Investment Properties (IP)

A resource:
- Controlled by the company
- As a result of past events
- Future economic benefits (cash) probable / potential to produce future economic benefits
- 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 (company is lessee: ROU asset/lease liability)

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
Numbers: Increase in IP / Transfers between IP and PPE Risk: classification incorrect Additions high compared to PY Risk: overstatement as costs incorrectly capitalised **Scenario:** Refurbishment/Construction Risk: overstatement if costs incorrectly capitalised / understatement if not capitalised	• Inspect lease agreement to establish portion of property rented out • Inspect contract to establish if services provided are insignificant • Inspect board minutes to determine management's intention • Ascertain whether costs are 'directly attributable' to acquiring the IP • Inspect legal documentation to confirm control/rights over asset • Obtain documentation showing when asset ready for use and query any costs capitalised from this date • Inspect schedule of costs capitalised to ensure meet capitalisation criteria • Trace costs capitalised to purchase invoice/payroll to confirm amounts • Physically inspect assets to ensure that they exist • Agree interest rate to loan agreement • Obtain evidence of date that work began and recalculate interest to be capitalised

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
Cost model Depreciation expense low: ▪ compared to PY ▪ as % of CA/Cost v depr policy Risk: overstatement of asset as UEL judgemental	• Obtain documentation for when asset ready for use and ensure depreciated from that date • Compare depreciation policy to other companies with similar assets • Obtain expert opinion on UEL • Use software to recalculate depr charges using stated policy
Disposal proceeds < CA / Loss on disposal: Risk: overstatement as UEL too long	• Identify other assets disposed for less than CA • Inquire with management to discuss UEL reasonableness
FV model Asset revaluation: Risk: overstatement as FV judgemental	• Obtain expert report to confirm valuation • Consider competence and independence of valuer • Analyse assumptions used in valuation • Agree valuation to evidence of sales of similar assets • Inspect title deed/documentation • Review FS to ensure entries and disclosures correct
Overseas assets Risk: translation error	• Reperform calculation using reliable third-party exchange rate

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

MASTER PLAN

TOPIC	VIDEO CLASSES	QUESTIONS	ICAEW Workbook
Assets	Assets: FAR Assets: CR 2022 and 2021 Live Class Recordings	J14 UHN Q30 (Issue 2) J15 Q2 Heston (Issue 1) N15 Q2 Telo (Issue 3) **J16 Q1 Earthstor (Issue 3,4) – Video Course** J16 Q2(2) EyeOP (Issue 2) J16 Q3(2+3) Topclass Teach N16 Q1(1) Zego **N16 Q3(1) Key4Link (Issue 2) – Video Course** J17 Q1(1) Konext (Issue 2) **J17 Q3(2) Recruit – Video Course** N17 Q1(1) EF (Issue 1,2,3) J18 Q1(1) EC (Issue 3) **J18 Q2 Raven (Issue 3) – Video Course** N18 Q1(1) Zmant (Issue 1,2) J19 Q1 Vacance (Exhibit 1) N19 Q1(1a) Your Nature (Issue 2,3,4) N19 Q2 RTone (Issue 2) **N20 Q1 SSD (Issue 1/Exhibit 1) – Video Course** N20 Q2 Beta World (Issue 1) J21 Q2 E-Van (Issue 1, 2) – Model Answer **N21 Q2 Eastoak (Issue 1) – Live Course**	Chapter 12

Key
Small topic
Medium topic
Large topic
Exam paper reference: MonthYear Question e.g. N21 Q2 = November 2021 Question 2

Fair Value Hedge

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

Hedged Item	Hedging Instrument
FV of inventory owned (or to be purchased under firm commitment)	Commodity future
FV of equity held as an investment	Option to sell shares (put option*)
FV of loan/bond asset (FV=discounted CFs)	Interest rate swap (fixed to variable)
FV of loan/bond liability (FV=discounted CFs)	Interest rate swap (fixed to variable)

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

- Hedged item remeasured to FV to offset FV movement on derivative

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

Cash Flow (CF) Hedge

[redacted]

Hedged Item	Hedging Instrument
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

[redacted]

	Hedged Item	Hedging Instrument	Net P&L Impact
Without Hedge Accounting	[redacted]	[redacted]	[redacted]
With Hedge Accounting	[redacted]	[redacted]	[redacted]

†Ineffective element of hedge: movement in hedging instrument > movement in hedged item

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
Gross Profit				**X**	
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
Operating Profit				**X**	
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
PBT				**X**	
Tax	(X)	(X)		(X)	
PAT	X	X		**X**	
Attributable to: P NCI	 X 	 X X		 X X	 100% of P profit + P% of S profit NCI% of S profit
OCI					
Revaluation gains / other OCI gains	**X**	**X**		**X**	
Attributable to: P NCI	 X 	 X X		 X X	 100% of P gains + P% of S gains NCI% of S gains
FX gain (loss) on translation of NA				**X**	
Attributable to: P NCI				 X X	 P% NCI%
FX gain (loss) on translation of GW				**X**	
Attributable to: P NCI				 X X	 NA method: P only (NCI% of GW not recognised) 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† (Purchaser)

† Adjustment = Profit on disposal - extra depr due to higher CA

Summary				
	IFRS9 Financial Asset	**Associate**	**Joint Venture**	**Subsidiary**
Criteria:	Simple Investment	Significant Influence	[redacted]	[redacted]
Indicated by:	<20%	20-50% Appoint a director Participate in decisions Material transactions	[redacted]	[redacted]
P&L/OCI:	Dividends FVPL/OCI	Share of Profit	[redacted]	[redacted]
SFP:	FV	Equity method	[redacted]	[redacted]

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	[redacted]
Associate/JV	Subsidiary	[redacted]
Subsidiary	Subsidiary	[redacted]
Subsidiary	Associate	[redacted]
Subsidiary	IFRS9	[redacted]
Associate/JV	IFRS9	[redacted]

PERFORMANCE ANALYSIS (P&L)

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

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

*Consider changing basis of comparison to ensure like-for-like comparison (volume/period)

REVENUE

Overall revenue has increased (decreased) impressively (disappointingly) by £x (x%) to £2022 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 £2022 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 £2022 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 (2022% v 2021%) whereas Stream B now has the smallest share (2022% v 2021%).

Model Answer: July 2021

Please review the model answer after you have attempted the July 2021 exam.

This answer demonstrates what you could realistically produce within the time limit under exam conditions. The ICAEW answers are too detailed and are not what students are expected to produce. This is a prize-winning answer as it would score close to 100%.

Question 1

(1)

Issue 1

FR Treatment
Under IFRS15, revenue should be recognised when PO are satisfied/control transferred to customer. For goods, this is when they are delivered to customer / customer legally owns the goods.

Panther (P) should recognise revenue for goods when they are delivered to customer / customer legally owns the goods and not when a proforma invoice (sales order) is sent.

Audit Risks
There is a risk that revenue is overstated because transaction 132852 shows proforma invoice posted as revenue (£165,424) and transaction 140552 shows the same amount posted as revenue four months later which is presumably when the goods were delivered/invoice sent. The proforma invoice has not been cancelled with a credit note. Therefore, revenue has been recognised twice.

There is also a risk that revenue is overstated by being recorded in the incorrect period (cut-off) if it is recognised before control is transferred to the customer. Transaction 140553 shows proforma invoice posted as revenue (£1,458,552) by Julie on 27 December. Julie is unsure how to account for revenue so it is likely she has prematurely recognised revenue.

Unqualified Alain has previously incorrectly posted proforma invoices as revenue. Whilst some of the entries have been cancelled/reversed, others may remain and Paul stated he is not certain that they have been corrected.

Sunil should have been supervising Alain which indicates a control weakness. The audit approach may need to be revised so that less reliance is place on controls.

FR – Journals
To correct transaction 132852 / overstatement of revenue:
Dr Revenue £165,424
Cr Receivable £165,424

Issue 2

FR Treatment
Under IFRS15, bill-and-hold (B&H) arrangements should only be recognised as revenue if all relevant criteria met:

There is a substantive reason for goods to be held because YYM has requested it to avoid additional transportation costs.

A specific amount (£342,556) of goods have been identified as belonging to YYM. However, the goods have been included in P's inventory which is incorrect as P no longer controls the goods, YYM does.
It appears the goods are ready to be transferred to YYM and cannot be used by another customer.