QUESTION 1.

Auto Co is the parent company of a group. The current financial year end is 31 March 20X6.

The following **exhibits**, available on the left-hand side of the screen, provide information relevant to the question:

1. Acquisition of Trailer Co – provides information regarding the acquisition of Trailer Co on 1 April 20X0.
2. Division Zed – contains information about the disposal of division Zed's assets during the year ended 31 March 20X6.
3. Disposal of Trailer Co – provides information regarding the disposal of the investment in Trailer Co.
4. Draft consolidated SOFP – draft consolidated statement of financial position (SOFP) for the Auto Group as at 31 March 20X6.

EXHIBIT 1. Acquisition of Trailer Co

On 1 April 20X0, Auto Co acquired 80% of the 15 million $1 ordinary shares of Trailer Co. Consideration transferred comprised cash of $45 million and one share of Auto Co for every 10 shares of Trailer Co acquired. The market price of Auto Co's shares on 1 April 20X0 was $5. The fair value of the identifiable net assets of Trailer Co at acquisition was $40 million.

The group's policy is to measure non-controlling interests using the proportionate share of net assets method.

EXHIBIT 2. Division Zed

The activities of Trailer Co differed significantly from the rest of the group. To enable the group to focus upon its core activities, Auto Co decided to sell the majority of its shares in Trailer Co.

Until recently, Trailer Co consisted of three divisions: Tuc, Fos and Zed. On 30 September 20X5, a third-party, Wheel Co, agreed to purchase 90% of Auto Co's investment in Trailer Co. The agreement stated the purchase would not go ahead until Auto Co had disposed of, or closed down, division Zed. There was no obvious acquirer for the assets of Zed at this time and it was uncertain how long this process would take.

Consequently, Auto Co began to sell the individual assets of Zed to different buyers. None of the individual disposals were material to the group. On 31 March 20X6, unsold non-current assets were abandoned or transferred to other divisions, outstanding liabilities were settled, and the trade of Zed ceased. On this date, Auto Co and Wheel Co continued negotiations for the sale of the investment in Trailer Co and finalised the agreement. Trailer Co met the criteria to be classified as a disposal group held for sale.

EXHIBIT 3. Disposal of Trailer Co

Auto Co originally acquired 80% of the ordinary shares of Trailer Co, measuring non-controlling interests using the proportionate share of net assets method. The net assets of Trailer Co have been included on a line-by-line basis in the draft consolidated statement of financial position.

Once the trade of Zed had ceased on 31 March 20X6, Auto Co and Wheel Co continued negotiations for the sale of the investment in Trailer Co. At this date, Trailer Co met the criteria to be classified as a disposal group held for sale.

The carrying amount of the net assets of the remaining parts of the business of Trailer Co, a cash-generating unit, on 31 March 20X6 were as follows:

	Total $ millions
Property, plant and equipment (PPE)	51·8
Intangibles	14·6
Inventories	7.1
Trade and other receivables	3.3
Cash and cash equivalents	1.6
Long-term borrowings	(18.5)
Trade and other payables	(2·3)
Total	57·6

The intangibles do not include the goodwill on acquisition of Trailer Co which had a carrying amount of $8 million as at 31 March 20X6. None of the goodwill related to Zed as it had ceased to trade.

The fair value of the net assets of Trailer Co and transaction costs for the sale of the shares were $51·5 million and $1 million respectively at 31 March 20X6.

Negotiations on the sale between Auto Co and Wheel Co delayed the sale of the shares until 30 June 20X6. Tuc and Fos continued to trade up to 30 June 20X6 and earned profits of $1·5 million from 1 April 20X6 until 30 June 20X6.

On 30 June 20X6, Auto Co sold 90% of its investment in Trailer Co (72% of the 15 million $1 ordinary shares of Trailer Co) to Wheel Co for net proceeds of $48 million. The remaining investment in Trailer Co held by Auto Co was estimated to have a fair value of $5·20 per share on 30 June 20X6.

EXHIBIT 4. Draft consolidated SOFP

A1

	A	B	C	D	E
1	The information below is replicated in the pre-formatted spreadsheet response option				
2					
3	**Auto Group**				
4	**Draft consolidated statement of financial position**				
5	**As at 31 March 20X6**				
6					
7		**ASSETS**	**$m**		
8		**Non-current assets**			
9		Property, plant and equipment	272.1		
10		Goodwill	32		
11		Other intangible assets	28.6		
12					
13			**332.7**		
14					
15		**Current assets**			
16		Inventories	27.9		
17		Trade and other receivables	13.2		
18		Cash and cash equivalents	19.3		
19					
20			**60.4**		
21					
22					
23		**Total assets**	**393.1**		
24					
25		**EQUITY AND LIABILITIES**			
26		**Equity attributable to owners of the parent**			
27		Share capital	80		
28		Retained earnings	168.4		
29					
30		Total equity	248.4		
31					
32		**Non-controlling interests**	35.5		
33					
34		**Total equity**	**283.9**		
35					

35		
36	**Non-current liabilities**	
37	Long-term borrowings	46.2
38	Deferred tax	7.3
39		
40	**Total non-current liabilities**	**53.5**
41		
42	**Current liabilities**	
43	Trade and other payables	22.4
44	Short-term borrowings	9.1
45	Current tax payable	24.2
46		
47		**55.7**
48		
49		
50	**Total liabilities**	**109.2**
51		
52	**Total equity and liabilities**	**393.1**
53		

REQUIREMENTS (30 MARKS)

(a) Using exhibit 1:

(i) calculate the goodwill arising on the acquisition of Trailer Co; and

(3 marks)

(ii) explain how Auto Co should assess whether the goodwill of Trailer Co is impaired in accordance with IAS 36 *Impairment of Assets*. Calculations are not required.

(5 marks)

(b) Using exhibit 2, and in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:*

- **consider whether the assets of the Zed division should be reclassified as held for sale during the year ending 31 March 20X6; and**
- **discuss the impairment principles which should be applied on the reclassification of Trailer Co as held for sale.**

Calculations are not required.

(6 marks)

(c)(i) Using exhibit 3 and the pre-populated spreadsheet response option, adjust the draft consolidated statement of financial position for the year ended 31 March 20X6. Your answer should consider:

- **any impairment required on reclassification of Trailer Co as held for sale; and**
- **the presentation of the remaining net assets of Trailer Co in accordance with IFRS 5.**

You should show all workings on the spreadsheet.

(12 marks)

(c)(ii) Using exhibit 3, calculate the consolidated profit on disposal of the shares in Trailer Co that would arise on 30 June 20X6.

(4 marks)