
Answers

- 1 (a) (i) Significant influence is the ability to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies.

IFRS10 *Consolidated Financial Statements* states that an investor controls an investee only if the investor has all of the following:

- power over the investee;
- exposure to or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Control is presumed to exist where the investor has a majority of the voting rights of the investee. This would usually give the investor the ability to direct the relevant activities, i.e. the activities which significantly affect the investee's returns. An ownership of 50% or less of the voting rights does not necessarily preclude an investor from obtaining control.

Prior to 1 April 20X6, Chuckle Co only owned 30% of the equity and no share options. Where an investor has a significant minority, close consideration should be given as to whether the voting rights alone or whether a combination of factors is deemed sufficient to obtain power. Chuckle Co and Grin Co do share some key management personnel which can sometimes be evidence of control. However, there has been no clear past voting pattern suggesting that Chuckle Co is unable to directly influence the economic decisions of the other investors. With only 30% of the equity and no additional potential rights, it would appear that Chuckle Co was only able to exercise significant influence rather than control. It can be concluded that it was correct to classify Grin Co as an associate.

- (ii) Grin Co is an associate and would have been accounted for using equity method in the consolidated financial statements of Chuckle Co. The initial investment is measured at cost and the carrying amount is increased to recognise the investors' share of the profits and other comprehensive income after the date of acquisition. One line would be included within non-current assets, investment in associate which at 31 March 20X6 would be valued at \$118.6 million (\$100m + (30% x (\$348m – \$286m))).

The revaluation gain of \$15 million would be recorded within other components of equity and deferred tax at 20% of \$3 million would be netted off within equity in the individual financial statements of Grin Co. In the consolidated financial statements, Chuckle Co should include \$3.6 million (30% of the net gain of \$12 million (\$15m x 80%)) within other components of equity. As the remaining increase in net assets is due to profits (i.e. \$50 million (\$348m – \$286m – \$12m)), Chuckle Co should include \$15 million (30% x \$50m) within consolidated retained earnings.

- (iii) The acquisition of the extra 18% of the equity on 1 April 20X6 would now unquestionably make Chuckle Co a significant minority investor. No other investor owns more than 10% of the equity so Chuckle Co owns a much higher proportional share (48%). Where the other shareholdings are owned by a large number of unconnected, dispersed holders, it would be clear that power has been obtained. However, the other shares are owned by just a few other investors which is unlikely to be considered a large, dispersed group of unconnected shareholders.

Potential voting rights should be considered in the assessment of control. For these to be included in the assessment, the rights should be substantive. That would usually mean that they are currently exercisable and have an exercise price which is below the market price of the shares so that they are 'in the money'. In that sense, it is worthwhile for the investor to acquire the extra shares. In the case of Chuckle Co, they own share options which are currently exercisable but not in the money. This is because the exercise price is above the share price of Grin Co. However, it can be seen that they are only just out of the money. In addition, the share price of Grin Co is expected to increase and cost savings are expected from a further acquisition of shares. It seems therefore that the share options would be deemed to be substantive. Since exercising these options would enable Chuckle Co to obtain a 60% shareholding, it can be concluded that Chuckle Co is able to exercise power over Grin Co from 1 April 20X6. Grin Co should be reclassified from an associate to a subsidiary at this date.

- (b) (i) It is necessary for the calculation of goodwill that Chuckle Co measures the identifiable assets acquired and the liabilities assumed at their acquisition date fair values. IFRS 13 *Fair Value Measurement* should be considered in the assessment of the fair values. It has been identified that the fair value of the land is \$10 million above carrying amount. The valuation should be representative of the amount which market participants would be willing to sell the asset or transfer the liability in an orderly transaction under current market conditions.

The increase in value of \$10 million will create an additional taxable temporary difference. In effect, the carrying amount of the land is increased by \$10 million with no alteration to the tax base. An additional deferred tax liability arises at the acquisition date of \$2 million. Since the deferred tax is an identifiable liability at the acquisition, it should be recognised on acquisition with a corresponding increase in net assets of \$8 million (\$10m – \$2m).

Finished goods should be valued at their estimated sales price less the sum of the costs of disposal and a reasonable profit allowance for the selling effort of the acquiring entity. The fair value of the finished goods is \$131 million and so a fair value adjustment of \$47 million (\$131m – \$84m) is required. This creates a further taxable temporary difference in the consolidated financial statements of Chuckle Co with a corresponding deferred tax liability at 20% of \$9.4 million.

It is correct that the database as an internally generated intangible asset is not recognised in the individual financial statements of Grin Co. On acquisition, Chuckle Co should recognise the database as a separate intangible asset from

goodwill in the consolidated financial statements providing that the database satisfies the criteria for recognition as an intangible asset and a reliable estimate of the fair value can be determined. Although there are no contractual or legal rights associated with the database, the database still appears to be identifiable as it could be sold separately to Grin Co's competitors. The professional expert's valuation of \$5 million would appear to provide a reliable estimate of fair value. The database should therefore be recognised in the consolidated financial statements at \$5 million with a further increase to the deferred tax liability at 20% equal to \$1 million.

- (ii) The additional purchase of the 18% equity would constitute a piecemeal or step acquisition. Goodwill will be calculated as the amount by which the fair value of the consideration exceeds the fair value of the identifiable net assets on acquisition. Chuckle Co must therefore remeasure its previously held equity interest in Grin Co at its acquisition fair value and recognise the resulting gain or loss in profit or loss. The previously held equity interest would have a carrying amount of \$118.6 million (part (a)(ii)). The fair value is \$127 million, so a gain of \$8.4 million is recognised in the consolidated statement of profit or loss. Goodwill will be calculated including both the fair value of the original consideration and the fair value of the additional consideration.

The previous revaluation gain (net of deferred tax) which was included within other comprehensive income should be recognised on the same basis as would be required if Chuckle Co had disposed directly of the previously held equity interest. Since gains on revaluation are not reclassified to profit or loss on disposal, \$3.6 million (see part (a) (ii)) should be transferred from the revaluation surplus of the group to retained earnings on 1 April 20X6.

Goodwill will be calculated as follows:

	\$m	\$m
Consideration of 18% holding		66
Fair value of original 30% holding		127
Non-controlling interest at acquisition	(397.6 x 52%)	206.8
Less net assets at acquisition:		
Net assets per question	348	
Fair value adjustment land	10	
Subsequent deferred tax	(2)	
Fair value adjustment inventory	47	
Subsequent deferred tax	(9.4)	
Database	5	
Subsequent deferred tax	(1)	(397.6)
Goodwill on acquisition of Grin Co		<u>2.2</u>

- 2 (a) (i) IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires gains and losses to be reclassified from equity to the statement of profit or loss (SOPL) as a reclassification adjustment. When a group has a foreign subsidiary, a group exchange difference will arise on the re-translation of the subsidiary's goodwill and net assets. In accordance with IAS 21, such exchange differences are recognised in other comprehensive income (OCI) and so accumulate in other components of equity (OCE). On the disposal of the subsidiary, IAS 21 requires that the net cumulative balance of group exchange differences be reclassified from equity to the SOPL as a reclassification adjustment. Mr Raavi should not have included the exchange gains arising on the re-translation of the foreign subsidiary in the SOPL as it is currently only held for sale. When the subsidiary is then sold, the gains accumulated in OCE may be reclassified to profit or loss.
- (ii) Although Mr Raavi is a student accountant, he is bound by the same ethical codes as a qualified accountant. Mr Raavi is employed on the basis that either he or Agency Co can choose to terminate his employment for no reason. Even though the jurisdiction has laws which protect such employees from termination due to discrimination, it can be argued that the ability to terminate employment benefits the employer more than the employee. Thus, a primary issue is whether this type of employment contract is fair to the employee and whether it can result in unethical behaviour.

It can be argued that fear of termination acts as a motivation for Mr Raavi to act unethically and that this type of employment has provided Mr Raavi with an opportunity as he had struggled to be employed. It is arguable whether fear of losing his job is an effective motivator for Mr Raavi. Also, allowing employees to be arbitrarily dismissed amounts to treating them with very little respect. The employer's ability to terminate a contract without reason undermines Mr Raavi's potential to set and achieve goals for himself. Mr Raavi's ability to terminate employment without cause, on the other hand, has comparatively little effect on the company's ability to set and achieve its goals.

Competitive markets are more likely to see unethical behaviour especially if unethical behaviour benefits the organisation. Accountability can have a major influence on ethical behaviour. People may behave unethically if they do not have responsibility for their actions. Mr Raavi is only an ACCA student accountant and therefore would not bear the ultimate responsibility for the inaccurate accounting for foreign exchange gains. Ms Malgun obviously knew that the accounting was inaccurate but because it benefited the company and helped the performance targets, she was prepared to overlook it. Also, this can be an unintended consequence of performance related pay as Ms Malgun is partly remunerated through profit related pay. However, in order to preserve her position, she disciplined Mr Raavi after the financial statements had been published, thus displaying a lack of integrity and professional values in her dealings with Mr Raavi and stakeholders.

Ms Malgun should not have left the preparation of the year-end financial statements to Mr Raavi as he is a student accountant and has only been with the company for three months. She has significant experience and expertise in their

preparation. Work pressure can influence ethical behaviour. Difficult performance goals and time pressure make unethical behaviour more likely. When employees are under pressure, this not only affects their wellbeing and motivation, but also their behaviour. Ms Malgun is an expert in IFRS standards and should have ensured that she allocated some time to assist Mr Raavi in the preparation of the year-end financial statements. It is the responsibility of both Ms Malgun and Mr Raavi to engage in fair and accurate reporting with regard to the truthfulness of the data they provide as well as its completeness. It is ethically important for accountants to present the financial information in a way which is clear and honest.

Competition can influence unethical behaviour. Individuals are more inclined to engage in unethical behaviour when their organisation is in competition with other organisations or they have been given targets which have to be met. When unethical behaviour leads to a gain for a company, managers choose less severe disciplinary measures for their employees. Thus, although Ms Malgun knew of the error in the financial statements, she only reprimanded Mr Raavi after the financial statements had been published and even then, she then offered him a full-time contract instead of his current temporary contract.

- (b) Agency Co had correctly capitalised development costs for Headon at a carrying amount of \$30 million. IAS 38 *Intangible Assets* states that an intangible asset, in this case a proportion of the development costs, may be derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on derecognition is the difference between the net proceeds and the carrying amount of the asset. Gains are not classified as revenue. The amount of gain or loss arising from the derecognition will be affected by the determination of the transaction price with reference to IFRS 15 *Revenue from Contracts with Customers*.

In assessing whether an entity's promises to transfer goods or services to the customer are separately identifiable, the objective of IFRS 15 is to determine whether the nature of the promise is to transfer each of those goods or services individually or, instead, to transfer a combined item.

Kokila Co can benefit from the licence without Agency Co's manufacturing service because there are other entities which can provide the manufacturing service. Therefore, Agency Co's promises to grant the licence and to provide the manufacturing service are separately identifiable.

The consideration for the licence comprises the up-front payment of \$15 million and a variable consideration of \$3 million. Initially, only the up-front payment will be recognised as proceeds together with the gain on the disposal of the South American development costs. The variable consideration will be recognised in SOPL when it occurs, i.e. when South American sales exceed \$35 million. The performance obligation needs to be satisfied before the payment is recognised.

Judgement is required to determine the portion of the carrying amount of the intangible asset to derecognise, relative to the amount retained. Therefore, a gain is recognised on disposal of the South American development costs of \$9 million (\$15m – (\$30m x 20%)).

- (c) Development costs are capitalised as an intangible asset if certain criteria in IAS 38 are met.

There is no definitive starting point for the capitalisation of internal development costs and, therefore, Agency Co must use its judgement, based on the facts and circumstances of each product. A strong indication that Agency Co has met all of the IAS 38 criteria arises when regulatory approval is issued for the biosimilar drug as it proves the technical feasibility of the asset. This is often the most difficult criterion to demonstrate.

Another criterion to be met is that the asset should generate probable future economic benefits and demonstrate the existence of a market, or the usefulness of the asset if it is to be used internally. At present, this criterion has not been met as the product is aimed at a small group of people who will only pay a notional amount if it is an effective product.

In addition, regulatory approval has only been applied for, and there is a concern over the limited market and revenue stream. Thus, the costs are unlikely to meet the capitalisation criteria and all costs to date will be written off to profit or loss.

3 (a) Option 1 Leased for a four-year period

At 1 January 20X7, a right-of-use asset and lease liability of \$50,803 would be recognised according to IFRS 16 *Leases*. The annual lease component of the lease payments is \$14,016 (12 x \$1,403 – \$235) and the service component is \$2,820 (12 x \$235). At 31 December 20X7, operating expenses will comprise the service component of \$2,820, and depreciation of \$12,701 (\$50,803/4). An interest expense of \$2,274 will be recognised as a finance cost. The lease liability recognised will be \$50,803 less the annual payments of \$14,016 plus the interest element of \$2,274, i.e. \$39,061. The closing lease liability will be split between its non-current and current liability in the statement of financial position. IFRS 16 requires a company to recognise interest on lease liabilities separately from depreciation of lease assets.

Option 2 Purchased on 1 January 20X7

If the cars were purchased on 1 January 20X7, then depreciation would be charged of \$11,380 (\$75,274 – \$29,753 = \$45,521/4 = \$11,380) and interest of \$3,763 (\$75,274 x 5%) would also be charged. The cars would have to be serviced at a cost of \$2,820.

Option 3 Leased on a 12-month agreement

Instead of applying the recognition requirements of IFRS 16, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for the following two types of leases:

- (i) leases with a lease term of 12 months or less and containing no purchase options; and
- (ii) leases where the underlying asset has a low value.

The effect of applying the IFRS 16 exemption would be that neither an asset nor a liability will be recognised and therefore it will not affect the statement of financial position. Neither a right-of-use asset nor lease liability will be recognised if this exemption is applied. Instead, an expense will be recognised in the statement of profit or loss.

The cost of the short-term lease would be included in operating expenses at \$22,800 (12 x \$1,900).

It can be seen that the impact on EBITDA is greatest if 12-month leases are chosen. This is because the cost is shown in operating expenses. Additionally, profit before tax is lower under this option. EBITDA does not include lease interest when IFRS 16 is used and thus is naturally higher.

There will be no effect on EBITDA if Stem Co leases or buys the cars and, further, the impact on profit before tax is minimal with profit being lower if Stem Co purchases the cars.

If 12-month leases are chosen, then there will be no recognition of an asset for the cars which will result in a higher asset base for the four-year lease/purchase of cars, which will affect ratios such as asset turnover. Similarly, a liability will not be recognised in the case of the 12-month lease which will mean higher financial liabilities for the four-year lease/purchase, which will affect financial leverage (gearing).

The carrying amount of the leased cars will typically reduce more quickly than the carrying amount of lease liabilities. This is because, in each period of the lease, the leased car is depreciated on a straight-line basis, and the lease liability is reduced by the amount of lease payments made and increased by the interest which reduces over the life of the lease. Consequently, although the amounts of the lease asset and lease liability are the same at the start and end of the lease, the amount of the asset would typically be lower than that of the liability throughout the lease term. This will result in a further reduction in reported equity as compared to 12-month leases. This will be similar to the effect on reported equity which arises from financing the purchase of the cars through a loan.

	Lease over four years (\$)	Purchase with loan (\$)	12-month leases (\$)
Profit before accounting for cars	100,000	100,000	100,000
Service cost	(2,820)	(2,820)	
Operating expense			(22,800)
EBITDA	97,180	97,180	77,200
Depreciation	(12,701)	(11,380)	
Interest	(2,274)	(3,763)	
Profit before tax	82,205	82,037	77,200
PPE	38,102	63,894	0
	(50,803 – 12,701)	(75,274 – 11,380)	
Lease/loan liability	39,061	79,039	0
		(75,274 + 3,763)	

- (b) (i) The equity method is a measurement method and not a consolidation method, as the equity-accounted entity remains as a single line in the investor's statement of financial position and IFRS standards consolidation is based on the existence of control. Equity accounting is a measurement method for investments where there is 'significant influence' and recognises an associate's profits which have not been received and could not be successfully demanded. The equity method provides better information than that provided by cost, but it can be argued that where investments are listed, then there is no reason not to use fair value. The equity method is likely to be better than cost because cost is in isolation an uninformative basis for decision-making. However, if an investment is listed, then its fair value would be easier to establish and more intuitively appealing than the numbers derived from the equity method. If the associate is unlisted, then there might be questions about the verifiability of fair value. However, even then, there appears to be no reason why the equity method should be preferred to IFRS 13 *Fair Value Measurement*.
- (ii) The following are the characteristics of a joint venture:
- Joint ventures are joint arrangements which are usually structured through a separate vehicle which confers legal separation between the joint venture and the assets and liabilities in the vehicle.
 - The entity must be under the joint control of the venturers, which is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
 - The venturers must be able to exercise joint control of the entity.
 - The purpose of the entity must be consistent with the definition of a joint venture.

Emphasis Co is a joint venture. Its activities are conducted through a separate legal entity and the parties participating in the decision making exercise control through their equity investments. This control is determined by the ability to appoint board members. This means that the significant decisions require the unanimous consent of all of the parties. The company holding 20% of the equity can only appoint one board member but does have the ability to prevent the remaining companies from making significant decisions without its consent.

Each party to the joint venture (or each 'joint venturer') recognises an investment, which is accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

According to IAS 28, where an investor's investment is less than their share of the fair value of the identifiable net assets acquired, this results in a gain to the investor and is referred to as a bargain purchase. IAS 28 states that on the acquisition of the investment in an entity, any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the entity is accounted for like goodwill in accordance with IFRS 3 *Business Combinations*. Thus, any excess fair value of the identifiable net assets over the cost of the equity method investment would be recognised as a bargain purchase gain in earnings on the investment date, which is consistent with the accounting for bargain purchases in business combinations.

However, bargain purchases are rare. Therefore, before recognising a gain on a bargain purchase, Stem Co should reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed as part of the investment, in order to ensure that all identifiable assets or liabilities are properly recognised. In addition, Stem Co should reconsider and challenge all valuations to verify that the identifiable net assets are properly measured. Stem Co should try to understand why the other parties would contribute assets of higher value than those contributed by Stem Co. Usually, investors act in an economically rational manner. There may be strategic reasons for such actions. For example, Stem Co may have specialised knowledge of the industry. Also, the fair value of the net identifiable assets of Emphasis Co may have increased before the finalisation of the agreement.

Stem Co contributed cash of \$150,000 to Emphasis Co. The carrying amount of the net assets contributed by the investors was \$310,000 but the fair value of the net assets contributed was \$470,000. Therefore, Stem Co's share of the fair value of the identifiable assets of Emphasis Co is 40% of \$470,000, i.e. \$188,000. This exceeds the contribution of \$150,000. Once Stem Co has reassessed whether it has correctly identified all of the assets acquired and all of the liabilities assumed as part of its investment in Emphasis Co, Stem Co will record the investment at \$188,000 and will record a gain of \$38,000 (\$188,000 – \$150,000).

Dr Investment in Emphasis Co	\$188,000
Cr Cash	\$150,000
Cr Profit or loss	\$38,000

- 4 (a) There is significant interest in crypto assets with implications for both new and traditional investors. There is a growing need for clarity regarding the accounting and related disclosures relating to these new investments. The general disclosure principles which should be used to help investors can include that the disclosures should be entity-specific as information tailored to an entity's own circumstances is more useful than generic information which is readily available outside the financial statements. Thus, detailed information concerning the company's holding of crypto assets and initial coin offerings (ICO) should be disclosed. The company's involvement in ICOs or other issues of crypto assets should be described as simply and directly as possible without a loss of material information and without unnecessarily increasing the length of the financial statements. Additionally, the information disclosed should be organised in a way which highlights important matters which includes providing disclosures in an appropriate order and emphasising the important matters within them. It is important that the terms of an ICO are disclosed so that investors can determine the rights associated with it.

The information about crypto assets should be linked when relevant to other information in the financial statements or to other parts of the annual report to highlight relationships between pieces of information and improve navigation through the financial statements. Commodity broker-traders holding crypto assets as inventory at fair value less costs to sell, in addition to the general IAS 2 *Inventories* requirements, will need to disclose the carrying amount of such inventories carried at fair value less costs to sell. In addition, IFRS 13 *Fair Value Measurement* disclosure requirements for recurring fair value measurements would also apply. The information about crypto assets should be provided in a way which optimises comparability among entities and across reporting periods without compromising the usefulness of the information. Holders of crypto assets classified as intangible assets under IAS 38 *Intangible Assets* will need to disclose, by class, a reconciliation between the opening and closing carrying amounts, whether the useful life is assessed as indefinite, and, if so, the reasons supporting the indefinite useful life assessment, and a description of individually material holding.

Finally, the proper application of materiality is key to determining what information to disclose. The judgemental nature of materiality assessments could lead to entities omitting useful information concerning crypto assets from the financial statements. Similarly, difficulties in exercising judgement around materiality could contribute to 'disclosure overload'.

- (b) If the costs do not satisfy the requirements of IAS 38, they are recognised as expenses. The costs satisfy the requirements for recognition of intangible assets if, and only if, it is probable that the future economic benefits which are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. The probability of future economic benefits must be based on reasonable and supportable assumptions about conditions which will exist over the life of the asset.

In making the decision on recognition of the costs incurred, Symbol Co should evaluate whether after the issue of the tokens, it is still capable of controlling the trading platform and whether it may reasonably expect future economic benefits from the token holders. It is important to know whether Symbol Co will be able to get future economic benefits from token holders by providing them with future services other than another issue of tokens.

If costs incurred will not ensure further economic benefits, they should be immediately recognised as an expense in profit or loss. In this case, Symbol Co promises to produce gains for investors from trading the tokens on the platform and in return,

the company takes a percentage of the profit as a fee. Thus, the company can reasonably expect further economic benefits after the issue of tokens. The costs may be recognised as an intangible asset and amortised over the useful life of these assets. However, IAS 38 states that an entity should expense promotional activity costs when incurred. Thus, these costs should be excluded from the intangible asset.

If during future reporting periods new circumstances are revealed, which indicate that there may be no more future economic benefits, then the value of the intangible asset would be impaired and written down.

(c) Year ended 31 March 20X7

The success of the ICO is not within the control of Symbal Co as the ICO can be abandoned if the minimum fundraising level of \$9 million is not reached. Neither does the investor have the right to be repaid \$1 million in cash prior to 30 April 20X7. However, on the basis that the occurrence of a successful ICO is beyond the control of the entity, the agreement contains a financial obligation, because it represents a contractual obligation to deliver cash or another financial asset to another entity if the ICO does not occur by 30 April 20X7. At 31 March 20X7, the \$1 million is viewed as a financial liability of Symbal Co in accordance with IAS 32 *Financial Instruments: Presentation* at initial recognition.

Year ended 31 March 20X8

At 30 April 20X7, the funds paid by the holders of tokens of \$10 million have the one-off right to 10% of profits from the year ended 31 March 20X8 but they do not have the right to their redemption or residual interest in the assets. Due to this reason, the company should not record any inflows as a financial liability or equity but record them as income by the following accounting entry:

Dr Bank	\$10 million
Cr Other financial income	\$10 million

Also at 30 April 20X7, the liability of \$1 million recorded for the pre-sale agreement will be reversed and recorded as income.

Initially, at 30 April 20X7, the commitment to the holders of tokens to pay 10% of annual profits for the year ended 31 March 20X8 is considered by Symbal Co to be a contingent liability. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines a contingent liability as a possible obligation depending on whether some uncertain future event occurs. The recognition of the liability depends on whether there are annual profits. Therefore, a liability should be recognised if the company earns profits during the reporting period to 31 March 20X8. Symbal Co will recognise a financial liability to the holders of tokens and an expense to profit or loss.

The tokens are not equity instruments as they do not have a residual interest in the assets of the entity after deducting all of its liabilities and they have a contractual obligation to deliver cash.

- (d)** When assessing the accounting treatment of such arrangements, an entity should consider the characteristics of the ICO tokens generated. Equity is the residual interest in the assets of an entity after deducting all of its liabilities. Unless the ICO tokens meet the definition of equity, the arrangements would not meet the definition of a share-based payment arrangement in accordance with IFRS 2 *Share-based Payment*. Instead, they would fall within the scope of IAS 19 *Employee Benefits* as a non-cash employee benefit. IAS 19 can then be used to determine the recognition, as well as the measurement, of the employee benefit.

The tokens do not meet the definition of the equity of Symbal Co as they do not grant the directors a residual interest in the net assets of the Symbal Co. Therefore, the arrangements do not meet the definition of a share-based payment arrangement in accordance with IFRS 2. Instead, it is a non-cash short-term employee benefit. Short-term employee benefits are those expected to be settled wholly before 12 months after the end of the annual reporting period during which employee services are rendered. The substance of the arrangement is an exchange of employee services for the tokens.

The arrangement includes a condition that the directors should be in employment at 31 March 20X7. Symbal Co should recognise a liability and short-term employee benefit expense at 31 March 20X7.

Symbal Co would measure the amount which it expects to pay by using the fair value of the tokens to be delivered to the employees, or by using the estimated cost of the goods or services which it expects to deliver in the future. This amount would be (5 x \$50,000) \$250,000.

Thus, at 31 March 20X7:

Dr Employee costs	\$250,000
Cr Short-term employee benefit liability	\$250,000

	<i>Marks</i>	<i>Marks</i>
1 (a) (i) Discussion of control (IFRS 10 and other factors) v significant influence and application to the scenario		4
(ii) Discussion of equity accounting and application to the scenario	2	
– Calculation of investment in associate	2	
– Calculation of reserves	<u>1</u>	5
(iii) Application of the following discussion to the scenario:		
– Acquisition of 18% equity	2	
– Share options	<u>3</u>	5
(b) (i) Discussion and calculation of the following FV adjustments:		
– Land and DT	2	
– Inventory and DT	3	
– Customer list	<u>3</u>	8
(ii) Application of the following discussion to the scenario:		
– Piecemeal acquisition	3	
– Gain on step acquisition calculation	1	
– Impact on revaluation gain	1	
– Goodwill calculation	<u>3</u>	8
		<u>30</u>
2 (a) (i) Discussion of appropriateness of the accounting policy		3
(ii) Application and discussion of ethical principles to scenario which includes: Employment contract Accounting policy and profit related pay Time pressures Competition Less severe discipline		6
(b) Discussion of key principles of IFRS 15 and relate to scenario	2	
Derecognition of intangible asset and IAS 38	2	
Calculation of gain	<u>1</u>	5
(c) Setting out principles for capitalisation	1	
Application of principles to scenario	<u>3</u>	4
Professional marks		<u>2</u>
		<u>20</u>

	<i>Marks</i>	<i>Marks</i>
3 (a) Discussion and application of principles to scenario:		
IFRS 16 <i>Leases</i>	3	
Purchasing cars	2	
12-month leases	2	
Impact on EBITDA and profit	3	
SOFP	<u>3</u>	13
(b) (i) Discussion of key principles of equity accounting:		
Nature	2	
Cost	1	
Fair value	<u>1</u>	4
(ii) Discussion of key principles of joint venture accounting including a well argued conclusion	5	
Discussion of bargain purchase	2	
Accounting for bargain purchase	<u>1</u>	<u>8</u>
		<u>25</u>
4 (a) Discussion of key principles of disclosure for crypto assets		6
(b) Discussion of:		
Principles of IAS 38	2	
Application to scenario	<u>3</u>	5
(c) Application of the following discussion to the scenario of:		
Pre-sale agreement/IAS 32	3	
ICO and profit entitlement	<u>3</u>	6
(d) Discussion of key principles of the award – IAS 19/IFRS 2	3	
Accounting for the award	<u>3</u>	6
Professional marks		<u>2</u>
		<u>25</u>