ACA MASTERS

Financial Accounting and Reporting: Learning Materials

These notes summarise the key technical content for the most examinable parts of the syllabus and therefore serve as a useful revision tool. The notes also include calculation proformas and reminders.

The Exam Technique Guidance section provides specific advice as to how to approach the different types of exam question in the FAR exam. Our classroom and online tuition classes demonstrate how to apply these techniques to recent FAR exam questions.

Contents:

ASSETS & LEASES

A resource **controlled** as a result of **past events,** from which it is **probable that economic benefits will flow** to the entity, and the asset can be **measured reliably**

IAS 16 Capitalisation

- Cost includes all 'directly attributable' costs, which includes more than just purchase price – see PPE note below
- Separate components and enabling costs (e.g. inspections) are capitalised and depreciated separately

IAS 23 Borrowing costs

- Interest costs on loans which are directly attributable to the PPE are capitalised as part of the asset - Dr PPE, Cr Cash
- Start capitalising once expenditure on asset is incurred, interest costs have been incurred <u>and</u> asset is being made ready for use
- Cease capitalisation as soon as asset is 'ready for use'

IAS 16 Subsequent measurement

- Cost model: CA = Cost – Depr' / Impairments
- Reval model: CA = FV – Depr' / Impairments
- Assets of same class must follow same model i.e. if one building is revalued, all buildings must be revalued
- The revalued gain is 'unrealised' so is recorded in OCI rather than P&L - Dr PPE, Cr OCI
- Going forward, depr is charged on the new revalued amount, so depr is higher…
- So, a reserves transfer can be made for the 'additional depr' - Dr Revaluation Reserve, Cr Retained earnings

IAS 36 Impairment

- Occurs when an asset's recoverable amount (RA) falls below its carrying amount
- RA amount is higher of: FV minus selling costs and Value in Use (PV of cash the business will generate from using it)
- Indicators of impairment – fall in MV, physical damage, competitor product launch, higher interest rates etc.

IAS16: PPE		
Cost		**Reminders**
b/f	x	
Additions	x	= Purchase price + construction/installation costs + interest costs + dismantling provisions - proceeds from selling testing products
Revaluation	x	= MV, the credit entry goes to OCI
Disposals	(x)	Removes costs for assets disposed or AHfS
AHFS	x	Separate disclosure for assets to be sold in next 12m (subject to IFRS5 conditions)
c/f	x	
Dep'r		
b/f	(x)	
CY charge	(x)	Begins when asset available for use Each component of asset and class of asset depr' separately CY charge will be higher if assets have been revalued so the 'excess depr' can be offset via a transfer from RR to RE
Impairment	(x)	If the higher of FV / VIU is lower than CA, then impair the asset. Check to see if asset has been previously revalued to determine Dr entry
Revaluation	x	Reverses accumulated dep'r on revalued asset
Disposals	x	Reverses accumulated dep'r on disposed asset / AHfS
AHFS	(x)	Separate disclosure for assets to be sold in next 12m (subject to IFRS5 conditions)
c/f	x	
CA		
b/f	X	
c/f	X	

FINANCIAL INSTRUMENTS

Financial Asset: *Right to receive cash, financial assets or equity in another entity*

- Trade receivable
- Loans receivable
- Equity in other entities

Financial Liability: *Obligation to pay cash or financial asset to another party*

- Trade payable
- Loans payable

Measurement

- Initially measured at FV which is calculated using the effective interest rate method (PV of future payments) and NOT the nominal (par / face) value:

Dr Asset, Cr Cash

- Capitalise any 'transaction costs' e.g. broker fees:

Dr Asset, Cr Cash

- Subsequent measurement is on an 'Amortised cost' basis: the same as the finance lease calculation
- The effective interest rate will ensure that the initial recognised amount is increased up to the actual amount received at settlement (maturity):

Dr Asset, Cr Interest Income

- Cash received is not recorded in the I/S; we have already accrued the effective interest instead:

Cr Asset, Dr Cash

Amortised cost

	b/f	Interest	Cash payment	c/f
Yr1	x	x	(x)	x
Yr2	x	x	(x)	x
Yr3	x	x	(x)	x

Fair Value calculation

	Cash payment	Discount factor	PV	
Yr 1	x	x	x	
Yr 2	x	x	x	
			X	b/f in amortised cost table

Disposals

- Similar to any disposal: remove assets being sold from SFP, record cash and any difference is Profit or Loss
- Dr Cash, Cr Assets of Sub (including goodwill), Cr Profit on disposal

Disposal of Sub

Proceeds	X	
Carrying amount of Sub (W1)	(X)	The sub's NA and GW in the sub's business (i.e. the assets on the C-SFP)
NCI % of net assets at disposal	X	Included 100% of the NA above so adjustment for the part P doesn't own
Profit / (Loss)	**X / (X)**	

W1 **Goodwill at disposal**

Consideration	x
NCI at acq	x
FV of net assets at acq	(x)
Goodwill	X
Impairments	(x)
Goodwill	**X**

Net assets at disposal

Net Assets b/f	x
CY Profit / (loss)	x
Dividends paid	(x)
Net assets at disposal	**X**

C-SFP

- Don't consolidate as S no longer under 'control' of group

C-IS

- Consolidate S's results up to the point of disposal and the profit attributable to NCI
- Disclose S's results + profit on sale as discontinued operations per IFRS5