800,000}{4,000,000} = 70c$

Diluted

	3,000,000	@ 4	12,000,000
	2,400,000	@ 5	12,000,000
Therefore	600,000	@ NIL	

It is only these 600,000 free shares which are considered in the diluted eps calculation

	shares	*earnings*
existing	4,000,000	2,800,000
options	600,000	–
Therefore	4,600,000	2,800,000

So diluted EPS is $\frac{2,800,000}{4,600,000} = 60.9c$

Answer to Example 4

Basic $\frac{700,000}{2,000,000}$ = 35 basic eps

Diluted
Potential equity shares (the worst position)

$\frac{3,000,000}{1,000} \times 760 = 2,280,000$ Pes

Potential extra earnings
3,000,000 × 6.25% × .75 = $140,625 Pee

Diluted calculation $\frac{700,000 + 140,625}{2,000,000 + 2,280,000} = 19.64c$

Answer to Example 5

Basic eps $\frac{10,000,000}{3,370,000} = \$2.97$

Dilution workings
520,000 options

520,000	@ 3	1,560,000
390,000	@ 4	1,560,000
130,000	free Pes and no Pee	

2,000,000 options

Ignore, because the exercise price is greater than the mid-market price, so no director would exercise their right to buy at $5 when they could buy the shares on the market for $4!

$20,000,000 10% convertible bonds

Pes $\frac{20,000,000}{1,000} \times 30 = 600,000$ Pes

Pee $10.673\% \times 20,000,000 \times .75 = \$1,600,950$ Pee

	Pes	*Pee*	*Meps*	*Rank*
Options	130,000	–	–	①
Bonds	600,000	1,600,950	2.67	②

Working to find diluting instruments

	shares	*earnings*	*Eps*
	3,370,000	9,100,000	$2.70 control figure
options	130,000	–	
	3,500,000	9,100,000	$2.60
bonds	600,000	1,600,950	
	4,100,000	10,700,950	$2.61 *

* when the bonds are converted, eps improves from $2.60 to $2.61. The bonds are, therefore, anti-dilutive, and should be ignored in the final calculation

Final working

	shares	*earnings*	*Eps*
existing	3,370,000	10,000,000	
options	130,000	–	
	3,500,000	10,000,000	$2.86

The disclosed diluted eps will therefore be $2.86

Chapter 22
No Examples

Chapter 23
No Examples

Chapter 24
No Examples

Chapter 25
No Examples

Chapter 26
No Examples

Chapter 27
No Examples

Chapter 28
No Examples

Answers to Examples

Chapter 29

Answer to Example 1

(a) IAS 41 states that an entity should recognise agricultural produce or a biological asset when the following characteristics apply:

- the entity controls the asset as a result of past events and
- it is probable that future economic benefits associated with the asset will flow to the entity and
- the fair value or cost of the asset can be reliably measured

These are the same characteristics that apply to any asset to be recognised

Agricultural produce and biological assets are normally measured at fair value less estimated costs of sale

It is assumed that the fair value of agricultural produce and biological assets can be measured reliably.

That presumption can only be rebutted for agricultural produce and biological assets where market prices or values are not available and alternative measures of fair value are 'clearly unreliable'.

Such rebuttal must be made on initial recognition of the asset.

Historic cost is the most frequently used basis for reliable measurement

In the context of measuring the value of many assets, historic cost is appropriate but in the context of biological assets (for example newly born livestock) the concept of 'cost' is not an easy one to apply and so fair value could well be more appropriate.

(b) Extracts from the statement of profit or loss

	$'000	$'000
Income		
Change in fair value of purchased herd (W2)	(70.50)	
Government grant (W3)	940.00	
Change in fair value of newly born calves (W4)	290.75	
Fair value of milk (W5)	12.90	
Total income		1,173.15
Expense		
Maintenance costs (W2)	1,175.00	
Breeding fees (W2)	705.00	
Total expense		(1,880.00)
Net deficit		(706.85)

Extracts from the statement of financial position

Property, plant and equipment:		
Land (W1)	47,000.00	
Mature herd (W2)	2,279.50	
Calves (W4)	290.75	
		49,570.25
Inventory		
Milk (W5)		12.90