International Financial Reporting Standards

FINAL EXAM

Teacher: Cristina Neto de Carvalho

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Duration: 120 minutes

GROUP I (5 points)

Choose the correct answer and **justify** your choice.

1. Standard-setting bodies are responsible for:

   A. Establishing financial reporting standards' only.

   B. Establishing and enforcing standards for financial reporting.

   C. Enforcing compliance with financial reporting standards only.

   D. Determining the information that must be disclosed by securities issuers.

2. In the period when a company makes an expenditure, capitalizing the expenditure instead of recognizing it as an expense will result in higher:

   A. Debt-to-equity and debt to assets ratios.

   B. Net income and have to effect on total cash flows.

   C. Cash-flow from investing and lower cash-flows from operations.

   D. None of the above alternatives.

3. Government Grants relating to assets can be recognized as:

   A. An income.

   B. A deferred income.

C. A positive entry in Other comprehensive income.

D. None of the above alternatives.

4. An analyst is studying the impairment of the manufacturing equipment of PIXX, a Portuguese based corporation that follows IFRS. He gathers the following information about the equipment (values in euros):

Fair value	16.800
Cost to sell	800
Value in use	14.500
Net carrying amount	19.100

The amount of the impairment loss on PIXX income statement related to the manufacturing equipment is closest to:

A. 2.300 €

B. 3.100 €

C. 4.600 €

D. None of the above alternatives.

5. MIRITA, an Italian corporation that follows the IFRS, has elected to use the revaluation model for its property, plant and equipment. The company purchase on January 2009, a building for 500.000 €. As of 31 December 2009, the fair value of the building was 450.000 € and at the end of 2010 its fair value has increased to 530.000 €. How should MIRITA recognize this situation?

A. In 2009, a negative Revaluation surplus of 50.000 € and, in 2010, a positive Revaluation surplus of 30.000 €.

B. In 2009, a loss of 50.000 € and, in 2010, a positive Revaluation surplus of 80.000 €.

C. In 2009, a loss of 50.000 € and, in 2010, an Income of 50.000 € and a positive Revaluation surplus of 30.000 €.

D. None of the above alternatives.

GROUP II (15 points)

The Economist

Attached you will find the financial statements of **The Economist Group** for the period ended 31 March 2011. The consolidated accounts include the accounts of the company and its subsidiary undertakings. The Group's web site states that:

Founded in 1843 *to support the cause of free trade,* ***The Economist*** *is and always has been a publication of sometimes radical opinion with a reverence for facts. It is firmly established as one of the world's most authoritative and influential publications.*

The ***Economist Group*** *is the leading source of analysis on international business and world affairs.*

We deliver our information through a range of formats, from newspapers and magazines to conferences and electronic services.

What ties us together is the objectivity of our opinion, the originality of our insight and our advocacy of economic and political freedom around the world.

The success of the Economist brand family is built on high-quality, independent analysis. While The Economist continues to underpin many of the values of the brand, the fact that we can create and distribute a compelling view of the world over multiple platforms, including print, web and events, is a source of strength.

Turnover

Turnover represents sales to third parties from circulation, subscriptions, advertising, sponsorship, delegate fees and rental income net of advertising agency commissions and trade discounts, and excluding intra-Group sales, value-added tax and other sales related taxes.
Circulation and advertising revenue relating to a newspaper or other publication is recognised on the date it goes on sale, or is dispatched, in the case of free publications. Subscription revenues, whether from print circulation, digital or online, are recognised in the profit and loss account over the period of the subscription. Sponsorship and delegate revenue arising in the year relating to future events is deferred until those events have taken place.

THIS FINANCIAL REPORT IS NOT PREPARED ACCORDING TO IFRS. The notes mention that: the financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards.

1. **IAS 1** (2,5 points)

   Use the attached Ias Plus extract of IAS 1 and:

   a. Comment on the structure and the items in the Consolidated Profit and Loss Account and determine whether they are in line with IAS 1's Statement of Comprehensive Income. Identify items that clearly would not be presented in an IFRS Statement of Comprehensive Income (10 lines).

   b. Comment on the structure and the items in the Consolidated Balance Sheet and determine whether they are in line with IAS 1's Statement of Financial Position (6 lines).

2. **Liabilities** (1,5 points)

   Explain the reason for the significant value of "Unexpired subscriptions and deferred revenue". Would that reporting be similar under IFRS? Justify your answer.

3. **Goodwill** (3 points)

   Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised as an intangible asset and written off over its useful economic life.
   From April 1st 1998, the provisions of FRS 10 "Goodwill and intangible assets" have been adopted, and such goodwill for new acquisitions is now required to be shown as an asset on the balance sheet and amortised over its useful economic life.

   a. Compare the above definition and measurement criteria of Goodwill with IFRS rules (5 lines).

   b. Establish the link between Note 13 and the Consolidated Balance Sheet.

c. Discuss the recognition of two potential Intangible assets, Brands and Research and development, and using the concepts in IAS 38 explain why these items were not recognised as such in The Economist's case (15 lines).

NOTE 13 Intangible fixed assets

	Goodwill £000
Cost	
At April 1st 2010	118,606
Exchange translation differences	(6,001)
At March 31st 2011	112,605
Accumulated amortisation	
At April 1st 2010	8,340
Charge for the year	5,804
Exchange translation differences	(422)
At March 31st 2011	13,722
Net book value at March 31st 2011	98,883
Net book value at March 31st 2010	110,266

4. **Leased assets** (2 points)

Where the Group has entered into finance leases, the obligations to the lessor are shown as part of the borrowings and the corresponding assets are treated as fixed assets. Leases are regarded as finance leases where their terms transfer to the lessee substantially all the benefits and burdens of ownership other than the right to retain legal title. Depreciation is calculated in order to write off the amounts capitalised over the estimated useful lives of the assets by equal annual instalments. Rentals payable under finance leases are apportioned between capital and interest, the interest portion being charged to the profit and loss account and the capital portions reducing the obligations to the lessor.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Compare the lessee recognition of Leased assets with IFRS rules. Comment on the similarities of the accounting entries (5 lines).

5. **Working Capital, Working Capital Needs and the Cash position** (3 points)

a. Determine, **for the year ended March 2011,** Working Capital, Working Capital Needs and the Cash position of the Group (Consider the information on Note 18 and also that the Pensions and other post retirement obligations are non-current liabilities).
b. Comment the values obtained in the previous question.

NOTE 18 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Bank loans and overdrafts (note 19)	6,772	5,627
Trade creditors	14,190	9,842
Other creditors including taxation and social security	18,203	14,557
Accruals	31,945	28,477
	71,110	58,503

6. **ROE** (3 points)

Compute, **for the year ended March 2011**, the several components of ROE and explain its impact on the final ROE figure. Consider the information in Note 5 and the following values:

PBIET/ Revenues = 18,9%

Revenues/ Assets = 1,39

$$ROE = \left[ROA + (ROA - i) * \frac{Liabilities}{Equity} \right] (1 - t)$$

NOTE 5 Net interest payable

	2011 £000	2010 £000
Interest receivable	253	147
Interest payable and similar charges	(6,240)	(5,128)
Other finance income/(charges)	2,210	(1,575)
	(3,777)	(6,556)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

NOTE	Years ended March 31st	2011 £000	2010 £000
1	**Turnover**		
	Continuing operations	347,159	311,229
	Discontinued operations	-	8,703
		347,159	**319,932**
	Cost of sales	(97,652)	(93,277)
	Gross profit	**249,507**	**226,655**
	Distribution costs	(34,597)	(31,775)
2	Marketing, development and other administrative costs	(145,817)	(132,772)
13	Goodwill amortisation	(5,804)	(4,573)
1	**Operating profit**		
	Continuing operations	63,289	56,850
	Discontinued operations	-	685
		63,289	**57,535**
3	Profit on sale of fixed asset investments	-	354
4	Loss on sale and closure of businesses		
	- discontinued operations	-	(1,320)
	Profit on ordinary activities before finance charges	**63,289**	**56,569**
5	Net interest payable	(3,777)	(6,556)
1,6	**Profit on ordinary activities before taxation**	**59,512**	**50,013**
9	Taxation on profit on ordinary activities	(15,341)	(11,845)
	Profit for the year	**44,171**	**38,168**
22	**Retained profit for the financial year**	**8,181**	**5,305**

CONSOLIDATED BALANCE SHEET AT MARCH 31ST

NOTE		2011 £000	2010 £000
	Fixed assets		
13	Intangible assets	98,883	110,266
14	Tangible assets	25,468	22,063
		124,351	**132,329**
	Current assets		
15	Stocks and work-in-progress	1,830	1,637
16	Debtors: due within one year	64,763	57,498
17	Deferred taxation	5,336	10,130
23	Cash and deposits	54,130	41,153
		126,059	**110,418**
18	Creditors: amounts falling due within one year	(71,110)	(58,503)
	Unexpired subscriptions and deferred revenue	(110,514)	(109,222)
	Net current liabilities	**(55,565)**	**(57,307)**
	Total assets less current liabilities	**68,786**	**75,022**
19	Creditors: amounts falling due after more than one year	(65,158)	(76,239)
20	Provisions for liabilities and charges	-	(291)
	Net assets/(liabilities) excluding pension and other post-retirement liabilities	**3,628**	**(1,508)**
24	Pension and other post-retirement obligations (net of deferred tax)	7,936	(281)
1	**Net assets/(liabilities)**	**11,564**	**(1,789)**
	Capital and reserves		
21	Called-up share capital	1,260	1,260
22	Profit and loss account	10,304	(3,049)
	Equity shareholders' funds/(deficit)	**11,564**	**(1,789)**

OTHER STATEMENTS

Statement of total recognised gains and losses

Years ended March 31st

NOTE		2011 £000	2010 £000
	Profit for the financial year	44,171	38,168
	Exchange translation differences arising on consolidation	209	1,813
24	Actual return less expected return on pension scheme assets	2,621	34,139
24	Experience gains arising on the pension scheme liabilities	58	7,866
24	Changes in assumptions underlying the present value of pension scheme	3,485	(39,716)
	Actuarial gain/(loss) on other post-retirement benefits	151	(246)
	UK deferred tax attributable to the actuarial gain	(1,602)	(572)
	Total recognised gains for the year	**49,093**	**41,452**

Reconciliation of movements in equity shareholders' funds
Years ended March 31st

		2011 £000	2010 £000
	Profit for the year	44,171	38,168
	Dividend paid	(35,990)	(32,863)
	Retained profit	8,181	5,305
22	Other recognised gains	4,713	1,471
22	Net sale/(purchase) of own shares	250	(142)
22	Exchange translation differences arising on consolidation	209	1,813
22	Goodwill previously written off relating to business now sold	-	4,857
	Net addition to shareholders' funds	**13,353**	**13,304**
	Opening shareholders' deficit	(1,789)	(15,093)
	Closing shareholders' funds/(deficit)	**11,564**	**(1,789)**