December 2021 Q 3 Answers

(a) The sale of 50% of the shareholding of HTL (80% * 62.5%) results in reducing EOSL's holding in HTL to 30%. With this 30%, EOSL can appoint one director to the board of HTL. This gives EOSL the power to participate in the financial and operating policy decisions of HTL but EOSL cannot control or jointly control these policies. Accordingly, EOSL can now exercise significant influence over HTL. Therefore, the remaining investment should be accounted for using the equity method.

As EOSL loses control of HTL, EOSL should:

- Derecognise the assets and liabilities of HTL from the consolidated statement of financial position

- Derecognise NCI

- Recognise the 30% investment retained at its fair value when the control is lost

(i.e. on 31 March 2021) and subsequently using LKAS 28

- Recognise the gain or loss associated with the loss of control

EOSL has not accounted for the impairment of goodwill in the consolidated financial statements. Therefore, before derecognising goodwill, it is required to account for the impairment in the profit or loss. The carrying value of goodwill after impairment is therefore Rs. 18.939 million (75%).

Since NCI is measured based on the proportionate share of net assets, goodwill recognised in the financial statements represents only the parent's goodwill. Therefore, the impairment of goodwill does not have any impact on NCI.

Assets should be derecognised at their carrying values. It is not required to recognise this fair value increase of land and building as at 31 March 2021 as EOSL's policy is to perform a revaluation every 3 – 5 years since there have been no significant value change since the last revaluation.

(Alternatively, a candidate could have decided to incorporate the revaluation increase. Marks were awarded if the answer was justified)

EOSL may transfer the revaluation surplus of Rs. 1 million directly to retained earnings when it loses control over HTL. It does not form part of the computation shown below.

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Computation of gain/loss from loss of control

Gain/loss computation		**Rs. '000**
Fair value of consideration received		110,000
Fair value of investment retained		51,000
		161,000
Less:		
Carrying value of net assets	168,504	
Goodwill (after impairment)	18,938	
Non-controlling interest (NCI)	(33,701)	153,741
Gain from disposal		**7,260**

The gain resulting from the disposal should be recognised in profit or loss.

From 31 March 2021 onwards, EOSL should discontinue consolidation of HTL and only the 30% retained interest should be accounted for using the equity method as explained above.

EOSL should make disclosures required by SLFRS 5 regarding discontinued operations.

The accountant's view on the calculation and recognition of the disposal gain and other adjustments is not correct based on the above explanation and calculation.

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(b) Given below is the draft statement of financial position as at 31 March 2021 (subsequent to the partial disposal of HTL).

Equip Office Solution (Pvt) Ltd					
STATEMENT OF FINANCIAL POSITION					
As at 31 March 2021		**GW impairment**	**Disposal of HTL**	**Transfer of RR to RE**	**Group (after disposal)**
ASSETS					
Non-current assets					
Property, plant and equipment	1,420,459		(80,251)		1,340,208
Right-of-use asset	12,634				12,634
Capital work-in-progress	27,625				27,625
Goodwill	25,250	(6,313)	(18,938)		-
Intangible assets	11,772		(11,250)		522
Loans receivable from related company	71				71
Investment in associate			51,000		51,000
Deferred tax asset	13,374				13,374
Total non-current assets	**1,511,185**				**1,445,434**
Current assets					
Inventories	883,634		(171,892)		711,742
Trade and other receivables	1,180,266		(178,899)		1,001,367
Cash and cash equivalents	700,032		99,224		799,256
Total current assets	**2,763,932**				**2,512,365**
Total assets	**4,275,117**		**(311,006)**		**3,957,799**
EQUITY AND LIABILITIES					
Equity					
Stated capital	60,000				60,000
Capital reserve	85,400				85,400
Revaluation reserve	738,310			(1,000)	707,310

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General reserve	62,383				62,383
Retained earnings	1,849,977	(6,313)	7,260	1,000	1,881,924
Total equity attributable to holders of the parent	**2,796,070**				**2,797,017**
Non-controlling interest (NCI)	33,701		(33,701)		-
Total equity	**2,829,771**				**2,797,017**
Non-current liabilities					
Lease liability	3,324		-		3,324
Retirement benefit obligation	104,899		(15,250)		89,649
Deferred tax liability	3,142		(2,318)		824
Total non-current liabilities	**111,365**		**-**		**93,797**
Current liabilities					
Trade and other payables	824,843		(182,971)		641,872
Interest bearing borrowings	339,185		(40,525)		298,660
Current tax payable	114,101		(16,250)		97,851
Lease liabilities	11,298				11,298
Bank overdrafts	44,554		(27,250)		17,304
Total current liabilities	**1,333,981**				**1,066,985**
Total liabilities	**1,445,346**				**1,160,782**
Total equity and liabilities	**4,275,117**		**(311,006)**		**3,957,799**

(c)

Step 1: Identify the contract with a customer

A contract with a customer is within the scope of SLFRS 15 only when:

- The parties have approved the contract and are committed to carrying it out
- Each party's rights regarding the goods and services to be transferred can be identified
- The payment terms for the goods and services can be identified
- The contract has commercial substance
- It is probable that the entity will collect the consideration to which it will be entitled

EOSL has a contract with the customer which sets out the rights and obligations of each party. EOSL received the consideration on the day of entering into the contract.

Step 2: Identify the separate performance obligations

When determining whether promises in the contract with the customer are separate performance obligations, a key point is whether the promises are distinct.

A good or service is distinct if:

- It could benefit the customer either on its own or together with other resources that are readily available to the customer; and
- The promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

In this case there are three performance obligations:

(1) The obligation to deliver the machine

(2) The obligation to provide the installation service

(3) The obligation to provide maintenance services for one year

These are distinct because the customer could benefit from each on its own (if the customer obtained the other from an alternative supplier) and each is sold separately by EOSL.

Step 3: Determine the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled to in exchange for transferring the promised goods or services to a customer, excluding amounts collected on behalf of third parties.

The transaction price in this case is Rs. 5.15 million.

Step 4: Allocate the transaction price to the separate performance obligations in the contract

The transaction price is allocated to each separate performance obligation in proportion to the relative standalone selling price at contract inception of each performance obligation.

Performance obligation	**Stand-alone selling price**		**Revenue**
Machine	5,000,000	(5m/5.02) * 5m	4,980,080
Installation service	20,000	(0.02m/5.02m) * 5m	19,920
Maintenance service	150,000		150,000
			5,150,000

Step 5: Recognise revenue when (or as) EOSL satisfies a performance obligation

On 1 June 2021, the machine was delivered to the customer and the installation was completed. Revenue from selling the machine and providing the installation service should be recognised on 1 June 20201 (control is transferred on this date i.e. at that point in time).

When EOSL provides maintenance services (i.e. over time as a service is provided), it recognises revenue of Rs. 150,000 over the one-year period. Revenue for the year ended 31 March 2022 is Rs. 125,000 (150,000/12 * 10).