

ASSETS

Property, Plant and Equipment (PPE)

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

IAS 16 Initial Recognition

- Capitalise as part of PPE asset:
 - Cost of asset and subsequent replacement parts
 - Costs directly attributable to bringing asset into working use (costs to obtain & make it work)
 - Includes interest costs on loans used to construct asset
 - Capitalise from when expenditure incurred on asset and work begins to construct
 - Costs to dismantle asset and restore land (provisions)
- 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 bringing asset into working use

IAS 16 Subsequent Measurement

- Two models: assets of same class (buildings/machinery) must follow same model

1. Cost Model

- Asset depreciated over Useful Economic Life (UEL) when it is ready for use
 - Each separate component depreciated over its UEL
 - Dr P&L, Cr PPE
 - Land is not depreciated as has infinite UEL
 - UEL, residual values and depr method reviewed annually
- PPE Carrying Amount (CA) on SFP = Cost – Accumulated Depr

2. Revaluation Model

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Intangible Assets (note in financial statements)		
COST		
b/f	X	
Additions	X	Cost of asset purchased + directly attributable costs Development costs (not internally developed goodwill/brands/customer lists)
Disposals	(X)	Asset derecognised as no longer controlled
Revaluation	X	Rare as needs to be active market for asset
AHfS	(X)	Asset reclassified to AHfS so removed
c/f	X	
AMORTISATION		
b/f	(X)	
CY Amortisation	(X)	CY amortisation charge on asset (UEL: expected sales period/legal rights)
CY Impairment	(X)	CY impairment charge
Disposals	X	Removes accumulated amortisation on asset derecognised
Revaluation	X	Rare as needs to be active market for asset
AHfS	X	Removes accumulated amortisation on asset which is now reclassified to AHfS
c/f	(X)	
CA		Cost – Amortisation = CA
b/f	X	PY SFP
c/f	X	CY SFP

SAMPLE - NOT FOR USE

EXAM TECHNIQUE GUIDANCE

Explain Accounting Treatment Questions

- Brief abstract
 - relevant parts of relevant standards
- Application
 - apply standard to specific scenario
 - explain why current treatment is incorrect
- Financial Statement (FS) numbers
 - P&L/OCI/SFP impact
 - journal entry if requested in requirement
- Correct draft FS figures if required for next part of question

The 'explain the accounting treatment' questions have more available marks than maximum marks. This makes it realistic to target full marks on those questions because you do not need get everything correct to score full marks. However, you must ensure that you get enough points down to score the marks.

MASTER PLAN

TOPIC	VIDEO CLASS	QUESTIONS	ICAEW Workbook
PPE	Assets (view here)	Q49 Nickleby – Issue 2 Q51 Meitner – Issue 3 Q53 Chayofa – Issues 1 and 4 Q54 Naples – Issue 2 Q57 Whitlock – Issues 3 and 4 Q61 Mukota – Issue 3	Ch4
Intangibles	Assets (view here)		Ch5
Inventory	Cost of Sales and Inventory (Accounting revision)		Ch6.3

Key

Small topic

Medium topic

Large topic

Sale and Leaseback

- Company sells an asset and immediately leases it back
 - Sells an asset: profit/loss on disposal
 - Leases an asset: ROU asset and lease liability
- Has only sold part of the asset because has retained a ROU for the asset
 - Can only recognise profit/loss on disposal for part sold
 - Example: sold freehold but now has a leasehold - the difference is the part disposed
- Part of asset which has been retained and part which has been sold calculated as:
 PV of future lease payments / FV = part retained
 PV of LP = £80k
 FV = £100k
 80% of asset has been retained
 20% of asset has been sold

Profit/Loss on disposal

Proceeds	X
CA	(X)
Profit/Loss	X/(X)
20%	X/(X)

ROU Asset

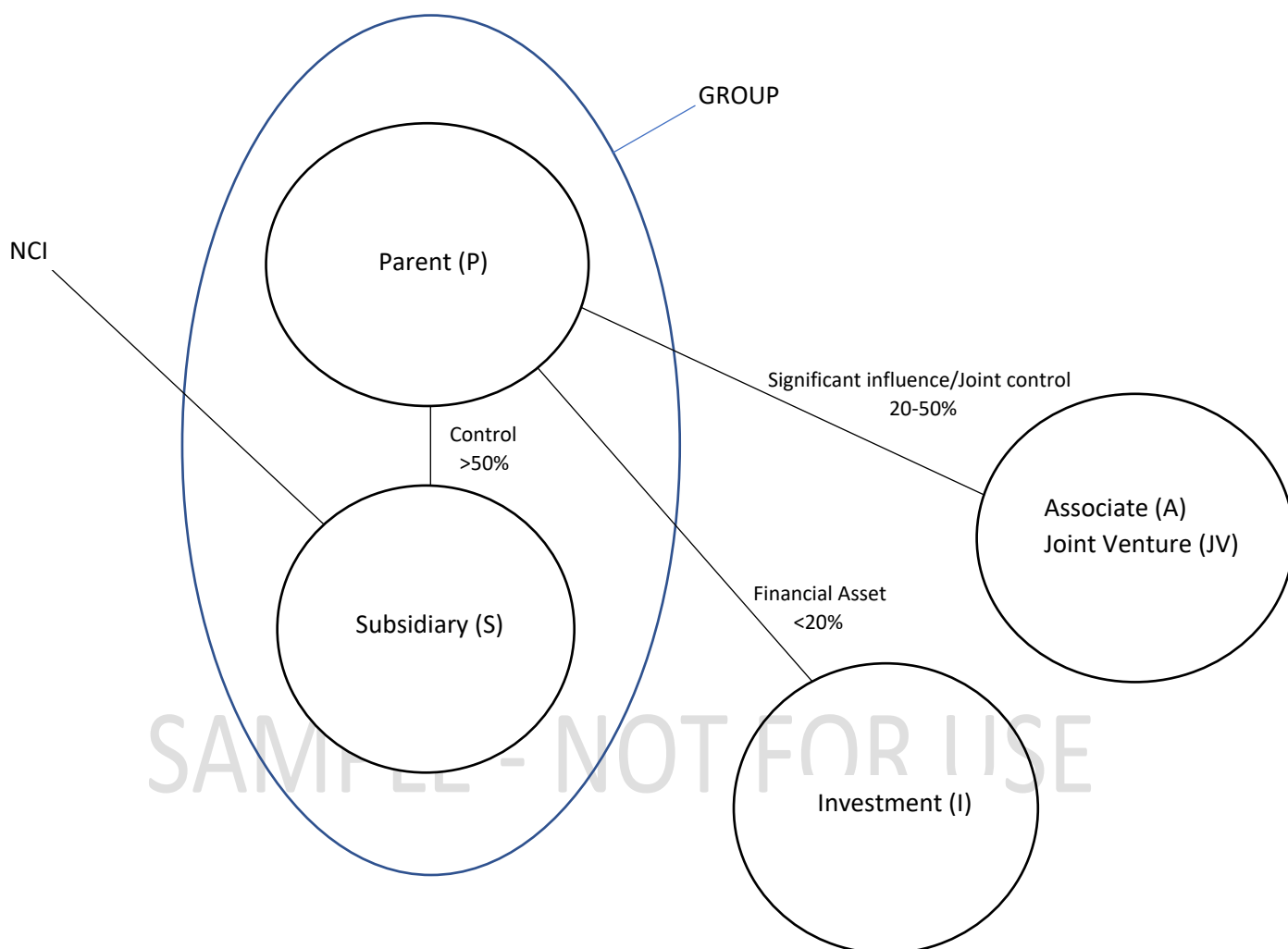
CA x 80%

Lease Liability

B/F	Interest Expense	Cash	C/F
X	X	(X)	X
PV of LP	Discount factor/EIR	Payment made	
Cr Liability	Cr Liability, Dr Finance Costs	Dr Liability, Cr Cash	

- EIR rate will increase the initial liability to the actual amount of cash paid

GROUPS



- Each company prepares its own individual FS (P&L, SFP, SOCE)
 - no changes to individual FS
 - IAS24 related party disclosures only
- P individual FS:
 - all shareholdings IFRS9 financial asset or measured at cost
 - all dividends received recorded in P&L
 - Dr Cash, Cr Investment Income
- Group (consolidated) FS:
 - prepared in addition to individual FS
 - use individual FS as a starting point to prepare group FS

Subsidiary (S)

- Legally separate companies but assets under control of P
- Control indicated by shareholding >50%
- Group FS reflect that they are effectively a single company: economic substance over legal form
 - P&L/OCI: Add profits and losses of companies under control
 - SFP: Add assets and liabilities (net assets) of companies under control
 - SFP: Equity shows who owns companies in the group
- A company is nearly always worth more than the value of the Net Assets (NA) on its SFP because:
 - some assets are not measured at FV (assets measured at cost)
 - some assets are not recognised on SFP (internally generated intangible assets)
- In group FS, adjustments made to S net assets:
 - assets uplifted to FV
 - assets which are not recognised in individual FS of S are now recognised
- To calculate NA in S:
 - easier to use equity balances rather than add all the assets and subtract all the liabilities
 - NA = Equity (as per SFP)

FV of Net Assets in S (W1)			
	At Acquisition Date	At Year End/Disposal Date	Increase/Decrease
Share Capital	X	X	No change
Share Premium	X	X	No change
Retained Earnings	X	X	X/(X)
Revaluation Reserve	X	X	X/(X)
Net Assets (NA) of S per S individual SFP	X	X	
FV Uplift – PPE†	X	X	Decrease: Depr
FV Uplift – IA now recognised†	X	X	Decrease: Amort
FV Uplift – Contingent Liability now recognised	(X)	(X)	X/(X)
Net Assets (NA) of S for Group FS	X	X	X/(X)

†Additional depr/amortisation in group FS if assets uplifted to FV are depreciable

- Difference between what P pays to acquire its shares in S and the value of NA in S is deemed to be a Goodwill (GW) asset in S
- Calculated at acquisition: when P acquires control of S

Goodwill Asset in S (W2)		
Consideration paid (cost) to acquire shares in S	X	Cash (Cr Cash) Deferred Cash (Cr Liability) – Finance cost if payment >12m Contingent Cash (Cr Liability) Shares in P (Cr Share Capital/Share Premium)
NCI	X	
FV of Net Assets in S (W1)	(X)	Any provisional values used can be remeasured within 12m
Goodwill Asset in S (SFP)	X	Asset not amortised Annual impairment test If negative: Gain on Bargain Purchase (GoBP) in P&L

Non-Controlling Interest (NCI)



UK GAAP DIFFERENCES

Topic	IFRS	UK GAAP
Format	P&L, OCI, SFP, SOCE	Statement of Income and Retained Earnings option
Terminology	Statement of Financial Position (SFP) Receivables/Payables Non-current Assets	Balance Sheet Debtors/Creditors Fixed Assets
Borrowing costs	Must capitalise when conditions met	Can choose whether to capitalise
Intangibles	Must capitalise development when conditions met	Can choose whether to capitalise development
Discontinued Operations/AHfS	Single line in P&L AHfS presented separately AHfS not depreciated	Separate column in P&L AHfS not in separate category AHfS depreciated
Inventory		
Revenue		
Grant for Asset		
Leases		
Groups	Goodwill: Negative Goodwill: Acquisition costs: NCI: Associate/JV:	Goodwill: Negative Goodwill: Acquisition costs: NCI: Associate/JV:

AREA	VIDEO CLASS	TOPIC	QUESTIONS	ICAEW Workbook
UK GAAP	UK GAAP	Format	Q2.3 Giyani Q7.2 Gamow Q10.3 Chedington Q60.4 Bisaro	Ch16
		Borrowing costs	Q11.2 Kwano Q54.4 Naples Q81.3 Tarascon	
		Intangibles		
		Discontinued Operations/AHfS		
		Revenue		
		Grant		
		Lease		
		Groups		
		PPE		