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## Investment Properties (IP)

A resource:

- Controlled by the company
- As a result of past events
- Future economic benefits (cash) probable
- Can be measured reliably:
  - Cost
  - Fair Value (FV) - price asset could be sold for
  - Present Value (PV) of future cash flows

### Classification

- IP: assets held to earn rental income/capital appreciation (passive income)
- PPE: assets used by the company to produce goods/services and run the business
  - single property can be part PPE and part IP (e.g. part of property rented out)
  - entire property classified as IP if owner occupation insignificant
  - treated as PPE if significant services supplied (e.g. cleaning, maintenance)
  - leased assets always presented as ROU asset

### IAS 40 Initial Recognition

- Capitalise as part of asset:
  - Cost of asset
  - Costs directly attributable to acquiring the IP (e.g. professional fees, stamp duty)
    - includes interest costs on loans used to construct asset
    - capitalise from when expenditure incurred on asset and work begins to construct
- Expense to P&L:
  - Costs not meeting the asset definition
    - repairs will not produce additional future economic benefits
    - planned future expenditure is not a result of past events
  - Costs not directly attributable to acquiring the IP (e.g. running and servicing costs)

Audit Risks	Audit Procedures
<p><b>Numbers:</b> Increase in IP / Transfers between IP and PPE Risk: classification incorrect</p> <p>Additions high compared to PY Risk: costs incorrectly capitalised</p> <p><b>Scenario:</b> Refurbishment/Construction Risk: costs incorrectly capitalised</p>	<ul style="list-style-type: none"> <li>• Inspect lease agreement to establish portion of property rented out</li> <li>• Inspect contract to establish if services provided are insignificant</li> <li>• Inspect board minutes to determine management's intention</li> <li>• Ascertain whether costs are 'directly attributable' to acquiring the IP</li> <li>• Inspect legal documentation to confirm control/rights over asset</li> <li>• Obtain documentation showing when asset ready for use and query any costs capitalised from this date</li> <li>• Inspect schedule of costs capitalised to ensure meet capitalisation criteria</li> <li>• Trace costs capitalised to purchase invoice/payroll to confirm amounts</li> <li>• Agree interest rate to loan agreement</li> <li>• Obtain evidence of date that work began and recalculate interest to be capitalised</li> </ul>

## IAS 40 Subsequent Measurement

- Two models: all properties must follow same model

### 1. Cost Model (as per PPE)

- Asset depreciated over UEL when it is ready for use
  - Each separate component depreciated over its UEL
    - Dr P&L, Cr IP
  - Land is not depreciated as has infinite UEL
  - UEL, residual values and depr method reviewed annually
- CA = Cost – Accumulated Depr

### 2. FV Model

- Asset not depreciated
- Asset revalued to FV
  - FV > CA: Dr IP CA, Cr P&L
- Asset revalued at reporting date
  - CA is calculated using the HR as it is a non-monetary asset so not remeasured
  - FV is calculated using the Closing Rate (CR) as that is what would be received in £ today

Audit Risks	Audit Procedures
<b>Cost model</b> Depreciation expense low: <ul style="list-style-type: none"><li>compared to PY</li><li>as % of CA/Cost v depr policy</li></ul> UEL a judgement so risk of misstatement	<ul style="list-style-type: none"><li>Obtain documentation for when asset ready for use and check depreciated from that date</li><li>Compare depreciation policy to other companies with similar assets</li><li>Obtain expert opinion on UEL</li><li>Use software to recalculate depr charges using stated policy</li></ul>
Disposal proceeds < CA / Loss on disposal: Risk that UEL inappropriate	<ul style="list-style-type: none"><li>Identify other assets disposed for less than CA</li><li>Inquire with management to discuss UEL reasonableness</li></ul>
<b>FV model</b> Asset revaluation: Risk: overstatement as FV judgemental	<ul style="list-style-type: none"><li>Obtain expert report to confirm valuation</li><li>Consider competence and independence of valuer</li><li>Analyse assumptions used in valuation</li><li>Agree valuation to evidence of sales of similar assets</li><li>Inspect title deed/documentation</li><li>Review FS to ensure entries and disclosures correct</li></ul>
Overseas assets Risk: translation error	<ul style="list-style-type: none"><li>Reperform calculation using reliable third-party exchange rate</li></ul>

### Change of Use

- Asset used by company (PPE) now rented out (IP)
  - If FV model to be used for IP then revalue PPE (OCI) to FV prior to transfer to IP
  - If cost model to be used for IP then PPE CA is transferred to IP
- Asset rented out (IP) now used by company (PPE)
  - IP CA is transferred to PPE
- Asset held as inventory (property development business) now rented out (IP)
  - If FV model to be used for IP then revalue to FV (P&L) prior to transfer to IP
  - If cost model to be used for IP then inventory CA is transferred to IP
- Asset rented out (IP) now held as inventory (property development business)
  - IP CA is transferred to inventory

## EXAM TECHNIQUE GUIDANCE

Questions in the CR exam will often include a series of issues (transactions). For each issue, you will be required to do all or some of the following:

- Explain FR treatment
- Redraft Financial Statements
- Identify audit risks
- State audit procedures

You should do the following for each issue before moving on to the next issue:

- Brief abstract
  - relevant parts of relevant IFRS standards
- Application
  - apply standard to specific scenario
  - explain why current treatment is incorrect
- Financial Statement (FS) numbers
  - P&L/OCI/SFP impact
  - journal entry if requested in requirement
- Correct draft FS figures if required
- Audit risks
  - specific to the exact facts of the scenario: don't just copy from generic list
- Audit procedures
  - specific to the risks above

This exam technique is demonstrated in a video class which you can watch [here](#).

## MASTER PLAN

TOPIC	VIDEO CLASS	QUESTIONS	ICAEW Workbook
<a href="#">Assets</a>	Assets: FAR (view <a href="#">here</a> )  Assets: CR (view <a href="#">here</a> )	J14 UHN Q31 (Issue 2) J15 Q2 Heston Q35.1 (Issue 1) N15 Q2 Telo Q37 (Issue 3) J16 Q1 Earthstor Q39 (Issue 3,4) J16 Q2(2) EyeOP Q40 (Issue 2) J16 Q3(2+3) Topclass Teach Q41 N16 Q1(1) Zego Q42 N16 Q3(1) Key4Link Q44 (Issue 2) J17 Q1(1) Konext Q45 (Issue 2) <b>J17 Q3(2) Recruit Q47 – Video Class</b> N17 Q1(1) EF Q48 (Issue 1,2,3) J18 Q1(1) EC Q51 (Issue 3) <b>J18 Q2 Raven Q52 (Issue 3) – Video Class</b> N18 Q1(1) Zmant Q54 (Issue 1,2) J19 Q1 Vacance Q57 (Exhibit 1) N19 Q1(1a) Your Nature Q60 (Issue 2,3,4) N19 Q2 RTone Q61 (Issue 2)	Chapter 12

### Key

Small topic

Medium topic

Large topic

- A hedge to reduce exposure from **changes in Fair Value (FV)** of a **recognised asset/liability** or **unrecognised firm commitment** (binding agreement)

\*intrinsic value of option is hedging instrument; time value of option recorded in OCI

- |                                    | Hedged Item                                                                                                                                                                                | Hedging Instrument                                    | Net P&L Impact                           |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|------------------------------------------|
| <b>Without</b><br>Hedge Accounting | Inventory: remeasured only if NRV < Cost<br>Firm commitment: not recognised<br>Equity: FVPL or FVOCI<br>Loan/Bond asset: FVPL/OCI or Amortised cost<br>Loan/Bond liability: Amortised cost | FVPL                                                  | Gain/loss on derivative if item not FVPL |
| <b>With</b><br>Hedge Accounting    | FVPL<br>(Firm commitment recognised as asset/liability)                                                                                                                                    | FVPL<br>(FVOCI if hedging equity classified as FVOCI) | Ineffective element of hedge             |

\_\_\_\_\_

[illegible][illegible]

	Firm Commitment (binding agreement)	Forecast Transaction (uncommitted but highly probable)
Not Hedging FX Risk	FV Hedge	CF Hedge
Hedging FX Risk	FV or CF Hedge	CF Hedge

Consolidated (Group) P&L and OCI					
P&L	P	S	adj	GROUP	
Revenue	X	X	(X)	X	Intragroup transactions eliminated
Cost of sales	(X)	(X)	X	(X)	Intragroup transactions eliminated
- PURP	(X)	(X)			PURP: eliminate profit made by seller
<b>Gross Profit</b>				<b>X</b>	
Admin costs	(X)	(X)		(X)	
- Extra depr (FV uplift)		(X)			S assets uplifted to FV for Group FS - extra depr
- Reverse extra depr (PPE Purp)	X				Adjust seller column
Other costs	(X)	(X)		(X)	
- GOBP	X				
- GW Impairment	(X)				S column if FV method used for GW/NCI
- Increase in contingent consideration	(X)				Contingent consideration: increase in provision
- Transaction costs	(X)				Legal/advisor fees to acquire shares in S
<b>Operating Profit</b>				<b>X</b>	
Investment Income	X				
- Dividends received	X		(X)		Remove dividends from S/A to P
- Profit/loss on disposal	X		(X)		Remove P/L on disposal in P individual FS
Finance Cost	(X)			(X)	Deferred consideration: discounted to PV
<b>PBT</b>				<b>X</b>	
Tax	(X)	(X)		(X)	
<b>PAT</b>	X	X		<b>X</b>	
Attributable to:					
P	X	X		X	100% of P profit + P% of S profit
NCI		X		X	NCI% of S profit
OCI					
<b>Revaluation gains / other OCI gains</b>	<b>X</b>	<b>X</b>		<b>X</b>	
Attributable to:					
P	X	X		X	100% of P gains + P% of S gains
NCI		X		X	NCI% of S gains
<b>FX gain (loss) on translation of NA</b>				<b>X</b>	
Attributable to:					
P				X	P%
NCI				X	NCI%
<b>FX gain (loss) on translation of GW</b>				<b>X</b>	
Attributable to:					
P				X	NA method: P only (NCI% of GW not recognised)
NCI				X	FV method: NCI% as part of GW allocated to NCI

- Adjustments to profit will impact RE
- If required to only prepare SFP then adjustments above included in RE
  - P profit/RE included in Group RE (W4)
  - S profit/RE included in S NA (W1)

#### Intragroup transactions and balances

- Eliminated as group is a single company
  - Dr Revenue (Seller), Cr Cost of sales (Purchaser)
  - Cr Receivables (Seller), Dr Payables (Purchaser)
- Provision for Unrealised Profit (PURP): eliminate profit made by seller for assets still in group
  - Dr P&L/RE (Seller), Cr Inventories/PPE<sup>†</sup> (Purchaser)

<sup>†</sup> Adjustment = Profit on disposal - extra depr due to higher CA

Summary				
	IFRS9 Financial Asset	Associate	Joint Venture	Subsidiary
<b>Criteria:</b>	Simple Investment	Significant Influence	Joint Control	Control
<b>Indicated by:</b>	<20%	20-50% Appoint a director Participate in decisions Material transactions	Right to NA of JV company	50-100% Appoint directors Make decisions
<b>P&amp;L/OCI:</b>	Dividends FVPL/OCI	Share of Profit	Share of Profit	Full consolidation of P&L
<b>SFP:</b>	FV	Equity method	Equity method	Full consolidation of NA

Buying/Selling Shares		
Before	After	Accounting Treatment
IFRS9	Associate	Significance influence acquired Dividends recorded in PL until acquisition date Remeasure IFRS9 asset to FV (FVPL or FVOCI) Equity method of accounting from date of acquisition
IFRS9	Subsidiary	Control acquired (step-acquisition) Dividends recorded in PL until acquisition date Remeasure IFRS9 asset to FV (FVPL or FVOCI) Calculate GW Full consolidation of net assets/profits from date of acquisition
Associate/JV	Subsidiary	<div>SAMPLE COPY FOR USE</div>
Subsidiary	Subsidiary	
Subsidiary	Associate	
Subsidiary	IFRS9	
Associate/JV	IFRS9	

## PERFORMANCE ANALYSIS (P&L)

REVENUE			
NUMBER		REASON	TREND/FURTHER ANALYSIS
Total Revenue	v PY	All streams growing/declining	Best performing stream
Revenue by Stream	v Budget	Commercial reason from exam scenario (market growth/decline/ new product/advertising/competitors)	Growth rate accelerating/slowing Decline accelerating/slowing/stabilising
Revenue Mix by Stream	v Other streams		Specific customer/product causing change: Revenue per Customer/Product/Employee
	v Competitor	Price change and/or volume change	Expected to continue / Strategic position
	v Market		
Net Asset Turnover: Revenue Equity + Net Debt	v PY	Share issue	Growth rate accelerating/slowing
	v Budget	Debt issue	Decline accelerating/slowing/stabilising
Revenue generated from resources	v Other streams	Asset revaluation	Specific customer/product causing change
	v Competitor		Expected to continue / Strategic position
	v Market		
	v Other industry		

†Revenue Streams: Region/Division/Store/Product/Service

### REVENUE

Overall revenue has increased (decreased) impressively (disappointingly) by £x (x%) to £2021 due to growth in all revenue streams†. Stream A is the best performing stream. This is a strong performance compared to market growth of x%.

Stream† A revenue has increased (decreased) impressively (disappointingly) by £x (x%) to £2021 due to **reason** (reason from exam scenario / price change and/or volume change).

Comment on the **trend** (growth rate accelerating) / **further analysis** of numbers (specific customer or product causing increase or decrease) / significant movements / future impact.

Stream† B revenue has increased (decreased) impressively (disappointingly) by £x (x%) to £2021 due to **reason** (reason from exam scenario / price change and/or volume change).

Comment on the **trend** (growth rate accelerating) / **further analysis** of numbers (specific customer or product causing increase or decrease) / significant movements / future impact.

Stream A now accounts for the largest share of revenue (2021% v 2020%) whereas Stream B now has the smallest share (2021% v 2020%).

†Revenue Streams: Region/Division/Store/Product/Service