

6 - International Accounting Standards

IAS 1 Presentation of financial statements

In most jurisdictions the structure and content of financial statements are defined by local law. IASs are, however, designed to work in any jurisdiction and therefore require their own set of requirements for presentation of financial statements. This is provided in IAS 1, revised 2007.

A complete set of financial statements comprises:

- a statement of financial position (balance sheet)

- either
 - a statement of comprehensive income, or
 - an income statement plus a statement showing other comprehensive income

- a statement of changes in equity

- a statement of cash flows

- accounting policies and explanatory notes.

Statement of changes in equity

The statement of changes in equity provides a summary of all changes in equity arising from transactions with owners in their capacity as owners. This includes the effect of share issues and dividends. Other non-owner changes in equity are disclosed in aggregate only.

Statement of comprehensive income

Total comprehensive income is the realised profit or loss for the period, plus other comprehensive income. Other comprehensive income is income and expenses that are not recognised in profit or loss (i.e. they are recorded in reserves rather than as an element of the realised profit for the period). Other comprehensive income includes any change in the revaluation surplus.

IAS 1 allows a choice of two presentations of comprehensive income:

- (1) A statement of comprehensive income showing total comprehensive income, or
- (2) An income statement showing the realised profit or loss for the period PLUS a statement showing other comprehensive income.

IAS 2 inventory valuation

• Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

• **Net realisable value** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

• **Fair value** is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Inventories can **include** any of the following:

- **Goods purchased and held for resale**, eg goods held for sale by a retailer, or land and buildings held for resale
- **Finished goods** produced
- **Work in progress** being produced
- Materials and supplies awaiting use in the production process (**raw materials**)

Measurement of inventories

The standard states that '**Inventories should be measured at the lower of cost and net realisable value.**'

Cost of inventories

The cost of inventories will consist of all costs of:

- **Purchase**
- **Costs of conversion**
- **Other costs** incurred in bringing the inventories to their **present location and condition**

Costs of purchase

The standard lists the following as comprising the costs of purchase of inventories:

- **Purchase price** *plus*
- **Import duties** and other taxes *plus*
- Transport, handling and any other cost **directly attributable** to the acquisition of finished goods, *services and materials less*
- **Trade discounts**, rebates and other similar amounts

Costs of conversion

Costs of conversion of inventories consist of two main parts.

- (a) Costs **directly related** to the units of production, eg direct materials, direct labour
- (b) Fixed and variable **production overheads** that are incurred in converting materials into finished goods, allocated on a systematic basis.

Net realisable value (NRV)

As a general rule assets should not be carried at amounts greater than those expected to be realised from their sale or use. In the case of inventories this amount could fall below cost when items are **damaged or become obsolete**, or where the **costs to completion have increased** in order to make the sale.

In fact we can identify the principal situations in which **NRV is likely to be less than cost**, ie where there has been:

- (a) An **increase in costs** or a **fall in selling price**
- (b) A **physical deterioration** in the condition of inventory
- (c) **Obsolescence** of products
- (d) A decision as part of the company's marketing strategy to manufacture and sell products at a **loss**
- (e) **Errors in production or purchasing**

IAS 8 Accounting policies, changes in accounting estimates and errors

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

If there is a change required in Recognition Criteria, Presentation or Measurement Basis, then it is treated as a change in accounting policy.

- A **change in accounting estimate** is an adjustment of the carrying amount of an asset or a liability or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

- **Prior period errors** are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- Was available when financial statements for those periods were authorised for issue, and

- Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

- **Retrospective application** is applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

- **Prospective application** of a change in accounting policy and of recognising the effect of a change in an accounting estimate, respectively, are:

- Applying the new accounting policy to transactions, other events and conditions occurring after the date as at which the policy is changed; and

- Recognising the effect of the change in the accounting estimate in the current and future periods affected by the change.

- **Impracticable** Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

IAS 10: Events after the reporting period

Events occurring after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date on which the financial statements are authorised for issue. Two types of events can be identified.

- Those that provide evidence of conditions that existed at the end of the reporting period – **adjusting**

- Those that are indicative of conditions that arose after the reporting period – **non-adjusting**

Events requiring adjustment

The standard requires adjustment of assets and liabilities in certain circumstances. An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period. An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.

Examples of **adjusting events** would be:

- evidence of a permanent diminution in property value prior to the year end
- sale of inventory after the reporting period for less than its carrying value at the year end
- insolvency of a customer with a balance owing at the year end
- amounts received or paid in respect of legal or insurance claims which were in negotiation at the year end
- determination after the year end of the sale or purchase price of assets sold or purchased before the year end

Events not requiring adjustment

The standard then looks at events which do **not** require adjustment.

The standard gives the following examples of events which do **not** require adjustments:

- acquisition of, or disposal of, a subsidiary after the year end
- announcement of a plan to discontinue an operation
- major purchases and disposals of assets
- destruction of a production plant by fire after the reporting period
- announcement or commencing implementation of a major restructuring
- share transactions after the reporting period
- litigation commenced after the reporting period

But note that, while they may be non-adjusting, some events after the reporting period will require disclosure.

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

- (a) the nature of the event; and
- (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

IAS 16 Property, plant and equipment

IAS 16 covers all aspects of accounting for property, plant and equipment. This represents the bulk of items which are **'tangible' non-current assets**..

- **Property, plant and equipment** are tangible assets that:
 - are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
 - are expected to be used during more than one period.
- **Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- **Residual value** is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
- **Entity specific value** is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life, or expects to incur when settling a liability.
- **Fair value** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- **Carrying amount** is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses.
- An **impairment loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

IAS 36 Impairment of assets

Impairment is determined by comparing the carrying amount of the asset with its recoverable amount.

This is the higher of its **fair value less costs to sell** and its **value in use**.

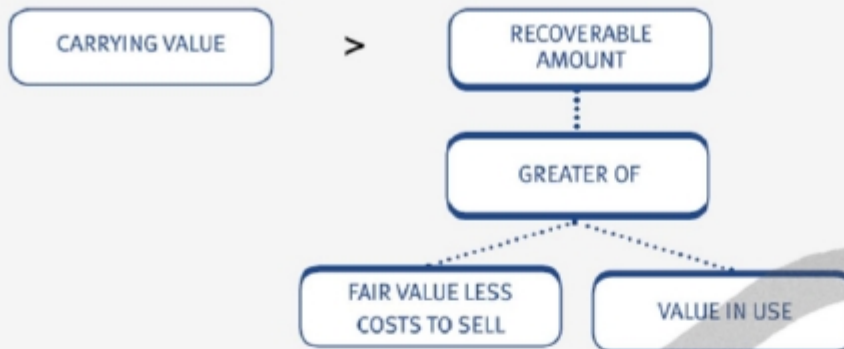
- **Impairment:** a fall in the value of an asset, so that its 'recoverable amount' is now less than its carrying value in the statement of financial position.
- **Carrying amount:** is the net value at which the asset is included in the statement of financial position (ie after deducting accumulated depreciation and any impairment losses).

The **recoverable amount of an asset** should be measured as the *higher value* of:

- (a) the asset's fair value less costs to sell; and
- (b) its value in use.

If the recoverable amount of an asset is lower than the carrying amount, the carrying amount should be reduced by the difference (ie the impairment loss) which should be charged as an expense in profit or loss.

An impairment exists if:



IAS 37 Provisions, contingent liabilities and contingent assets

The key aim of IAS 37 is to ensure that **provisions are made only** where there are valid grounds for them.

A **provision** is a **liability** of uncertain timing or amount.

A **liability** is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

IAS 37 states that a provision should be **recognised** as a liability in the financial statements when:

- An entity has a **present obligation** (legal or constructive) as a result of a past event
- It is **probable** that an **outflow of resources embodying economic benefits** will be required to settle the obligation
- A **reliable estimate** can be made of the amount of the obligation

IAS 37 defines a **constructive obligation** as

'An obligation that derives from an entity's actions where:

- by an **established** pattern of past practice, published policies or a sufficiently specific current **statement** the entity has indicated to other parties that it will accept certain responsibilities; and
- as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.'

Measurement of provisions

The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

An **onerous contract** is a contract entered into with another party under which the unavoidable costs of fulfilling the terms of the contract exceed any revenues expected to be received from the goods or services supplied or purchased directly or indirectly under the

contract and where the entity would have to compensate the other party if it did not fulfil the terms of the contract.

Examples of possible provisions

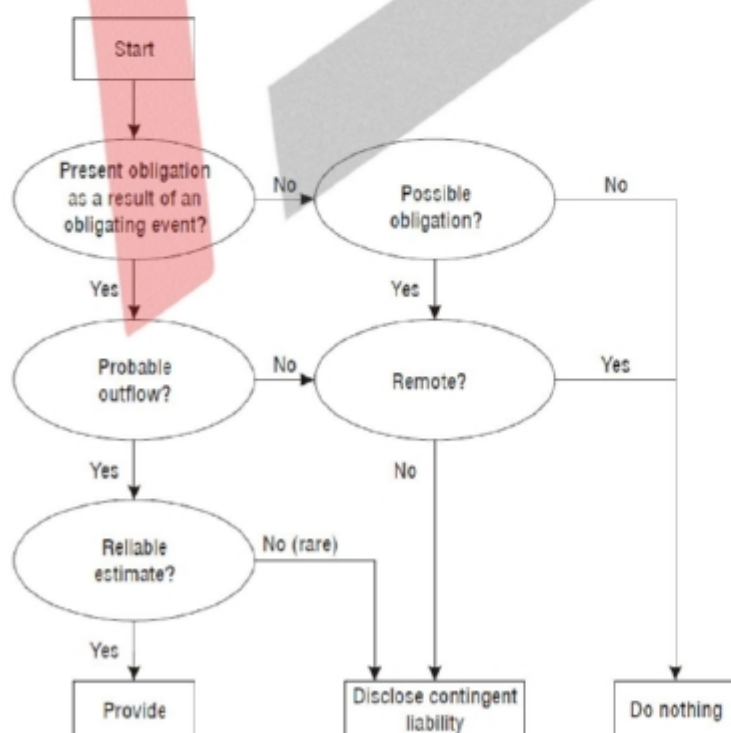
- Warranties.
- Major repairs.
- Self insurance.
- Environmental contamination.
- Decommissioning or abandonment costs.
- Restructuring.

IAS 37 defines a **contingent liability** as:

- A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- A present obligation that arises from past events but is not recognised because:
 - It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - The amount of the obligation cannot be measured with sufficient reliability.

IAS 37 defines a **contingent asset** as:

A possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.



6 - International Accounting Standards

IAS 8 - Change in Accounting Policy, Estimates and Errors

Q1.

Which of the following is a change in accounting policy as opposed to a change in estimation technique?

- (1) An entity has previously charged interest incurred in connection with the construction of tangible noncurrent assets to the income statement. Following the revision of IAS 23, and in accordance with the revised requirements of that standard, it now capitalises this interest.
- (2) An entity has previously depreciated vehicles using the reducing balance method at 40% pa. It now uses the straightline method over a period of five years.
- (3) An entity has previously shown certain overheads within cost of sales. It now shows those overheads within administrative expenses.
- (4) An entity has previously measured inventory at weighted average cost. It now measures inventory using the first in first out (FIFO) method.

Q2.

Additional information

The directors of Plantin plc have recently discovered a material error in the published financial statements for the year ended 31 March 2014. It was discovered that sales of \$30 000, which had never taken place, had been included in revenue and in trade receivables.

REQUIRED

- (d) (i) State how this error has affected the financial statements for the year ended 31 March 2014. [4]
- (ii) Explain how the directors of Plantin plc should deal with this error in its financial statements in accordance with IAS 8. [4]

Degree of probability of an outflow/inflow of resources	Liability	Asset
Virtually certain (90% or above)	Provide	Recognise
Probable (50% to 89%)	Provide	Disclose by Note
Possible (less than 50%)	Disclose by Note	No disclosure
Remote (5% to 10%)	No disclosure	No disclosure

IAS 38 Intangible assets

An **intangible asset** is an identifiable non-monetary asset without physical substance. The asset must be:

- (a) controlled by the entity as a result of events in the past, and
- (b) something from which the entity expects future economic benefits to flow.

Internally generated goodwill may **not** be recognised as an **asset**.

Research

Research activities by definition do **not meet the criteria** for recognition under IAS 38. This is because, at the research stage of a project, it **cannot be certain** that future economic benefits **will probably flow** to the entity from the project. There is too much uncertainty about the likely **success or otherwise** of the project.

Research costs should therefore be written off as an expense as they are incurred.

Development

Development costs may qualify for recognition as intangible assets provided that the following **strict criteria** can be demonstrated.

- (a) The **technical feasibility** of completing the intangible asset so that it will be available for use or sale.
- (b) Its **intention** to complete the intangible asset and use or sell it.
- (c) Its **ability** to use or sell the intangible asset.
- (d) How the intangible asset will generate **probable future economic benefits**. Among other things, the entity should demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- (e) Its ability to **measure** the expenditure attributable to the intangible asset during its development reliably.

Intangible assets should be initially be measured at cost, but subsequently they can be carried at **cost** or at a **revalued amount**.

IAS 38 Intangible assets

Q1

How should the following intangible assets be treated in the financial statements?

- A publishing title acquired as part of a subsidiary company.
- A licence purchased in order to market a new product

Q2

What is the accounting treatment of a recognized intangible asset with an indefinite useful life?

Q3

An entity has incurred the following expenditure during the current year:

How should each of these costs be treated in the financial statements of the entity?

(a) \$100,000 spent on the design of a new product it is anticipated that this design will be taken forward over the next two year period to be developed and tested with a view to production in three years' time.

(b) \$500,000 spent on the testing of a new production system which has been designed internally and which will be in operation during the following accounting year. This new system should reduce the costs of production by 20%.

Q4 – Research and development expenditure

Amortization of development expenditure

A Co. has deferred development expenditure of \$600,000 relating to the development of New Miracle Brand X. It is expected that the demand for the product will stay at a high level for the next three years. Annual sales of 400,000, 300,000 and 200,000 units respectively are expected over this period. Brand X sells for \$10.

How should the development expenditure be amortised?

Q5

D&E are both development projects. Both projects are anticipated to be successful. They have clearly defined parameters. The project expenditure is carefully controlled. The prototypes proved successful. The budgets show sales well in excess of total costs. Finance is readily available. Project D has commenced production and the revenues have started to flow in.

	Project D \$000	Project E \$000
Costs accumulated to 1.1.X5 (and meeting capitalization criteria)	400	350
Costs incurred during the year	600	250
Total anticipated net revenues	30,000	15,000
Net revenues during the year	6,000	nil

The company has also invested \$340,000 in development project F but the tests are at present inconclusive.

Describe with reasons the accounting for the above issues.

Q6.

Doug Co is developing a new production process. During 20X3, expenditure incurred was \$100,000, of which \$90,000 was incurred before 1 December 20X3 and \$10,000 between 1 December 20X3 and 31 December 20X3. Doug Co can demonstrate that, at 1 December 20X3, the production process met the criteria for recognition as an intangible asset. The recoverable amount of the know-how embodied in the process is estimated to be \$50,000.

How should the expenditure be treated?

Q7.

An intangible asset is measured by a company at fair value. The asset was revalued by \$400 in 20X3, and there is a revaluation surplus of \$400 in the statement of financial position. At the end of 20X4, the asset is valued again, and a downward valuation of \$500 is required.

Required

State the accounting treatment for the downward revaluation.

IAS 36 impairment of assets

Q1 – Impairment of individual assets

Recoverable amount

A company owns a car that was involved in an accident at the year end. It is barely useable, so the value in use is estimated at \$1,000. However, the car is a classic and there is a demand for the parts. This results in a net realisable value of \$3,000. The opening carrying value was \$8,000 and the car was estimated to have a life of eight years from the start of the year.

Identify the recoverable amount of the car.

Q2.

The following information relates to three assets:

	A	B	C
	\$000	\$000	\$000
Carrying value	100	150	120
Net realisable value	110	125	100
Value in use	120	130	90

- What is the recoverable amount of each asset?
- Calculate the impairment loss for each of the three assets.

Q3

An entity owns a property which was originally purchased for \$300,000. The property has been revalued to \$500,000 with the revaluation of \$200,000 being recognised as other comprehensive income and recorded in the revaluation reserve. The property has a current carrying value of \$460,000 but the recoverable amount of the property has just been estimated at only \$200,000.

What is the amount of impairment and how should this be treated in the financial statements?

Q4

A company that extracts natural gas and oil has a drilling platform in the Caspian Sea. It is required by legislation of the country concerned to remove and dismantle the platform at the end of its useful life. Accordingly, the company has included an amount in its accounts for removal and dismantling costs, and is depreciating this amount over the platform's expected life.

The company is carrying out an exercise to establish whether there has been an impairment of the platform.

- (a) Its carrying amount in the statement of financial position is \$3m.
- (b) The company has received an offer of \$2.8m for the platform from another oil company. The bidder would take over the responsibility (and costs) for dismantling and removing the platform at the end of its life.
- (c) The present value of the estimated cash flows from the platform's continued use is \$3.3m (before adjusting for dismantling costs).
- (d) The carrying amount in the statement of financial position for the provision for dismantling and removal is currently \$0.6m.

What should be the value of the drilling platform in the statement of financial position, and what, if anything, is the impairment loss?

Q5

A company has acquired another business for \$4.5m: tangible assets are valued at \$4.0m and goodwill at \$0.5m.

An asset with a carrying value of \$1m is destroyed in a terrorist attack. The asset was not insured. The loss of the asset, without insurance, has prompted the company to assess whether there has been an impairment of assets in the acquired business and what the amount of any such loss is.

The recoverable amount of the business (a single cash generating unit) is measured as \$3.1m.

Q6

IAS 36 sets out the accounting procedures to ensure that assets are carried on the statement of financial position at no more than their recoverable amount.

REQUIRED

- (d) Explain the accounting treatment to ensure that this is achieved. [3]

Q7

Additional information

The directors of Rezwan Limited expect that the value of goodwill acquired from Nimra may reduce over a period of years.

REQUIRED

- (f) Explain, making reference to IAS 36 and 38, how any reduction will be calculated and state the accounting adjustments which will be made in future financial statements. [8]

Q8

- (f) (i) Suggest two possible reasons for impairment loss. [4]
(ii) Name the IAS which deals with impairment losses. [2]

Additional information:

The equipment operates in a factory which the company recently built. The figure for non-current assets includes the amounts paid to the seller of the land, the supplier of the building materials, and the building contractor who supplied the labour.

REQUIRED

- (g) Name **one** additional cost involved in building the factory which is included in non-current assets. [2]

Q9

Additional information

In July 2014, the directors carried out impairment review of their plant and equipment.

The data for this review is shown below:

Asset	Carrying value \$	Net selling price \$	Value in use \$
1	1870	1560	1362
2	2423	2514	2625
3	1368	1287	1313

REQUIRED

- (e) (i) Explain what is meant by impairment. [2]
(ii) Calculate the total impairment loss that would be recognised in the income statement for the year ending 31 May 2015 in accordance with IAS 36, Impairment of assets. [4]

Q10

An impairment review was carried out and revealed that an item of plant with a carrying value of \$100 000 could be sold for \$65 000. Its value in use was \$70 000. The directors are uncertain how this should be treated in the financial statements.

REQUIRED

(e) Calculate the effect on the profit for the year of the impairment review.

[4]

IAS 2 inventory valuation

Q1.

Value the following items of inventory.

(a) Materials costing \$12,000 bought for processing and assembly for a profitable special order. Since buying these items, the cost price has fallen to \$10,000.

(b) Equipment constructed for a customer for an agreed price of \$18,000. This has recently been completed at a cost of \$16,800. It has now been discovered that, in order to meet certain regulations, conversion with an extra cost of \$4,200 will be required. The customer has accepted partial responsibility and agreed to meet half the extra cost.

Q2.

You are the accountant at Water Pumps Co, and you have been asked to calculate the valuation of the company's inventory at cost at its year end of 30 April 20X5.

Water Pumps manufactures a range of pumps. The pumps are assembled from components bought by Water Pumps (the company does not manufacture any parts).

The company does not use a standard costing system, and work in progress and finished goods are valued as follows.

- (a) Material costs are determined from the product specification, which lists the components required to make a pump.
- (b) The company produces a range of pumps. Employees record the hours spent on assembling each type of pump, this information is input into the payroll system which prints the total hours spent each week assembling each type of pump. All employees assembling pumps are paid at the same rate and there is no overtime.
- (c) Overheads are added to the inventory value in accordance with IAS 2 *Inventories*. The financial accounting records are used to determine the overhead cost, and this is applied as a percentage based on the direct labour cost.

For direct labour costs, you have agreed that the labour expended for a unit in work in progress is half that of a completed unit.

The draft accounts show the following materials and direct labour costs in inventory.

	<i>Raw materials</i>	<i>Work in progress</i>	<i>Finished goods</i>
Materials (\$)	74,786	85,692	152,693
Direct labour (\$)		13,072	46,584

The costs incurred in April, as recorded in the financial accounting records, were as follows.

	\$
Direct labour	61,320
Selling costs	43,550
Depreciation and finance costs of production machines	4,490
Distribution costs	6,570
Factory manager's wage	2,560
Other production overheads	24,820
Purchasing and accounting costs relating to production	5,450
Other accounting costs	7,130
Other administration overheads	24,770

For your calculations assume that all work in progress and finished goods were produced in April 20X5 and that the company was operating at a normal level of activity.

Required

Calculate the value of overheads which should be added to work in progress and finished goods in accordance with IAS 2 *Inventories*.

Note. You should include details and a description of your workings and all figures should be calculated to the nearest \$.

Q3.

IAS 2 defines cost as cost of purchase or cost of conversion.

REQUIRED

(e) Give **two** examples of cost of purchase and **two** examples of cost of conversion. [4]

IAS 37 - Provisions, contingent liabilities and contingent Assets

Q1.

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Should a provision be made at the year end?

Q2 - Expected values

An entity sells goods with a warranty covering customers for the cost of repairs of any defects that are discovered within the first two months after purchase. Past experience suggests that 88% of the goods sold will have no defects, 7% will have minor defects and 5% will have major defects. If minor defects were detected in all products sold, the cost of repairs would be \$24,000; if major defects were detected in all products sold, the cost would be \$200,000.

What amount of provision should be made?

Q3 - Best estimate

An entity has to rectify a serious fault in an item of plant that it has constructed for a customer. The most likely outcome is that the repair will succeed at the first attempt at a cost of \$400,000, but there is a significant chance that a further attempt will be necessary, increasing the total cost to \$500,000.

What amount of provision should be recognised?

Q4 – Specific scenarios : onerous contract

A company has ten years left to run on the lease of a property that is currently unoccupied. The present value of the future rentals at the reporting date is \$50,000. Subletting possibilities are limited but the directors feel that likely future subletting rentals could have a present value of \$10,000.

What is the accounting treatment?

Q5.

During December 20X8 a division of a company moved from Buckingham to Sunderland in order to take advantage of regional development grants. It holds its main premises in Buckingham under an operating lease, which runs until 31 March 20Y1. Annual rentals under the lease are \$10 million. The company is unable to cancel the lease, but it has let some of the premises to a charitable organisation at a nominal rent. The company is attempting to rent the remainder of the premises at a commercial rent, but the directors have been advised that the chances of achieving this are less than 50%.

What is the accounting treatment required?

Q6.

Laws have been passed that require an entity to fit certain health and safety features in its factories by 30 June 20X2. At 31 December 20X1 (the reporting date) the entity has not yet fitted the health and safety features.

How should this be accounted for in the financial statements?

Q7.

During the year to 31 March 20X9, a customer started legal proceedings against a company, claiming that one of the food products that it manufactures had caused several members of his family to become seriously ill. The company's lawyers have advised that this action will probably not succeed.

Should the company disclose this in its financial statements?

Q8.

Parker Co sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defect that becomes apparent within the first six months of purchase. The company's past experience and future expectations indicate the following pattern of likely repairs.

<i>% of goods sold</i>	<i>Defects</i>	<i>Cost of repairs if all items suffered from these defects</i>
		<i>\$m</i>
75	None	–
20	Minor	1.0
5	Major	4.0

What is the provision required?

Q9.

In which of the following circumstances might a provision be recognised?

- (a) On 13 December 20X9 the board of an entity decided to close down a division. The accounting date of the company is 31 December. Before 31 December 20X9 the decision was not communicated to any of those affected and no other steps were taken to implement the decision.
- (b) The board agreed a detailed closure plan on 20 December 20X9 and details were given to customers and employees.
- (c) A company is obliged to incur clean up costs for environmental damage (that has already been caused).
- (d) A company intends to carry out future expenditure to operate in a particular way in the future.

Q10.

During 20X0 Smack Co gives a guarantee of certain borrowings of Pony Co, whose financial condition at that time is sound. During 20X1, the financial condition of Pony Co deteriorates and at 30 June 20X1 Pony Co files for protection from its creditors.

What accounting treatment is required:

- (a) At 31 December 20X0?
- (b) At 31 December 20X1?

Q11.

Warren Co gives warranties at the time of sale to purchasers of its products. Under the terms of the warranty the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within a period of three years from the date of the sale. Should a provision be recognised?

Q12.

After a wedding in 20X0 ten people died, possibly as a result of food poisoning from products sold by Callow Co. Legal proceedings are started seeking damages from Callow but it **disputes liability**. Up to the date of approval of the financial statements for the year to 31 December 20X0, Callow's lawyers advise that it is probable that it will not be found liable. However, when Callow prepares the financial statements for the year to 31 December 20X1 its lawyers **advise that**, owing to developments in the case, it is probable that it will be found liable.

What is the required accounting treatment:

- (a) At 31 December 20X0?
- (b) At 31 December 20X1?

IAS 10 Events after the reporting period

Q1.

Shortly after the reporting date a major credit customer of a company went into liquidation because of heavy trading losses and it is expected that little or none of the \$12,500 debt will be recoverable. \$10,000 of the debt relates to sales made prior to the year end; \$2,500 relates to sales made in the first two days of the new financial year. In the 20X1 financial statements the whole debt has been written off, but one of the directors has pointed out that, as the liquidation is an event after the reporting date, the debt should not in fact be written off but disclosure should be made by note to this year's financial statements, and the debt written off in the 20X2 financial statements.

Advise whether the director is correct.

- Q2. (i) Identify **one** adjusting event and **one** non-adjusting event in accordance with IAS 10 (Events after the reporting period) arising from the impairment review. [2]

- Q3. 4 There was a flood at the company's premises on 29 July 2011 resulting in a material uninsured loss of \$215 000.
- 5 On 14 August 2011 the company declared its final dividend for the year ended 30 June 2011 of \$0.03 per share.

IAS 10 (events after the statement of financial position date) identifies two types of event as adjusting events and non-adjusting events.

REQUIRED

- (c) State the difference between adjusting and non-adjusting events. Explain their treatment in the financial statements. [4]
- (d) State if the items in points 4 and 5 in the additional information are adjusting or non-adjusting events. Justify your answer. [4]

Q4. Additional information

On 18 July 2014 a flood damaged a material amount of inventory.

On 29 July 2014 a company which owed Asteroid plc a material amount went into liquidation.

On 11 August 2014 a dividend of \$0.03 per ordinary share was declared.

REQUIRED

- (e) State which type of event each occurrence is and say how they would be treated in the accounts for the year ended 30 June 2014. Your answer should be in accordance with IAS 10. [7]

Q5.

Before the financial statements for 30 September 2016 were approved, the directors were made aware that another trade receivable owing \$10 000 at 30 September 2016 had been made bankrupt.

REQUIRED

- (d) (i) Explain the difference between an adjusting event and a non-adjusting event. [4]
- (ii) Explain, with reference to IAS 10, how this event should be dealt with in the financial statements. [2]

IAS 16 Property, Plant and Equipment

Q1

- (g) State the IAS which deals with property, plant and equipment and identify **five** items which a company can add to the cost price of an asset. [6]