

Exam Revision

TOPICS BY QUESTION

- ✓ Q1: Asset Acquisitions (14 marks)
 - ❑ Including business combinations
 - ✓ Q2: Impairment of assets (9 marks)
 - ❑ Impairment loss and reversal of impairment loss
 - ✓ Q3: Income tax (11 marks) - (6 marks + 5 marks THEORY)
 - ❑ Current tax worksheet and deferred tax worksheet
 - ✓ Q4: Foreign currency transactions & translations (9 marks)
 - ✓ Q5: Leases (12 marks)
 - ❑ Tabulate results in Income Statement and Balance Sheet - tutorial question (6 marks)
 - ❑ The new principles based standard on leasing (6 marks THEORY)
 - ✓ Q6: Fair value (6 marks THEORY)
 - ✓ Q7: Consolidation (26 marks) - (20 marks + 6 marks THEORY) (realisation)
 - ❑ Only consolidation worksheet journal entries
 - ✓ Q8: Associates (6 marks)
 - ❑ Includes calculation of share of associate's profit
 - ✓ Q9: Disclosure issues (7 marks THEORY)
- THEORY 30 marks; PRACTICE 70 marks
- ◆ Only journal entries, no ledger entries

FAIR VALUE MEASUREMENT

- The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based measurement (highest and best use)
- ◆ "The price that would be received to sell an asset or paid to transfer a liability in an ORDERLY TRANSACTION between market participants at the measurement date"

Elements in the Definition of FV

1. Current Exit Price
 - Based on cash flows generated from use of the asset or from sale of the asset
 - NOTE: even if the entity intends to use the asset, the FV is measured at exit price - by reference to a market participant who will use the asset or sell it
2. The asset is sold or the liability is transferred in an orderly transaction
 - Transactions made under normal market conditions, exclude "fire sales" conditions
3. The transaction is between market participants
 - Must be independent, knowledgeable, not forced

Transaction and Transport Costs

- When measuring fair value, two types of costs need to be considered:
 - Transaction costs: incremental direct costs that would not have been incurred had the decisions to sell the asset/transfer the liability not been made:
 - Included in calculating the most advantageous market but not in changes of FV
 - FV not adjusted for transaction costs as the costs are not a characteristic of the asset or liability
 - Transport costs: costs incurred to transport an asset from its current location to its principal market
 - Is included in regards to changes in FV
 - Measurement of FB of an asset is **net (less)** of transport costs as it is a characteristic of the asset

Measurement follows a 4-step approach

1. Determine the asset that is the subject of measurement.
 - Considers the characteristics that **market participants would use when pricing an asset**
 - What are those characteristics?
 - **Location** of asset - transport costs if far
 - **Condition** of asset - e.g. physical condition (new, old, poor)
 - **Restriction on sale or the use** of the asset - e.g. patents - legal limit
 - **Stand-alone asset** or is it a **group of assets**?
2. Determine the valuation premise that is appropriate.
 - Consider the intended use by the market participant
 - FV measured by considering the **highest and best use of the asset (HBU)** - that is, the use of the asset which will maximise the value of the asset
 - These uses must be:
 - Physically possible (physical characteristics of asset)
 - Legally permissible (consider any legal restrictions)
 - Financially feasible (market participant must be able to make a return from the asset from using the asset)
 - 2 valuation premises for highest and best use of the asset
 - In combination valuation premise
 - Fair value is the price that would be received in a current sale to market participants assuming the assets will be used in combination with those assets (assume those assets are available to the market participants)