



Strategic Business Reporting: Workbook

For exams in September 2019, December 2019, March 2020 and June 2020

Chapter 3, Activity 2 part (b) on page 49

The date given in the third paragraph is incorrect, it should be 20X7 as highlighted in the amendment below:

In October 20X7, the customer acquired another company and in the quarter ended 31 December 20X7, Bodiam sold an additional 500 units of Product A to the customer. In light of this, Bodiam concluded that the customer's purchases are now highly likely to exceed the 1,000-unit threshold in the 12 months to 30 June 20X8.

Answer on page 540

The dates given are incorrect, they should be 20X7 as highlighted in the amendments below:

For the **quarter ended 31 December 20X7** there has been a significant increase in demand. Bodiam concluded that it is highly probable that the 1,000-unit threshold will be reached and the discounted price earned. The volume discount incentive should be recognised and the 500 units sold in the quarter to 31 December 20X7 should be recorded at a transaction price of \$180 per unit.

For the **quarter ended 30 September 20X7**, Bodiam did not expect the threshold to be reached, and so correctly recorded revenue at the full price of \$200 per unit. At 31 December, the situation changed and Bodiam concluded that the threshold is highly likely to be met. The discount should therefore also be applied to the 75 units sold in the previous quarter: revenue should be reduced by \$1,500 (75 units × \$20 discount).

Chapter 16, illustration 2 on page 369

The fair value of the non-controlling interests in illustration 2 has been corrected to 25 million crowns. The subsequent workings have been updated, as highlighted below. The wording highlighted has been revised for clarity.



Illustration 2

Hood, a public limited company whose functional currency is the dollar (\$), has recently purchased a foreign subsidiary, Robin. The functional currency of Robin is the crown.

Hood purchased 80% of the ordinary share capital of Robin on 1 September 20X5 for 86 million crowns. The carrying amount of the net assets of Robin at that date was 90 million crowns. The fair value of the net assets at that date was 100m crowns. At the year end of 31 December 20X5, the goodwill was tested for impairment and this review indicated that it had been impaired by 1.8 million crowns.

The exchange rates were as follows:

	<i>Crowns to \$</i>
1 September 20X5	2.5
31 December 20X5	2.0
Average rate for 20X5	2.25

Hood elected to measure the non-controlling interests in Robin at fair value at the date of acquisition. The fair value of the non-controlling interests in Robin on 1 September 20X5 was 25 million crowns.

The management of Hood is unsure of how to account for the goodwill so has measured it at the exchange rate at 1 September 20X5 in the consolidated financial statements. No adjustment has been made since that date.

Required

Explain the correct accounting treatment of the goodwill, showing any relevant calculations and any adjustments necessary to correct the consolidated financial statements for the year ended 31 December 20X5.

Solution

Goodwill

The goodwill should be calculated in the functional currency of Robin (the crown). It is initially translated into \$ at the exchange rate at the date control is achieved (1 September 20X5), but then needs to be retranslated at the closing rate at each year end, after taking account of any impairment loss suffered:

	Crowns m	Crowns m	<i>Rate</i>	\$m
Consideration transferred		86.0		
Non-controlling interests (at fair value)		25.0		
Less: Fair value of net assets at acquisition		<u>100.0</u>		
Goodwill at acquisition (1 September 20X5)		11.0	2.5	4.4
Impairment losses		(1.8)	2.25	(0.8)
Exchange difference (balancing figure)		<u>—</u>	β	<u>1.0</u>
Goodwill at year end (31 December 20X5)		<u>9.2</u>	2.0	<u>4.6</u>

At 31

December 20X5, goodwill should be presented at \$4.6m in the consolidated statement of financial position. Management have recorded it at \$4.4m, being the goodwill on acquisition without any further adjustment for impairment or exchange differences.

Adjustments required

The impairment loss should be recognised in consolidated statement of profit or loss (translated at either the average rate or the closing rate). In this case the average rate has been used giving an impairment loss of \$0.8m, but there is no fixed rule, so the closing rate could alternatively have been used:

DEBIT	Profit or loss	\$0.8m
CREDIT	Goodwill	\$0.8m

The exchange gain on the retranslation of goodwill of \$1.0m should be credited to other comprehensive income and accumulated in the translation reserve (group share, $80\% \times \$1.0m = \$0.8m$) and in NCI (NCI share, $20\% \times \$1m = \$0.2m$):

DEBIT	Goodwill	\$1.0m
CREDIT	Translation reserve	\$0.8m
	NCI	\$0.2m

Note. If non-controlling interests had instead been measured at the proportionate share of net assets at acquisition ('partial goodwill' method), any exchange difference arising on the retranslation of goodwill would be reported in the translation reserve with no impact on NCI. This is because under the partial goodwill method, the goodwill calculated relates only to the group, therefore any exchange difference arising also relates only to the group. Under the full goodwill method, the goodwill calculated relates to both the group and the NCI and so any exchange difference arising must be allocated to both the group and the NCI.

Further Question Practice Bank, answer to Q4(b)

The answer states that 'as planning permission has not been granted, use for development is not legally permissible so the value of \$14.3m cannot be used'. This is incorrect. The Basis for Conclusions from IFRS 13, paragraph BC69 states 'the IASB concluded that a use of an asset does not need to be legal at the measurement date, but must not be legally prohibited in the jurisdiction (eg if the government of a particular country has prohibited building or development in a protected area, the highest and best use of the land in that area could not be to develop it for industrial use)'. Therefore, the correct valuation of the land is \$14.3m.