		Max marks	Headroom marks	Mark analysis	
	Question 1 Zmant				
1.1					
Set out and explain the appropriate financial reporting treatment for:		**20**	**13.0**		
	R&D O$10,700,000			1.0	Discussion around 1 January date - use of judgement - link to request from customer - changing an existing model
	Project sound			2.0	Apply recognition criteria per IAS 38 to scenario - Costs meeting the definition of development expenditure must be capitalised in the development stage: Order placed on 1 April 2018 - discussion of 1 April date.
				1.0	Scepticism e.g. concerning treatment of car / manipulation for tax purposes
				5.0	Apply recognition criteria per IAS 38 to costs to identify costs to be capitalised 1/2 mark each plus 1/2 for discussing amortisation 1/2 for depreciation
	Project entertain			2.0	Expense cost is correct but should be presented as marketing or entertaining costs - do not meet the criteria for research costs - maybe recognised in the wrong period
				1.0	Apply scepticism - link to tax relief to expensed R&D costs.
	Income tax receivable O$8,025,000			1.0	Assumes that all costs recorded as research costs - therefore tax receivable is not fairly stated.
Identify weakness in procedures			**12.0**	5.0	Materiality - Welzun should use own assessment of materiality
					Project sound - no procedures performed because incorrectly applied materiality/ auditor not challenged management
					Project entertain - no procedures to ensure appropriate classification - cut off not confirmed - report not received

					Insufficient to rely on tax department - auditor needs to perform own procedures
					Group auditor responsibilities - reconsider original audit plan -
Additional procedures for group audit opinion				7.0	Project sound (3) Entertain (2) Tax receivable (2)
			25.0		
1.2	**Financial reporting queries raised by Zmant's accountant**	**10**	**13.5**		
	Loan to KJL			2.0	Monetary item denominated in the functional currency of the subsidiary an exchange gain of £875,000 should be recognised in **Zmant**'s profit or loss account.
				1.0	Deferred tax implication - taxable temporary difference of £175,000
				1.0	Journals or explanation
				2.0	Consolidation - loans cancel - exchange difference recognised in OCI / average rate adjustment on interest
				1.0	Journals or explanation
	Inventory			1.0	Identify and explain that the calculation is not correct
				2.0	Calculate unrealised profit in Group FS - not individual FS £648,148
				1.0	Deferred tax implication - deferred tax asset in group FS - £130,000
				1.0	Remove intra group revenue in consolidated PorL
				1.5	Journals or explanation

1.3	**Calculate goodwill**	**4**	**5**	3.0	Net assets at acquisition/goodwill 8550
				0.5	Goodwill at HR - £1,425
				1.0	Exchange gain £356,000
				0.5	Goodwill at CR £1,781,000
1.4	**Ethics**	**8**	**10**		
	Ethical implications for DB			1.0	Not the auditor but responsible for the group - potential for misstatement of FS/ additional procedures
				1.0	Credibility of source- but other evidence from the audit gives credence - i.e. management writing off costs as research - delayed report
				1.0	Identify potential tax evasion/Fraud.
	Actions for DB			4.0	Consult legal advice for responsibilities under money laundering/ Bribery Act
					Discuss with board/ ethics partner involvement/ legal advice/ ICAEW helpline
	Actions for Janet			1.0	Janet = ICAEW member - code of ethics applies to her personally - cannot be associated with fraudulent tax claims.
				2.0	Discuss with board colleagues - seek advice - resign if unresolved
	Total marks	**42**	**53.5**		

	Question 2 Chelle				
2.1	**Explain FR adjustments including journal entries**				
		8	9.5		
				1.0	Identify that interest paid has been expensed - should be the effective interest rate
	Convertible bond			2.0	Finance cost £624,195 - Closing balance - £9,727,000
				0.5	Journal adjustment
	AFS			1.0	AFS - therefore should recognise gain or loss to AFS reserve
				2.0	Calculation £347k
				0.5	Journal adjustment
	Tax			2.0	Current tax affects - £24k
				0.5	Journal adjustment
2.2	**Revised financial statements**				
	Profit or Loss	**9**	12.0	3.5	
	SOFP			3.5	
	EPS - basic			1.0	Loss (1/2) - number of shares (1/2)
	EPS - diluted			4.0	Add back interest less tax (505) = 2 marks Increase share capital (11 million) = 1 + 1 for explanation
2.3	**Report to the board**	**10**	12.0		
	Financial position			4.0	Liquidity declined - very long receivables days and payables days have worsened - gearing worsened because cash fallen
					Bonds due for repayment and given share price likely not to convert

					No funds to pay dividend
	Performance			4.0	Revenue down as discussed by directors - GP - affected by Sterling - operating costs
	Cash flow			2.0	Largely unchanged from 2017 - generating cash from operations - investment in PPE not yet generating returns
	Conclusion			2.0	Strong cash flows from operations - but poor profitability declining
2.4	**Distributable reserves**	**3**	4.0	2.0	Definitions
				2.0	Apply to scenario
	Total marks	**30**	**37.5**		
	Question 3 Solvit				
3.1		**10**	**14.0**		
	Key audit matters identified by Fenn Yo LLP (Exhibit 1)				
	Revenue			3.0	Material/judgement. Error last year/new accountant lacking experience
				3.0	Changes - new standard/ education sector with discounts/ issues with software
	Provision for onerous lease			2.0	B/f provision material -released this year and may be incorrect/ sublease issues
	Additional key audit matters for this year's audit			6.0	Allowance for aged receivables (2) / Sale and lease back (2) / management bonus (2)

3.2	**Identify relevant financial reporting standard - explain audit objectives - and procedures**	**15**	**20**		
				10.0	Identify standard and apply to scenario (2- 3 marks per KAM)
				10.0	Audit objective and procedures (2-3 marks per KAM)
3.3	IFRS 16	**3**	**4**	1.0	Single accounting model apply to all leases/ IFRS 15 link
				3.0	Apply to scenario:
					Northern office and cars currently treated as an operating lease will be recognised on the SOFP
					London offices - Solvit is lessor
	Total marks	**28**	**38.0**		
		100	**129.0**		