

KnowledgeEquity – Financial Reporting – FAQs

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Table 7.11 on page 404 states that the carrying amount of the cash generating unit (CGU) should be tested, excluding the corporate asset, and any impairment loss recognised. I have however noted that sometimes the corporate asset is allocated to a CGU. I am a bit confused about what this means. Please explain. 18

Module 1 – FAQs

Page 8, 1st paragraph states - *"If that document was created or amended **after** 1 July 2021 and requires the entity to prepare financial statements in accordance with Australian Accounting Standards, the entity must prepare general purpose financial reports."* Is this correct?

(see page 8; Module 1)

The correct wording should be "on or after." This will be updated in the new study guide.

The link to AASB 2020-2 to differentiate from AASB 2020-1 for reference is:

https://www.aasb.gov.au/admin/file/content105/c9/AASB_2020-2_03-20.pdf

Are all revaluation gains on PPE to be recognised in OCI? How is the downward revaluation treated differently and is there different treatment for reversals?

How can I calculate the effective interest rate of 12% utilised in Example 1.4 of the Study guide?

(See 'Example 1.4', page 30)

You are not required to calculate the effective interest rate but rather to be able to apply it. For this question, you should be able to utilise the present value (PV) of the cash flows based on the PV formula.

In Example 1.7, how do I know that the PV factor of an annuity at 9% over 3 years is 2.5313 and the PV factor of a lump sum in 4 years is at 9%=0.7084? Why are executory costs deducted when we calculate PV of the future lease payment?

(See 'Example 1.7', page 40)

There is a detailed video and PDF explanation of Leases and Example 1.7 in the Module 1 unit "Application of measurement principles".

Can you explain the difference between a finance lease versus an operating lease and IFRS 16 para. 63(d)?

(See Recognition criteria for the Lessor, page 42)

Where it states: “an option for the lessee to purchase the underlying asset at a price that is sufficiently lower than its fair value at the date the option becomes exercisable for it to be reasonably certain - the present value of the lease payments amounts to substantially all of the fair value of the underlying asset also, If the present value of the lease payments at the inception date is substantially less than the fair value of the underlying asset then it could be considered that the risks and rewards incidental to ownership are remaining with the lessor and not being transferred to the lessee. This would normally lead to classification as an operating lease (IFRS 16 Leases, para. 63(d)).”

So, from this we can ask:

- why when the purchase price of the asset is lower than its FV means that it is a Finance lease?
- why by comparing the PV and FV of the underlying asset can determine if the lease is a finance lease or an operating lease?

The principle behind the classification of leases as financial or operating for purposes of lessor accounting, is that the *risks and rewards of ownership* of the underlying asset *are transferred to the lessee*. If it is reasonably certain that the lessee will exercise the bargain purchase option, then risks and rewards of ownership will pass to the lessee. Similarly, if the lessor is able to recover the investment in the underlying asset over the term of the lease, the *lessor is not retaining risks and rewards* of the underlying asset beyond the term of the lease. This is in contrast to a short term lease, where the lessor bears the risks and rewards of ownership after the expiry of the lease, and would seek to recover the investment by selling the asset or leasing it to someone else.

How can I obtain the figures provided under Example 1.10 relating to the probability that an employee will become entitled to long service leave payments?

(See ‘Example 1.10’, pages 48 - 49)

You are not required to calculate the shown probabilities. They have been calculated by an actuary who is a specialist in assessing large volume of data and behaviour. The Study guide does not therefore go through how these were obtained.

In Example 1.11 how do you calculate the bonus expense of \$39,000?

(See ‘Example 1.11’, page 50)

There were 6 executives and they were each paid 100 times the share price of \$65.

$100 \times \$65 = \$6,500$. There are 6 executives so $\$6,500 \times 6 \text{ executives} = \$39,000$.

Must a company use net realisable value if they are not a going concern?

(See ‘Going concern’, page 15, and Module Quiz Question)

No, it does not have to do this, but it can use it. Where the going concern assumption is not appropriate, the financial statements should be prepared on some other basis. The Conceptual Framework **does not** specify an alternative basis. However, one approach **may be** to state assets at their net realisable value.

The Study guide states that IAS 16 permits an entity to choose either cost model or fair value model. I am confused on whether it should instead be either the cost model or the revaluation model. Please confirm?

(See page 51)

The technical terms used under IAS 16 are either the cost model or the revaluation model. The Study guide is therefore incorrect. Note however that the revaluation model refers to fair valuing property, plant and equipment after the asset's initial recognition. The recognised revaluation amount will therefore be the fair value less accumulated depreciation and any impairment losses.

The solution to Question 1.12, on page 469 of the Study guide, describes the journal entry relating to computers as capitalisation of indirect costs. Is this an error?

Yes, it is an error. It should be capitalisation of direct costs and not indirect costs. You will also note that the description, under the journal entries, states that the amount of \$1000 (relating to computers) constitutes initial direct costs and is added to the carrying amount of the computers.

Module 2 – FAQs

In Example 2.1, why is there is an increase of closing inventory of \$26,000? How is the change in inventories for 20X5 calculated?

There is a detailed video and PDF explanation of Example 2.1 in the Module 2 unit “Accounting policies, errors and estimates (IAS 8)”.

I can’t seem to be able to locate Example 3 in the Guidance for implementing IAS 8 mentioned on Page 72 of the Study guide. How can I view it?

We have raised the issue with CPA Australia as we cannot locate it. In the meantime, it is important to note that additional guidance or further readings provided in the Study guide are designed to broaden your understanding on the subject but are not examinable. Only the content covered in the Study guide is examinable.

For Example 2.3, I don’t understand why retained earnings is \$5,000 when the fair value change in 20X6 is \$10,000?

On 30 June 20X5, the fair value of the shares was reduced by \$5,000 as it had been overstated. The share price at as at year end was \$9.5 but the shares had been recorded at \$10 per share. This means that the closing retained earnings balance was reduced by \$5,000.

The opening retained earnings on 1 July 20X6 was therefore reduced by \$5,000. As at year the end, i.e. 30 June 20X6, the price of shares increased to \$10.50. This represented a \$10,000 increase in the fair value of the shares as at 30 June 20X6. Consequently, profit for the year increased by \$10,000.

The correct effect on retained earnings is therefore calculated as follows:

= Opening retained earnings + Profit for the year.

= (\$5,000) + \$10,000 = \$5,000

= \$5,000

The effect on closing retained earnings as at 30 June 20X6 is therefore \$5,000.

Is the solution to Question 2.6 correct? Why are both land and building revaluations included in OCI?

(See ‘Question 2.6’, pages 89 & 473-4)

Yes, it’s correct. The study guide and webinar of Module 2 (under specific rules about P&L or OCI) states that for Non-current asset revaluations, the increase will be recognized in OCI and decrease will be recognized in P&L. In the solution of Question 2.6 both revaluation of Land and Building were included in OCI.

This is a tricky area, because the general principle of recognising a decrease in the P&L does not always apply because sometimes there is a previous revaluation. So, if a decrease occurs it usually goes to P&L, but not if it reverses a previous increase.

The webinar provides some detailed step by step examples of this. You will see on page 467 that there have been previous revaluation increases, because the revaluation surplus shows an amount for both Land and Buildings.

What is the difference between restating comparative amounts if they relate to affected reporting periods and restating the opening balances for the earliest period presented of the error occurred before the earliest prior period presented?

(See 'Material errors in a prior period', page 75)

Comparative amounts are balances from the prior period but are also reflected in the current period because it provides useful information to users.

For example, Entity A has a 30 June 2020 year end. The financial statements for the year ended 30 June 2020, would include columns with the same information (i.e. the same assets and liabilities) for the 30 June 2019 and 30 June 2018. These would represent the comparative information and would help users identify trends.

Restating comparative periods would mean that the 2018 and 2019 balances would need to be adjusted for the year ended June 2020. Full disclosure about these retrospective adjustments would need to be made in the notes to the financial statements.

There is a difference between 'each prior period presented' and 'earliest prior period presented'.

'Each' period presented would mean that every other comparative year would need to be adjusted.

Following from the example from 1. above, restating each prior period presented would be making adjustments to the 2018 and 2019 balances as reflected in the current year (2020) financial statements.

On the other hand, retrospective adjustment of the statement of changes in equity require an adjustment to the earliest prior period presented. In the example of entity A above, that would mean making adjustments to the 2019 balances as reflected in the current year (2020) financial statements.

What happens when you have a revaluation and then a reversal of that revaluation?

(See 'Section 2.7', pages 84 – 85)

Please carefully watch the webinar, especially the discussion of the chicken and egg and the relevant examples and tables and journals that are provided. You will see detailed examples of how to deal with:

- i) A revaluation increase followed by a reversal
- ii) A revaluation decrease followed by a reversal
- iii) Classifying something as P&L or OCI
- iv) When to transfer something from OCI to P&L and when you cannot do this

In Question 2.7(b) please explain why according to the Para. 48 IAS 21, the accumulative exchange differences shall be reclassified from OCI to P/L, so the reclassification of \$7,000 cumulative exchange difference gains from OCI to P/L, but, why does the suggested answer state that the \$2,800 (part of the previous \$7,000) recognised in current period stay in OCI? And what is the treatment for the \$2,800 in the subsequent reporting Period?

(see 'Question 2.7(b)', page 90)

For simplification, I will refer to all amounts by the net of tax amount.

1. During the current period the entity recognised a gain of \$2,800 in OCI on translation of financial statements of a foreign operation. In previous periods the entity had recognised gains of \$4,200 in OCI on translation of financial statements of a foreign operation.
2. Thus, at the time of disposing of the investment, \$7,000 gain had been recognised in OCI (\$2,800 current period + \$4,200 prior periods). When the entity sold the investment, all accumulated gain from current and prior periods is reclassified to profit or loss. Thus the amount reclassified is \$7,000 from OCI to profit or loss.
3. Thus there are two items affecting OCI in the current period. The first is the foreign currency gain of \$2,800 incurred and recognised in the current period. The second item is the reclassification to profit or loss of all of the amounts foreign currency gain that had been recognised in OCI (\$7,000) up to the time of the disposal of the investment, including the \$4,200 from prior periods and the current period \$2,800.
4. Reclassification of the \$7,000 (\$4,200 + \$2,800) to profit or loss means that the \$7,000 is included in profit in the current period. The profit for each period is transferred to Retained earnings.

Where do I classify interest and dividends paid or received?

(see 'Classification of cash flows' page 102, para 31 of IAS 7)

Cash flows from interest and dividends received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as **either operating, investing or financing activities**.

Note that on page 103 of the Study guide, there is a paragraph that states that interest paid and dividends received are usually regarded as an 'operating cash inflow' for financial institutions (IAS 7, para 33).

The correct wording should be 'operating cash flow' and not 'operating cash inflow'. This is because interest paid is not a cash inflow but rather a cash outflow. The term operating cash flow, therefore, covers both inflows and outflows.

Paragraphs 33 & 34 explain why this is so:

33. Interest paid and interest and dividends received are usually classified as operating cash flows for a financial institution. However, there is **no consensus on the classification of these cash flows** for other entities. Interest paid and interest and dividends received may be classified as operating cash flows because they enter into the determination of profit or loss. Alternatively, interest paid and interest and dividends received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.

34. Dividends paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of an entity to pay dividends out of operating cash flows.

In summary, the organisation should ensure that there is a reasonable basis for the classification selected for interest and dividends. It should also ensure that these items are classified in a consistent manner from year to year.

In Question 2.11 Note 14 how do we derive the "Non-cash changes" in the reconciliation?

(See 'Question 2.11', pages 107 & 486)

These are solved like a puzzle. We know the 20X6 balance. We also know the cash amount. We don't know the non-cash changes but we do know the 20X7 balance. So, we combine the 20X6 balance with the cash amount. Then, the difference between this amount and the 20X7 balance must be the 'missing number'.

So, with the first line It starts at \$60,000 for opening balance of dividend payable.

We then subtract \$260,000 in cash flows. So, the balance is (\$200,000).

And we know the 20X7 balance is \$250,000.

How do you get from negative \$200,000 to positive \$250,000? There must be a 'non-cash item' of \$450,000.

Why is the formula different for the solution to Question 2.11 for working out interest?
(see 'Question 2.11', pages 107 & 484)

8. Interest received: \$11 467

In order to determine the amount of interest received, the following formula may be used.

$$\begin{array}{rcccl} \text{Closing balance of} & + & \text{Interest revenue} & - & \text{Opening balance of} \\ \text{unamortised debenture} & & & & \text{unamortised debenture} \\ \text{discount} & & & & \text{discount} \end{array}$$

The amount of interest received is calculated as follows.

	\$
Closing balance of unamortised debenture discount	897
Add: Interest revenue	12 283
	13 180
Less: Opening balance of unamortised debenture discount	(1 713)
Interest received	11 467

On page 484 the calculation is slightly different - it is not using an interest receivable account, but an unamortised debenture discount (which is not really explained). The account balances in the question in the study guide (page 107 and 114) show that these are 'contra assets' or negative amounts.

So, the solution has 'reversed' the structure because of this. To use the guided learning formula (that matches the cash received from customers formula on page 105) it works like this:

Opening balance: Negative \$1,713

Add Interest Revenue: \$12,283

Sub-total: \$10,570

Less closing balance: Negative \$897. (When you subtract a negative number it gets added)

Total: \$11,467

The reasoning for this formula is like the formula to working out cash received from customers (page 103).

It starts with the opening balance because this is the amount you should be collecting in the current period. It then adds the accrual amount earned during the period. However, not all of this is collected (as shown in the closing balance). So, we deduct the closing balance.

Note that you should be able to derive the correct cash inflows and outflows relating to an account balance regardless of whether you start with the opening or the closing balance. We however recommend that you utilise the approach provided on page 105 of the Study guide which is also the Guided learning approach.

Is the MYOL task Happy Ltd Cash Flow from Investing task correct for proceeds from sale of plant & equipment?

(See 'Happy Ltd task', MYOL Module 2 Learning Tasks, and also Guided Learning Unit "FR M2 – Finalising the statement of cash flows")

Yes, \$85,000 is correct. We have created an explanation in the Quiz Solution for the 'Happy Ltd' question that explains proceeds from sale of plant and equipment. This is in Step 2 of the 'Finalising the statement of Cash flows' unit in Module 2.

Module 3 – FAQs

In Example 3.6 how is the interest of \$3,750 and \$4,031 calculated?

(See 'Example 3.6', page 131)

The selling price of the land is \$50,000 and the implicit interest rate is 7.5%.

So, the interest in year 1 will be $\$50,000 \times 7.5\% = \$3,750$.

The interest in year 2 will be compounding. So, it is based on $\$50,000 + \$3,750 = \$53,750$.

The interest in year 2 will be $7.5\% \times \$53,750 = \$4,031$.

On page 138 of the Study guide, it is stated that for expediency IFRS 15 permits an entity to recognise incremental costs of obtaining a contract as an expense if the asset's amortisation is up to one year. What does this mean?

(See 'Incremental Costs of Obtaining a Contract', page 138)

Amortisation of an asset is effectively 'expensing' the asset over a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. As a practical expedience IFRS permits an entity to expense the incremental cost in full if the amortisation of the period of the asset is less than one year.

Module 4 – FAQs

In Example 4.11, what does the calculation of \$18,000 represent and why is it that combining the journals on page 189 of the Study guide results in a tax expense journal of \$12,000 and a credit to the current tax expense of the same amount?

(See 'Example 4.11', pages 189 - 191)

The taxable loss of \$60,000 relates to year 20X1. Ordinarily a deferred tax asset of \$18,000 calculated as \$60,000 X 30% would have been recognised if it the company was expected to make future taxable profits that would be sufficient to offset the taxable loss. The question however states it is not expected that there will be future taxable profits.

The company however makes a profit as at 30 June 20X2. The recognised taxable profit for the year is \$100,000. This amount is greater than the taxable loss of \$60,000 from the prior year. Consequently, a current tax income is recognised and would be utilised in the year. This is because the taxable loss will be utilised to reduce the taxable profit. The journal entries will be as below:

Dr: Deferred tax expense \$18,000

Cr: Current tax income	\$18,000
------------------------	----------

Note that these two entries will cancel out in the tax expense account.

The net taxable profit is \$40,000 i.e., the taxable profit for the year of \$100,000 less the taxable loss of \$60,000 relating to the prior year. The current tax expense will therefore be $\$40,000 \times 30\% = \$12,000$. This represents the tax payable amount to be remitted to the tax authorities.

In the Module 4 notes, there is a pdf with the title 'Exemption to deferred tax recognition'. In this document you state that you would not recognise the deferred tax on the purchase of the asset even though the carrying amount and the tax base is different. Please provide further clarification on this.

(See 'Step 2, FR M4 – Recognising Deferred Tax', Guided Learning)

The illustration states that the depreciation of the asset is not deductible for tax purposes. Consequently, the difference between the carrying amount and the tax base does not represent a temporary difference. Note that as much as depreciation will be recognised for accounting purposes, no amount will be recognised for tax purposes. It should be noted that deferred tax refers to tax that will be payable or deductible in the future. In this case, the tax is will not be deductible in the future and consequently a deferred tax asset will not be recognised.

I am a bit confused by the journal entries relating to the building revaluation increase under Step 3 of the Guided learning Unit titled 'Income taxes – learning task'. My understanding is that if the value of building increases, the journal should be debit asset and credit OCI revaluation surplus. The video however states that if the value of building increases, the journal to recognize the value increase is to debit accumulated depreciation, debit asset and credit OCI-building revaluation surplus. Please advise on the correct approach.

(See 'Step 3, FR M4 – Income Taxes – Learning Task', Guided Learning)

When a non-current asset is revalued, its carrying amount is reset. This means that its carrying amount will be equal to the fair value upon revaluation. This therefore means that the accumulated depreciation at the time of the revaluation needs to be eliminated and its cost adjusted to reflect the fair value amount. Note that the asset will therefore have a nil accumulated depreciation at the time of revaluation. This is the reason why the accumulated depreciation is first eliminated, and any remaining balance effected against the original cost of the asset.

I am struggling to calculate the tax base of prepaid rent relating to Question 4.6. How do I do this?

(See Question 4.6, Page 185)

There are two approaches you can take. The first is to use logic. Prepaid rent is deducted for tax purposes when paid. This means that the company will immediately be able to reduce its taxable profit.

The rent expense will therefore not be deductible in the future when it is recognised as an expense in the company's profit and loss account (P&L). The Study guide defines the tax base as the amount that is attributable to an asset or liability for tax purposes.

Since there are no further deductions in the future, the tax authorities will no longer consider it and hence its tax base is nil.

The second approach is to consider the below formula.

Tax base of an asset = Carrying amount + future deductible amount – future taxable amount.

As explained above, the future deductible amount is nil since the company received a deduction when payment was made. The future taxable amount is \$2,000 because the rent will appear in the P&L in future and will have the effect of reducing the accounting profit. The tax authorities will however add it back since it is will not be deductible. This will have the effect of increasing taxes in the future. Using the formula, we can now calculate the tax base as follows.

Tax base = 4,000 + 0 – \$4,000 = 0. Consequently, the tax base of prepaid rent is nil.

Module 5 – FAQs

I am trying to locate the MYOL Learning tasks relating to Module 5. Where can I find them in Guided learning?

Financial Reporting 9%

SEARCH KNOWLEDGE BASE

ASK THE EXPERT

- > SUBJECT OVERVIEW AND FAQs
- > MID-SEMESTER TEST
- > PRACTICE EXAMS
- > MODULE 1
- > MODULE 2
- > MODULE 3
- > MODULE 4
- > QUICK FIRE QUIZ (M1 - M4 PART B)
- > MODULE 5
- > MODULE 6
- > MODULE 7
- > QUICK FIRE QUIZ (M4 PART 4 - M7)
- > REVISION
- > **ADDITIONAL LEARNING RESOURCES**
- > ACCESSIBILITY

BACK TO COURSE

FR – CPA Australia Additional Learning Resources

GIVE ME MORE

CPA Australia has created additional learning resources

There are videos and tasks to help you revise for your exams.

You are not required to re view these resources, but you may find them helpful as part of your revision.

CPA LEARNING RESOURCES

- M2 CI AND CASHFLOWS
- M4 DEFERRED TAX
- M5 PART B: PRE-ACQUISITION ENTRIES
- M5 PART B: INTRA-GROUP TRANSACTIONS
- M5 PART B: NON-CONTROLLING INTEREST

You will find the MYOL learning tasks in the Additional Learning Resources unit in Guided learning. As an example, Under the Intra-group transactions Unit in Guided learning, you will find the respective short videos and quizzes containing learning tasks relating to the Sale of Inventory.

Below is an example relating to the 'Sale of Inventory' in the Intra-group transactions Unit:

- Step 1 contains a short video explaining the Sale of inventory - Scenario 1 concept.
- Step 2 contains the Mini quiz which covers the MYOL Learnings tasks relating to Sale of Inventory - Scenario 1 concept.
- Each question has a reference which highlights where it has been derived from. As an example, the first question under the Sale of Inventory Mini quiz has the below reference:

From CPA Learning Task: Module 5: Intra-group transactions, Topic 2: Sale of inventory

Practice 1: Interactive data set 1:

This reference highlights the topic it covers, and the specific practice set, and the data set it relates to. This information will enable you to map the Guided learning questions to the MYOL Learning tasks should you need to do so.

It is also important to note that we have provided detailed explanations in the solutions to the quiz questions. You should therefore ensure that you attempt all the quizzes to assess your understanding of the respective Module 5 Business combinations concepts.

I understand contingent liability will be recognised in business combination and included in Goodwill calculation. What about contingent assets? Please advise.

(See 'Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree', Page 229)

Contingent liabilities are recognised if it is a present obligation from a past event and its fair value can be determined. This applies even when the contingent liability is not probable. The contingent liabilities are recognised as part of the liabilities assumed as a result of the acquisition. Contingent assets are however not recognised in a business combination.

I have noted an example where a non-current asset is revalued, and the respective journals are that the asset account is debited and the asset revaluation surplus in other comprehensive income (OCI) is credited with the revaluation increase. A deferred tax liability (DTL) is also recognised. I am however unsure why when the asset is subsequently depreciated the DTL recognised is reduced and the tax expense accounted adjusted in P&L. Why are there no entries to the OCI?

(See 'Revaluation of assets', Pages 253 - 256)

When a non-current asset is revalued, the revaluation increase is posted to other comprehensive income (OCI) in line with *IAS 16, Property Plant and Equipment*. The amount recognised in OCI can only be decreased if there is a subsequent decrease in the fair value of the asset or if the asset is disposed of. The amount previously recognised in OCI will first be decreased and any excess amount (over what was previously recognised in OCI) will be recognised in P&L.

I have noted that sometimes the upward revaluation in a non-current asset is recognised in a business combination reserve while at other times it is recognised in a revaluation surplus account. What is the difference between these two accounts?

(See 'Revaluation of assets', Pages 253 - 256)

If the revaluation of a non-current asset has been recognised in a subsidiary business, it will be recognised in a revaluation surplus account. This is the account that will appear in the consolidated financial statements. The revaluation increase will however be posted to a business combination reserve if the revaluation is recognised upon consolidation i.e., not recognised in the books of the subsidiary.

When answering questions that require us to show journals in a consolidation worksheet, can we show separate journal entries instead of one combined journal entry?

It is important to assess the number of spaces provided in the worksheet to determine whether to show a combined journal or to separate the journals. Candidates are however generally required to show separate journals.

I have noted that the Study guide questions and examples are more straightforward than the MYOL learning tasks. What I mean is that the fair value of property, plant and equipment is generally provided in the question, while the MYOL learning tasks only state by how much a fair value has increased. Where can I get further guidance on how to approach a MYOL learning task type of question?

We have provided comprehensive step by step guidance in the Pre-acquisition elimination entries FAQs Webinar which is located under Step 12 of the Pre-acquisition elimination Unit in Guided learning. We have also provided detailed guidance in the solutions to the respective quizzes in the same Unit.

You will therefore need to attempt the quizzes to access additional detailed guidance provided in the solution to the quiz questions. Attempting the quizzes and reviewing the solutions is important to ensure that you can confidently answer these types of questions.

The journal entries shown, on page 517 of the Study guide, as part of the solution to Question 5.14 (b) do not balance. Is something missing?

Yes, the Pre-acquisition journal entry relating to share capital amounting to \$100,000 was omitted from the summary of the shown journals. It should be included. This will result in the journal entries debits and credits being equal.

Module 6 – FAQs

In Example 6.13, the effective interest rate has been calculated as 1.49%. Kindly explain how I can calculate this rate.

(See 'Example 6.13', Page 337)

You are not required to calculate this as it requires the use of a software or spreadsheet. If you are however keen to try to calculate it using a spreadsheet, you can use Goal seek function in Microsoft Excel. Note however that what is important is to understand the difference between the effective interest rate and the quoted nominal rate. It is the effective interest rate that is utilised in the amortised cost measurement.

In Example 6.14, under the three-stage impairment model prescribed by IFRS 9, how can I determine whether the impairment is on Stage 3?

(See 'Example 6.14', Pages 339 - 340)

You can tell there is a credit impairment when there is no doubt that the company will receive less than the amount due to the organisation. In this case it is confirmed that the issuer will only be able to pay \$110,000 and not the full amount due of \$133,100.

Module 7 – FAQs

I do not understand how the growth rates, in Example 7.6, were calculated starting from 3% then going down to 2% and so on. Please explain.

(See 'Example 7.6', Pages 390 - 391)

You are not required to know how to calculate these growth rates. It is the company (West Ltd) that has estimated these based on what is considered to be the expected growth rate (after considering economic expectations and analysis of past data). It is however important to know how to calculate the future cash flows based on the growth rate and to discount them using the 15% discount rate.

I read the FR study guide and found the following sentence confusing, particularly the highlighted part: *"There are constraints on the amount of a reversal of an impairment loss that can be recognised. **A reversal is limited to the lower of the:** 1. recoverable amount; 2. carrying amount of the asset, net of amortisation or depreciation, had no impairment been recognised (IAS 36, para. 117)".* Could you kindly rephrase this, so it is easier to understand?

(See 'Reversals of impairment losses', page 396)

This sentence can be rephrased to read as follows:

After reversal, the carrying amount of an asset shall not be increased above the lower of the recoverable amount and the carrying amount of the asset, net of amortisation or depreciation, had no impairment been recognised. This essentially means that the asset's new carrying amount can never exceed the carrying amount it would have had, if it had not been impaired.

Table 7.11 on page 404 states that the carrying amount of the cash generating unit (CGU) should be tested, excluding the corporate asset, and any impairment loss recognised. I have however noted that sometimes the corporate asset is allocated to a CGU. I am a bit confused about what this means. Please explain.

(See 'Table 7.11', Page 404)

A corporate asset should be allocated to a CGU if this is possible i.e., if there is a reasonable and consistent basis to do this. As an example, if the organisation has only one CGU, then it follows that the corporate asset relates to that CGU. If it is however not possible allocate the corporate asset on a reasonable or consistent basis, then the CGU should be tested for impairment (with the corporate asset being excluded from the calculation). Any impairment loss should be recognised.

The organisation should then determine the small group of CGUs to which the corporate asset can be allocated. It should then be allocated to this group. The impairment test should then be performed, and any impairment loss recognised.