

TUTOR MARKING GUIDANCE November 2017 CORPORATE REPORTING

	Max marks	Headroom marks	Mark analysis	
Question 1 MegaB				
1A Financial reporting treatment and additional information	18	3.0		-
EF Brand			0.5	Brand should not be recognised because...
			1.0	IAS 38 criteria to explain why not recognised - indentifiable - separable - costs measured reliably Identify possibility that it may have been purchased and therefore an error and should have been recognised - need further information concerning how EF acquired the brand
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Goodwill		2.0	0.5	Explain recognised on consolidation
			0.5	-
			0.5	Not recognised in EF because..
			1.0	Internally generated
			0.5	Explain recognised on consolidation
Revaluation of PPE		12.0	1.0	PPE can be revalued at 1 September - model has to be applied consistently
			1.0	Rented out portion can be IP - if needs to be capable of being sold separately or leased under a finance lease - need further information
			1.0	IAS 40 - insignificant owner occupation may not satisfied - need further information - or 2 floors = owner occupied

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Bad debt allowance		3.0	<p>1.0 Use numbers - either apportioned or in total</p> <p>1.0 Uplift of rented out part treated under IAS16 - to OCI</p> <p>2.0 No depreciation charged on investment property - subsequent fair value movement to profit or loss</p> <p>3.0 As owner occupied, treated as PPE - FV increase to OCI - Depreciation charged on revalued amount</p> <p>1.0 IFRS 13 - income based approach to valuation may not be correct - need further information</p> <p>1.0 Rental income £13,333 to profit or loss</p> <p>-</p> <p>2.0 Explanation and justification- £1.35 m should go to PorL</p> <p>1.0 More information needed to confirm the correct level of the allowance</p>	
		20		

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1B Explain changes to elements of the planned audit approach	14	19	2.0	Timing changed- was March now February; increased complexity need more staff -
			2.0	Fee limited to 60,000 yet complexity of work increased - should not let this affect quality of work done
			2.0	Materiality should be set by MKM - not Lewis Morton- use numbers (i.e. was 5% of PBT) - will need to change because of adjustments and profit expectation increase
			2.0	Controls - using shared service centre - controls different for period from 1 November 2017
			2.0	Management incentive to misstate - bonus payments - increase audit focus on judgement areas - use numbers to explain
			1.0	Last year of audit - additional scrutiny
				<u>Changes in focus</u>
			2.0	Revenue - new overseas sales channels - foreign currency
			1.0	recognition and classification of redundancy/bonus/ reorganisation payments
			1.0	Pension - possibly 2 for good discussion
			1.0	Related party implications
			1.0	Unpaid receivables allowance
			1.0	going concern
1.0	Head office building - requires judgement			

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1C Explain ethics and actions for MKM	8	10	1.0	Public interest - reporting to all stakeholders not just MegaB
			1.0	Objectivity - not to be influenced by others to override professional judgement
			1.0	Self-interest threat
			1.0	Intimidation threat
			1.0	Management threat
			1.0	CFO possibly icaew member
			1.0	NAS and lowballing threat
			3.0	Actions: sufficient resources/ don't cut corners/ report CFO/ Ethics partner hotline/full documentation of contentious issues
Total marks	40	49		

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Question 2 Wayte				
2A Explain FR adjustments including journal entries	15	2.5		<u>PSN</u>
			1.0	AFS therefore gains /losses to OCI
			0.5	Remeasured to £387,500
			0.5	Loss 43,000
			0.5	Journal
		2.5		<u>LXP</u>
			1.0	FVTPL therefore gains and losses to PorL
			0.5	Remeasured to £218,750
			0.5	Gain £27,000
			0.5	Journal
		3.5		<u>Revenue</u>
			0.5	IFRS 15 not mandatory
			0.5	Both IFRS 15 and IAS 18 require separate identifiable components
			2.0	Service revenue capable of being separated/ match service to 2 years - £750,000 should be deferred
			0.5	Journal
		9.0		<u>Deferred tax</u>

	Max marks	Headroom marks	Mark analysis	
			1.0	Land and buildings - Deferred tax required on potential gain - discussion mark
			1.0	$19,200,000 - 11,400,000 = 7,800,000 \times 20\% = 1,560,000$
			1.0	Movement $1,560,000 - 1,200,000 = \text{£}360,000$ to OCI
			0.5	Journal
			1.0	PSN - deferred tax to OCI/ deferred tax asset
			0.5	$\text{£}43,000 \times 20\% = 8600$
			0.5	Journal
			1.0	LXP current tax increase - no deferred tax adjustment - accounting treatment = tax treatment
			0.5	$27000 \times 20\% = 5400$
			0.5	Journal
			1.0	Current tax falls because of deferred service income $\text{£}750,00 \times 20\% = \text{£}150,000$
			0.5	Journal

	Max marks	Headroom marks	Mark analysis	
2B Revise financial statements	7	9.0	4.5	0.5 for each adjustment
			0.5	6320 cash from ops
			1.0	adjust equity
			1.0	gearing
			1.0	gross profit
			1.0	ROCE
2C Report	8	14	1.0	Format
			2.0	performance discussion - revenue increases/ profit fallen
			1.0	Overdraft in 2017
			2.0	Working capital movements - reducing inventory - receivables - increasing in payables
			1.0	Large dividend
			1.0	repaid directors loans
			1.0	Bought machinery
			1.0	Low gearing
			2.0	Calculation of additional ratios
			2.0	Conclusion
Total marks	30	41		

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Question 3 SB					
3A	Financial reporting treatment of two matters identified by Geri	12	14.0		<u>Investment in CG</u>
					<p>1.0 34% - does not give control - gives significant influence - potentially associate</p> <p>3.0 Subsidiary - call option/ 2 out of 4 board members- significant influence - key supplier - interchange of management - recommendation (subsidiary)</p> <p>3.0 FR (consolidate - goodwill and treatment of gains)</p> <p><u>Share based payment</u></p> <p>1.0 Explanation - equity settled - choice of settlement - compound financial instrument - need to recognise despite no cash - discussion mark</p> <p>2.0 FV of equity component 640,000 - 616,000 = £24,000 x 9/24 = 9000 x 2 = 18000</p> <p>2.0 Liability 28,000 x £24 = £672,000 x 9/24 = 252,000 x 2 = 504000</p> <p>1.0 Expense to PorL- (252,000 + 9000) x 2 = 522,000</p> <p>1.0 other disclosure implications</p>

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3B	Weakness in audit procedures/analyse information/additional audit procedures	18	24	8.0 10.0 6.0	Weakness in procedures - 1- 2 mark for each weakness identified Analysis of data - ie fact or figure plus risk or comment = 2 Additional procedures on payables and purchases only
	Total marks	30	38		
		100	127.5		