Answer Laudium part (a)

Investment adjustments

The investment when acquiring a subsidiary should be recorded at the fair value of consideration given to acquire the shares.

The Laudium group has already calculated goodwill so the investment in Hennops has been subsumed and cancelled in arriving at goodwill. Any adjustment to the investment in Hennops is therefore, in a group context, an adjustment to goodwill.

When Laudium issues the shares to acquire control of Hennops the purchase consideration should be measured at its fair value of $1.20 per share and not the nominal value of $1. The premium has not been recorded.

$0.2 x ½ x 30m = $3m

This additional premium increases the investment in the subsidiary in the parent's accounts and therefore goodwill in the group accounts. The additional premium will also increase the other components of equity.

The due diligence costs of $700,000 on acquiring Hennops are not part of the consideration given to acquire the shares. The costs should not have been capitalised but instead written off.

This means that the investment in the subsidiary was overstated by $700,000 and so is goodwill. And as the expense was not charged thus retained earnings are overstated.

Fair Value adjustments

The net assets of the Hennops should be recognised at their fair value at the date of acquisition and not the book value. The principle also applies to contingent liabilities, which should be recognised at their fair values despite not being recognised in Hennops's separate financial statements.

At the acquisition date net assets need to be revised by the fair value adjustments.

		$000
PPE	(7,000 – 6,000)	1,000
Inventory	(2,200 – 2,000)	200
Liability		(160)
		1,040

The net increase in the net assets at acquisition $1.04m will decrease the balancing figure of goodwill arising.

PPE

The fair value adjustment of PPE $1m will increase the PPE but as PPE has a ten-year life it also causes Hennops (the 75% held subsidiary) additional depreciation of $100,000. This additional depreciation reduces PPE and is an PL expense reducing the subsidiary's post-acquisition profits. The depreciation adjustment therefore reduces group retained earnings ($75,000) and the NCI ($25,000).

Inventory

Hennops's inventory has been sold so no adjustment can be made to current assets. When it was sold it was part of cost of sales and so profit was based on the lower cost figure and not the fair value which was $200,000 higher. Thus, post-acquisition profits have been overstated. This reduces both group retained earnings ($150,000) and NCI ($50,000).

Liability

The contingent liability of $160,000 has been resolved in the post-acquisition period meaning it is no longer a liability. This is therefore a write back to Hennops's profit. Thus, group retained earnings increase by $120,000 and the NCI $40,000.

Summary of adjustments to goodwill

	$000	
Goodwill per Q	36,000	
Record premium	3,000	OCE add
Write off due diligence costs	(700)	RE deduct
FVA PPE	(1,000)	PPE add
FVA inventory	(200)	RE / NCI deduct
FVA liability	160	RE / NCI add
Revised goodwill	37,260	

Answer Laudium part (b)

Financial asset at amortised cost

Laudium is a lender. The loan to the supplier is accounted for as a financial asset. A debt instrument. The loan terms carry a specified pattern of repayments and when the loan was made Laudium expected to collect the repayments on the dates specified in the loan agreement. Solely payments of principal and interest. There is no suggestion that the asset will be sold.

Therefore, the appropriate measurement basis to use for this financial asset is the amortised cost basis.

Transaction costs

Under the amortised cost basis, the arrangement fees of the loan are capitalised. The charge of $200,000 to PL should not have been made.

This is an adjustment to the financial statements of the parent so has no impact on the NCI. Group retained earnings will increase by $200,000.

Therefore, the initial carrying amount of the loan at 1 January 20X6 should have been $10.2 million ($10 million + $200,000).

Investment income

When a financial asset is measured using the amortised cost basis the interest income that should be recognised in PL is determined by applying the effective rate of interest to the initial carrying amount.

Laudium's interest income for the year ended 31 December 20X6 should have been:

5% x $10.2m = $510,000.

This interest income also increases the carrying value of the asset.

The cash received of $400,000 is not the income, rather should have been deducted from the carrying value of the asset.

Summary of adjustments to the financial asset

	$000	
Balance per Q	10,000	
Arrangement fees capitalised	200	RE add
Income that should be recognised	510	RE add
Less cash received recognised as income in error	(400)	RE deduct
Revised carrying value before expected credit losses	10,310	

Expected credit losses

That the supplier has financial difficulties is the objective evidence that the loan asset has been impaired. This means that Laudium needs to make an impairment loss allowance in respect of the lifetime expected credit losses.

The loss allowance should be measure of the present value of the originally expected cash inflows now not expected. The discount rate used to measure this allowance should be the original effective interest rate associated with the loan (in this case 5%).

The simplest way of computing the lifetime expected credit impairment loss on the financial asset is to compute the closing carrying amount but net of the impairment loss allowance.

This is the present value of the revised expected cash flows, using the original effective interest rate. This would have given a closing carrying amount of $9,070,295. [($10 million/(1.05^2))].

	$000	
Revised carrying value before expected credit losses	10,310	
Less expected credit losses (as a bal figure)	1,240	RE deduct
Revised carrying value AFTER expected credit losses	9,070	

The loan is correctly shown as a non-current asset since the repayment date is 31 December 20X8, two years from the reporting date.

With an opening balance of $10m and a revised carrying value of $9.07m the **net adjustment is a reduction of $930,000** (see w1 below for proof).

TUTORIAL NOTE PROOF OF EXPECTED CREDIT LOSSES

There is an alternative way to determine the expected credit losses and that is to calculate the allowance itself. It is longer.

In this case $400,000 would originally have been expected on 31 December 20X7 (one year from the reporting date). This is no longer now expected. The present value of this expected shortfall is $380,952 ($400,000/1.05).

$10,946,775 would originally have been expected in full and final settlement of the loan on 31 December 20X8 (two years from the reporting date). What has now been negotiated is a final payment of $10 million.

Therefore, there is a further expected shortfall of $946,775 on this date ($10,946,775 - $10,000,000). The present value of this expected shortfall is $858,753 [$946,775/$(1.05)^2$]

Therefore, the total loss allowance will be $1,239,705 ($380,952 + $858,753). This will need to be charged to profit or loss for the year ended 31 December 20X6.

This means that the closing carrying amount of the loan is $9,070,295 ($10.31 million - $1,239,705)

Answer Laudium part c)

		Investment		Fair Value adjustments				W1	Revised	Marks
Laudium answer	**$'000**								**$'000**	
Non-current Assets										
PPE	90,000			1,000	-100				90,900	2
Goodwill	36,000	3,000	-700	-1,000		-200	160		37,260	4
Loan to supplier	10,000							- 930	9,070	3
	136,000								137,230	
Current Assets										
Inventories	28,000								28,000	
Trade receivables	32,000								32,000	
Other current assets	9,000								9,000	
	69,000								69,000	
Total Assets	**205,000**								**206,230**	
Equity										
Equity of Laudium										
Share capital	50,000								50,000	
OCE	8,000	3,000							11,000	1
Retained earnings	34,000		-700		-75	-150	120	-930	32,265	3
	92,000								93,265	
NCI	24,000				-25	-50	40		23,965	1
Total Equity	**116,000**								**117,230**	14
										Max 9
Liabilities										
Non-Current Liabilities	40,000								40,000	
Current Liabilities	49,000								49,000	
Total Liabilities	**89,000**								**89,000**	
Total equity & debt	**205,000**								**206,230**	

W1 net adjustments on financial asset - proof	**$000**
Arrangement fees capitalised	200
Income that should be recognised	510
Less cash received recognised as income in error	(400)
Expected credit losses	(1,240)
	930

MARKING SCHEME

a)	Explain the premium adjustment	1
	Calculate the premium adjustment	1
	Explain the transaction costs	1
	Explain impact on goodwill of adjustment to investment	1
	Explain fair value in principle	1
	Explain the impact on goodwill from FVA	2
	Explain FVA on PPE	2
	Calculate the depreciation adjustment	1
	Explain FVA inventory (not CA)	1
	Explain FVA Contingent liability (not liability)	1
	Explain split with RE / NCI	1
	Calculate the split with RE / NCI	2
	Total for part (a) maxed out	**12**
b)	Explain loan is a financial asset	1
	Explain loan is a financial asset measured at amortised cost	1
	Correct treatment of loan arrangement costs	1
	Compute closing carrying amount of loan before impairment	3
	Explain the need for an impairment given the circumstances outlined	1
	Explain procedure for expected credit losses	1
	Explain a charge will arise to PL (RE)	1
	Compute expected credit losses / impairment	2
	Total for part (b) maxed out	**9**
c)	Adjustment to the spreadsheet for the following – OFR apply	
	PPE	2
	Goodwill	4
	Financial Asset	3
	OCE	1
	RE	3
	NCI	1
	Total for part (c) – 1 mark per adjustment until max reached	**9**
	TOTAL FOR QUESTION	**30**

Q2 Aragon Answer

Sale and lease back – the Administration Building

This transaction should be recorded as a sale and leaseback arrangement, rather than as a loan, because the question clearly states that the agreement creates a performance obligation.

The finance director has incorrectly recorded gain of $6.5m being the difference between the cash received and the carrying amount of the building. Reversing out this error means that Aragon will overall report yet another loss instead of a profit.

Aragon should have recognized the present value of the contractual lease payments as a liability.

A right of use asset should also be recognized, but as a proportion of the previous carrying amount of the asset that relates to the right of use retained by Aragon.

A profit or loss relating to the rights retained will arise and be recorded on disposal within the statement of profit and loss.

Going forward the right of use asset will be depreciated over the lease term of 5 years.

The liability will be accounted for at amortized cost; thus, attracting a finance cost charged to PL. The cash payments required under the lease will be accounted for as a reduction in the liability.

Deferred Tax Asset

Deferred taxes represent the amount of income taxes payable or recoverable in future periods in respect of temporary differences. A temporary difference arises when there is a difference between the carrying amount of an asset or liability and its tax base.

Losses carried forward represent deductible temporary differences that can give rise to the accounting for deferred tax assets. Tax relief will be granted in the future.

However, Aragon can only recognize a deferred tax asset if it is reasonable that it will be recovered. This requires a judgment as to whether there will be sufficient future taxable profits to recover the asset.

Aragon operates under a tax jurisdiction which only allows losses to be carried forward by three years. The Directors of Aragon should base their forecast of the probability of future profitability on reasonable and supportable assumptions.

There appears to be no firm evidence that profits will return in the short term. Aragon have a history of trading losses and there is little evidence that there will be improvement in trading results within the next couple of years. Aragon are operating in a tough trading environment and sales orders in the next quarter are at par with the current financial year in which losses have been suffered.

The forecast profitability and subsequent growth rate seem highly ambitious and therefore it is unlikely that any deferred tax asset should be recognized.

C Ethical aspects

Accounting treatments

Competence

As discussed, the accounting treatments proposed by the finance director would appear to be technically incorrect with regard to the sale and lease back and the recognition of a deferred tax asset. If this is because of ignorance (incompetence), then it is unethical behaviour on their part as competence is a key pillar of ethical behaviour.

Integrity and objectivity

However, given that the finance director is rewarded by profit related pay and is an experienced qualified accountant; it may well be that such accounting treatments are proposed deliberately as a crude attempt to manipulate the finance statements for personal gain.

This interpretation of events points also points to unethical behaviour as the finance director has not been objective. It shows a lack of integrity, an intent to deceive. Objectivity and integrity are key pillars of ethical conduct.

The finance director is presumably allowing bias and undue influence from the pressure imposed by the achievement of the bonus to follow more favourable accounting treatments as opposed to making independent judgments and following accounting standards.

Behaviour

Professional behaviour

Given that the deputy accountant has been in their position for only a few months they may feel pressured due to the finance director’s comments on job security.

The deputy accountant faces an intimidation threat, given the comments from the finance director, who presumably has an influence over their career. This also creates a self-interest threat as the deputy accountant may keen to continue to keep their role at Aragon.

The finance director’s behaviour borders on intimidation and bullying. This is not professional behaviour and therefore unethical.

The finance director should act professionally and avoid any actions which would discredit the profession.

Action

The first thing the deputy accountant should do is to speak with the finance director, try to confirm the facts, and discuss the accounting treatment with the finance director and explain the risks of non-compliance. The safeguards of accounting regulations and the sanctions imposed on those professional accountants who do not comply may resolve the issue. A record of conversations and actions should be kept.

Aragon may also have internal procedures which mitigate the threats. It may be that the finance director is simply not technically up to date, in which case attending a technical update course to refresh their knowledge. This is beyond the remit of the deputy accountant though.

If the finance director refuses to comply with accounting standards, then it would be appropriate for the deputy accountant to discuss the matter with other directors or an audit committee (if applicable), to seek a solution, then seek professional advice from ACCA, and consider legal advice if necessary.

A final consideration for the deputy accountant, if the matter cannot be satisfactorily resolved, would be resignation.

Q2	Answer guide			
A Sale and lease back	Incorrect measure of profit	1 mark		
	Right of use asset	1 mark		
	Liability	1 mark		
	Depreciation	1 mark		
	Finance cost	1 mark		
	Cash paid reduces liability	1 mark	One mark per valid point but to a maximum of 5	5
B deferred tax	Theory / definitions	1 mark		
	Application and discussion	1 mark per valid point to a maximum of 3		
	Conclusion	1 mark		5
C ethics	Accounting treatment	Competence 2 marks per valid point Objectivity 2 marks per valid point Integrity 2 marks per valid point	Maximum 4	
	Behaviour	1 mark per valid point	Maximum 2	
	Actions	1 mark per valid point	Maximum 2	8
	Professional marks	Linking into ethical pillars		2
Total				20

Q3 Raipur Answer

Leases

First Lease

Under the standard (IFRS16) when lease agreements are entered into by a lessee, a right of use asset and a corresponding liability are recognised. The initial measurement is based on the present value of the future cash flow with direct costs also being capitalised.

In the first year of the lease the right of use asset would have been depreciated. The initial liability would have been accounted for at amortised cost, so increased by a finance cost charged against profit and reduced by the cash payment required by the lease agreement.

After one year, at the start of the current accounting period it would have been necessary to remeasure the liability. This is because the lease agreement includes an uplift in the liability due to inflation.

The revised lease liability will be the present value of the future three remaining lease payments discounted at the original effective rate. The increase in the liability will then be capitalised. The finance cost for the second year and the deprecation charge will then be based on the revised amounts.

Second Lease

Consistency and comparability are not fundamental characteristics of useful information. To show a true and fair view it is necessary to follow the requirements of the relevant accounting standard.

Whilst the default accounting treatment for leases is indeed to recognise a right to use asset and a corresponding liability there is an exception for immaterial (low value) items and for leases less than one year.

The second lease qualifies on both accounts. Such leases are simply expensed in the profit on a straight-line basis with no right of use asset should be recognised.

The proposed accounting treatment is not in accordance with the standard (IFRS16) and not justified.

Q3 Raipur Answer

Share based payments

A share-based payment occurs when an entity buys goods or services from other parties (such as employees or suppliers) and:

(i) settles the amounts payable by issuing its shares or share options, or

(ii) incurs liabilities for cash payments based on its share price.

Raipur has created a cash settled share-based payment scheme (i.e. a share appreciation rights scheme) as the employees will be entitled to a cash bonus.

There is no potential equity recognised. Share appreciation rights do not trigger a dilution of equity and so no diluted EPS is necessary.

In the current statement of financial position as at 31 December 20X0 Raipur will need to recognise the liability due to the employees. Recognition of the liability will increase gearing and thus the perception of risk.

The measurement of the liability will be based of the fair value of the share appreciation rights at the reporting date, and the proportion of the 300 employees that are expected to qualify by still being employed when the scheme matures. It will also reflect that it is a four-year scheme and that only two years have lapsed.

There will also be a corresponding expense charged against profit. This is in accordance with the matching concept. As profits will be reduced this will result in a decrease in the earnings per share. It is hoped that the bonus scheme will incentivise staff to work harder and that this will more than offset the additional expenditure.

In the current accounting period, there is no cash outflow. Raipur will only be required to settle the obligation once the four-year vesting period is over.

Q3 Raipur Answer

Nagpur's impairment loss

The impairment loss of $3.6m will be charged against profit. It will be allocated firstly to the purchased goodwill and all the $2m goodwill is written off. As Nagpur is a 100% subsidiary there is no impact on the NCI. The balance of the impairment loss $1.6m will be used to write down the carrying value of other assets from $10m to $8.4m

Dr Profit and loss expense $3.6m

Cr Goodwill $2m

Cr Other assets $1.6m

Goodwill is ignored for deferred tax purposes. The tax base of the other assets will not be affected as the impairment is disallowed for tax purposes.

The accounting carrying value of the other assets will be $8.4m whilst the tax base will be $7m. As the accounting carrying value is greater than the tax base at the reporting date there is taxable temporary difference of $1.4m.

The temporary tax difference multiplied by the tax rate will result in a closing deferred tax liability of $0.42m ($1.4m x 30%). This will be recognised in the statement of financial position as a non-current liability.

Q Raipur Answer

Financial assets

Raipur has purchased $300m bonds at par value at the start of the accounting period. Raipur is the lender and will treat this is an investment in a debt instrument. It is a financial asset.

The bonds pass the cash flow test as the payments received will be solely payments of principal and interest.

The business model is that Raipur is not committed to hold these assets until maturity therefore amortised cost is not the appropriate classification and treatment. The business model is that Raipur will sell if better returns become available.

On that basis Raipur will classify and account for these bonds at Fair value through other comprehensive income (FVOCI). Initial recognition is the fair value of consideration given of $300m.

Subsequently, the bonds will be measured at amortised cost basis. The finance income will be added at the effective rate of 15%. The interest received at 10% will be deducted.

At the year-end 31 December 20X0 the bond will be measured at fair value of $250m and taken to the statement of financial position.

The difference between that fair value and the carrying value will be recognised in Other Comprehensive income.

	Opening balance	PL effective rate 15%	Cash received 10%	Closing balance per amortised cost (A)	Fair Value at 31 December 20X0 (B)	Loss to OCI (A-B)
	$m	$m	$m	$m	$m	$m
1 January 20X0	300	45	(30)	315	250	65

On initial recognition it necessary to recognise 12 months of expected credit losses and to charge $1m against profit.

At the reporting the date, because there has been an increase in the credit risk, the lifetime of expected credit losses of $10m must be recognised.

This means a further $9m (10-1) is charged against profit and the net carrying value of Other Components of Equity relating to this investment on the statement of financial position will be $55m (65-10).

		Maximum	One mark per valid point
Leases	First lease	3	Asset/liability. Deprecation/finance cost, uplift the liability, capitalise
	Second lease	3	Useful, exception, application. Conclusion
Share based payments		6	Share appreciation rights, no dilution, increase gearing, no cash outflow, treatment measurement, treatment as expense
Impairment loss	words	3	Impairment loss (1), Deferred tax (2)
	numbers	2	Impairment loss (1), Deferred tax (2)
Financial assets	words	6	Classify (SPPI), amortised cost, FV (2), credit loss (2)
	numbers	2	
		25	

Q4 Manaslu Answer

Explain the principles underpinning the timing of revenue recognition and the measurement of that revenue which are outlined in IFRS 15.

Timing

The timing of the recognition of revenue under the standard (IFRS 15) depends on the type of performance obligation the entity has under the contract with the customer. A performance obligation is a distinct promise to transfer goods or services to the customer. Revenue is recognised when (or as) a particular performance obligation is satisfied.

When goods are sold, performance obligations are satisfied **at** a point in time. In such cases, the revenue is recognised at the point control of the goods is transferred to the customer.

With service agreements, performance obligations are satisfied **over** a period of time. In such cases, the proportion of the total revenue recognised is the proportion of the performance obligation which has been satisfied by the reporting date.

Measurement

The measurement of revenue is based on the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring the promised goods and services to the customer.

In many cases, where the consideration for the transaction is fixed and payable immediately after the revenue has been recognised (e.g. most sales of goods), the transaction price is the invoiced amount less any sales taxes collected on behalf of third parties.

Where the due date for payment of the invoiced price is 'significantly different' (certainly more than 12 months) from the date of recognition of the revenue, then the time value of money should be considered when measuring the transaction price. This means that the revenue recognised on the sale of goods with deferred payment terms would be split into a 'sale of goods' component and a financing component.

Where the total consideration due from the customer contains variable elements (e.g. the possibility that the customer obtains a discount for bulk purchases depending on the total purchases in a period), then the transaction price should be based on the best estimate of the total amount receivable from the customer as a result of the contract.

Q4 Manaslu Answer

Explain and show how the sale of product with right of return would be reported in the financial statements of Manaslu for the year ended 30 September 20X0.

Under the principles of IFRS 15, revenue cannot be recognised on 1 April 20X0 because at that date the consideration is variable, and the amount of the variable consideration cannot be reliably estimated.

However, on 1 April 20X0 $80,000 would be removed from inventory and included as a 'right to recover asset' (any reasonable description of this would be permitted).

Revenue of $100,000 (the present value of $121,000 receivable in two years) is recognised on 30 June 20X0 when the uncertainty regarding potential returns is resolved.

On the same day, the 'right to recover asset' will be de-recognised and transferred to cost of sales.

Manaslu will also recognise finance income of $2,500 ($100,000 x 10% x 3/12) in the year ended 30 September 20X0. At 30 September 20X0, Manaslu will recognise a trade receivable of $102,500 ($100,000 + $2,500).

Explain and show how the sale with a volume discount incentive would be reported in the financial statements of Manaslu for the year ended 30 September 20X0.

The consideration payable by the customer is variable as it depends on the volume of sales in the two-year period.

However, Manaslu can reliably estimate the outcome and that the volume discount threshold will not be exceeded (sales for 9 months: 20,000 x 24/9 = 53,333).

The revenue included for the year ended 30 September 20W9 will be booked at $100 per unit and will be $2 million (20,000 x $100).

During the year ended 30 September 20X0, actual sales volumes and estimates change such that the cumulative revenue should now be booked at $90 per unit. It is now expected that the volume discount threshold will be exceeded.

This means that the cumulative revenue relating to these goods at 30 September 20X0 will be $4,950,000 ((20,000 + 35,000) x $90).

The revenue which will be booked by Manaslu for the year ended 30 September 20X0 will be $2,950,000 ($4,950,000 – $2 million recognised in 2019).

Q4 Manaslu Answer

The statement of profit or loss and other comprehensive income.

The principles underpinning the overall presentation of financial statements are set out in IAS 1 – Presentation of Financial Statements. IAS 1 requires that all income and expenses are presented in a statement of profit or loss and other comprehensive income.

IAS 1 does not allow entities to choose whether to present income and expenses in the profit or loss or the other comprehensive income section of the statement. IAS 1 states that, unless required or permitted by a specific IFRS, all items of income and expense should be presented in the profit or loss section of the statement.

Examples of income and expenses that are recognised directly in equity and are therefore reported in other comprehensive income include; the exchange differences arising on the retranslation of the net assets and goodwill of an overseas subsidiary and the changes in value of property plant and equipment are revalued.

Reclassification

When a gain or loss is recognised in equity and reported in other comprehensive income it may or may not subsequently be reclassified to Profit and Loss later. If it is reclassified it means that the gain or loss is recycled to the Profit and Loss and so included in arriving at profit for the year. Arguably therefore the gain or loss will have reported twice in the total comprehensive income for the year, once in Other Comprehensive Income the year it was recognised and secondly in Profit and Loss when it was realised.

Entities are not allowed to choose whether gains or losses are reclassified or not. This is regulated by individual accounting standards. For example, IAS 16 (PPE) prohibits reclassification of revaluation gains and losses whereas IAS21 (FX) requires it for group exchange differences.

Prior to the revision of the Conceptual Framework for Financial Reporting, there was no underlying theory or set of principles as to whether gains or losses should be reclassified. The revised framework takes the theoretical position of favouring reclassification. However, it also acknowledges that there will be circumstances where it would be more useful not to.

Tax issue

IAS 1 states that the tax relating to items of other comprehensive income is either shown as a separate line in the 'other comprehensive income' section of the statement or netted off against each component of other comprehensive income and disclosed in the notes to the financial statements. So, the tax is there – but each gain or loss in the other comprehensive income has been reported net of tax.

It would be a coincidence if the tax charge was the same as the tax paid in the cash flow statement. This is because the profit and loss account applies the accruals (matching) concept.

Tax is paid a year in arrears. This means that the tax paid this year represents the settlement of the tax liability on last year's profits.

The tax charge that is expensed in the statement of profit or loss represents an estimate of the tax that is due on the current year's profits and the effects of under and over provisions from prior years.

Another reason for the difference between the tax charge and the tax paid is the accounting for deferred tax. The tax charge will include deferred tax which is a non-cash item.

Performance management issue

The key implication of an item being presented in other comprehensive income rather than profit or loss is that the item would not be considered when measuring earnings per share, an important key performance indicator for listed entities.

The justification for this approach is arguably that these gains and losses are unrealised gains and losses. Gains and losses reported in other comprehensive income by their nature are not to do with operating activities. Further are unlikely to recur and they are outside the control of management to make them recur. For example, management cannot control exchange rates or property prices and such gains and losses are paper (not realised in the form of cash). As such it is argued it not relevant to include them in the measurement of earnings per share.

Nevertheless, it is important that these unusual, non-recurring, unrealised gains are reported in other comprehensive income because otherwise the financial statements would be incomplete and that would be giving a faithful representation of the reporting entity's performance.

		One mark per valid point to a maximum
Timing	Performance obligation, AT a point, OVER time	2
Measurement	Time value, variable element	2
Right of return	Explanation	2
	Numbers	2
Volume discount	Explanation	2
	Numbers	2
PL / OCI	1 mark per valid point to a max 3	
Reclassification	1 mark per valid point to a max 3	
Tax	1 mark per valid point to a max 3	
Performance	1 mark per valid point to a max 3	11 (max)
Professional marks	Completeness and cohesion	2
		25