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QUESTION ONE: ACCOUNTING SUBJECTIVITY

A)

Goodwill is an unidentifiable asset which is incapable of being individually identified and separately recognised

An example of reality construction is goodwill, a river by an entity is not recognised as an entity's asset prior to its acquisition – it provides benefit to the entity and may be used as a resource but until the entity is acquired this value does not exist.

We construct this asset when the entity is sold. When sold the position of the entity by the river is taken into consideration as a factor which may cause a buyer to purchase the entity for a value greater than the entity's book value.

As such these factors such as the entity's position is now recognised in the purchasers' statements as goodwill. An asset which accountants have constructed to represent a non-existent asset.

This example highlights how accountants construct reality by using their professional judgement to decide what should be included in the financial statements. In this case, they have used their discretion to recognise goodwill, an asset that does not exist in a tangible form. It demonstrates the creative nature of accounting, where accountants must use their expertise to present a financial picture of an entity that accurately reflects its economic reality.

B)

Accounting is commonly referred to as an art rather than a science due to the creative nature of the process, which requires professional judgement and discretion, making it subjective and not entirely free from bias. As accountants, we are responsible for constructing the perceived reality of an entity through the financial statements we prepare. This reality is based on what we choose to include and exclude in the statements, giving us the ability to influence stakeholders' perception of the entity's financial performance.

From an economic standpoint, the power of accountants lies in their ability to impact stakeholders' investment decisions, which can ultimately determine the entity's ability to operate in the future. Whether investors should continue investing, or creditors should continue lending, can depend on the financial statements prepared by the accountant. This makes us powerful members of society.

Politically, accountants act as handmaidens by legitimizing, upholding and supporting the main capitalist model operating in the Western world.

However, we must abide by the standards and social constraints of the country we operate in. It is important to follow these constraints since we operate based on the social license of the public. Damaged reputation of the accounting profession can lead to a loss of faith in us, which can ultimately lead to significant economic and social consequences

In conclusion, as accountants, we have the power to construct the perceived reality of an entity through its financial statements, influencing stakeholders' investment decisions and determining the entity's ability to operate in the future. This power also makes us powerful members of society. Regardless of our power we must maintain a balance between subjectivity and standards as we must maintain our social license and uphold our reputation within society to ensure we can continue to use this power.

QUESTION TWO: ASSOCIATES AND JOINT ARRANGEMENTS

A)

According to the NZ IAS 28 standard, an "associate" is an entity over which an investor has significant influence, but not control, and it is typically achieved through owning between 20% and 50% of the voting power and has supporting factors such as representation on board, participation in policy making, material transaction between investor and investee, interchange of personnel, provision of technical information and loans to or guarantees for the investee.

In contrast, According to the IFRS 11 standard, a "joint arrangement" is an agreement between two or more parties to jointly control a business (decisions require unanimous consent).

The key difference between associates and joint arrangements is the level of control that the investor has over the investee.

In an associate relationship, the investor has significant influence over the investee, but not control. This means that the investor can exert some level of control over the investee's operating and financial policies, but not enough to direct those policies (can vote and have influence over decision but can be opposed by larger shareholders).

In contrast, in a joint arrangement, the parties have equal control over the business, and each party has the ability to direct the operating and financial policies of the business as decisions require consent of all parties (unanimous) to make change.

In terms of accounting, associates are accounted for using the equity method, which involves recognizing the investor's share of the associate's net assets and income in the investor's financial statements. The equity method recognizes the investor's economic interest in the associate, and the investor's share of the associate's net assets and income is reported as a single line item in the investor's financial statements (Investment In [investee name]).

On the other hand, joint arrangements are accounted for using either the equity method or the proportionate consolidation method, depending on the nature of the arrangement.

A joint venture is an arrangement structured through a separate vehicle that gives parties access to their net assets (use equity accounting method (described above)).

A joint operation is an arrangement structured through no vehicle or a separate vehicle that gives parties access to their assets, liabilities, revenue and expenses (use proportionate consolidation method).

In the case of a joint operation, where the parties have joint control over the business and the contract term gives rights to assets, liabilities, revenues and expenses, the proportionate consolidation method is used to account for the investment.

Under the proportionate consolidation method, the investor recognizes its share of the assets, liabilities, revenues, and expenses of the joint venture in its financial statements, and the joint venture's financial statements are consolidated proportionately with those of the investor.

In summary, the key differences between associates and joint arrangements lie in the level of control the investor has over the investee, and the accounting treatment used to report the investment in the investor's financial statements. Associates are accounted for using the equity method, while joint arrangements are accounted for using either the equity method or the proportionate consolidation method.

B)

Blackbooks Ltd Journal for the reporting periods ending 30 June 2020

1 July 2019	DR Investment In The Little Shop Around the Corner Ltd	65000
	CR Cash	65000
	Recognise initial investment (35%) in The Little Shop Around the Corner Ltd	
30 June 2020	DR Investment In The Little Shop Around the Corner Ltd	70000
	CR Share of profit In The Little Shop Around the Corner Ltd	70000
	Recognise share of profit in The Little Shop Around the Corner Ltd	
30 June 2020	DR Cash	15750
	CR Investment In The Little Shop Around the Corner Ltd	15750
	Recognise share of dividends received from The Little Shop Around the Corner Ltd	
30 June 2020	DR Investment In The Little Shop Around the Corner Ltd	12250
	CR Revaluation Surplus	12250
	Recognise share of land revaluation surplus in The Little Shop Around the Corner Ltd	

<u>QUESTION THREE: DETERMINING SUBSIDIARY STATUS</u>

A)

A Subsidiary is an entity that is controlled by another entity.

To determine if Snow Ltd (S) is a subsidiary of Targaryen Ltd (T) or Stark Ltd (ST), it is necessary to establish if (ST) or (T) has control over (S).

According to NZ IFRS 10, control exists when an entity has the power to govern the financial and operating policies of another entity, as well as exposure or rights to variable returns from its involvement with the entity and the ability to use its power to affect those returns. In the given situation, ST and T own equal shares of S, however T manages S.

Based on the above criteria for control, we can determine that:

Power over the investee: Both Stark Ltd and Targaryen Ltd have equal voting rights as they each hold 50% of the shares in Snow Ltd. Therefore, neither company has the ability to direct the relevant activities of Snow Ltd on their own.

Exposure or rights to variable returns: Both Stark Ltd and Targaryen Ltd are entitled to 50% of the profits or losses of Snow Ltd. However, since they each have an equal share, there is no potential for one company to benefit more than the other.

Ability to affect the amount of returns: As both companies have equal voting rights and are entitled to equal profits or losses, neither company can use its power to affect the amount of returns.

However there are circumstances where either ST or T may have control such as if ST or T did not vote in AGM historically this may indicate one of the parties may have actual control and will be considered the parent of S.

Therefore, based on the above analysis, it is unlikely either Stark Ltd nor Targaryen Ltd has control over Snow Ltd. As a result, there is no parent-subsidiary relationship between Snow Ltd and either of the two companies. Regardless there may still be a need for consolidation. This is because shareholders of ST or T may want a complete picture of the financial performance of the group, including S, in order to make informed investment decisions. Furthermore, the issue of accountability may also provide sufficient grounds for consolidation, as it allows for greater transparency and clarity in the reporting of the financial results and operations of the group. Consolidation also provides a means to identify and eliminate intra-group transactions and balances, which can distort the financial results of the individual entities and the group as a whole.

B)

A Subsidiary is an entity that is controlled by another entity.

To determine if Starlight Ltd (S) is a subsidiary of Homelander Ltd (H), it is necessary to establish that H has control over S.

According to NZ IFRS 10, control exists when an entity has the power to govern the financial and operating policies of another entity, as well as exposure or rights to variable returns from its involvement with the entity and the ability to use its power to affect those returns. In the given situation, H owns 42% of the shares of S, which is a substantial block of shares.

In the situation where only 65% of eligible votes are case, H may have the majority of the votes that are cast, indicating that S has actual control over s and may be classified as its parent. Even if at least 84% of shareholders vote, it is unlikely they would successfully outvote H given the difficulty in aligning various and dispersed shareholders.

However, the determination of control requires judgement and consideration of all relevant factors. In this case, other factors that should be considered are the attendance at the annual general meeting, Non-controlling interest, and the difference between actual control and capacity to control and the reporting needs of stakeholders.

It is important to distinguish between actual control and the capacity to control. Actual control refers to the ability of an entity to exercise power over the financial and operating policies of another entity. In this case, H may actually control S by outvoting all other shareholders meaning that it has the ability to make decisions that impact the financial and operating policies of S.

However, capacity to control refers to whether an entity has the ability to direct the activities of another entity that most significantly impacts its returns.

In this case, even if H can outvote other shareholders at the current attendance rate, it may not necessarily have the capacity to control S if there are other factors at play that limit its ability to direct the activities of S.

For example, if the other shareholders who hold a significant portion of the shares attend the meetings and opposed to H decisions, then H may not have the capacity to control S. Therefore, the determination of whether an entity has control over another entity requires careful analysis of both actual control and capacity to control. Simply having actual control does not necessarily mean that an entity has the capacity to control, and vice versa.

The attendance at the annual general meeting is important as it determines the number of votes H can exercise. If holders of 85% of the voting shares attended the AGM, then holders of 43% of the shares could have outvoted H. Therefore, the attendance at the AGM should be considered in determining the existence of control.

The existence of non-controlling interests (NCI) is also a relevant factor. In this case, NCI is 58%, which means that H does not have a controlling interest in S. The presence of NCI could affect the consolidation process and the presentation of consolidated financial statements.

The purpose of consolidation is to provide a comprehensive and accurate view of the financial position, performance, and cash flows of a group of entities under common control. In the case of S and H, if H is actually controlling S, even though it does not have the capacity to control, there may still be a need for consolidation.

This is because shareholders of Sylvester Ltd may want a complete picture of the financial performance of the group, including S, in order to make informed investment decisions. Furthermore, the issue of accountability may also provide sufficient grounds for consolidation, as it allows for greater transparency and clarity in the reporting of the financial results and operations of the group. Consolidation also provides a means to identify and eliminate intra-group transactions and balances, which can distort the financial results of the individual entities and the group as a whole.

Therefore it appears that H is the parent of S Ltd as assuming that Sylvester has exposure or rights to variable returns from its involvement with the entity and the ability to use its power to affect those returns Sylvester Ltd seems to have the current ability to control as it has the majority interest, the other shareholders are dispersed.

However, the determination of control requires judgement and consideration of all relevant factors. The existence of non-controlling interests, attendance at the AGM, and the difference between actual control and capacity to control should also be considered.

<u>QUESTION FOUR: CONSOLIDATED FINANCIAL STATEMENTS</u>

A)

Rosebud Ltd journal entries for the reporting period ending 31 March 2020

31 March 2020	DR Share Capital	104550
	DR Asset revaluation surplus	17000
	DR Retained Earnings opening	18700
	DR Goodwill	34750
	CR investment into [Company Name]	175000
	To eliminate investment in Elmdale and recognise goodwill	
31 March 2020	DR Consulting service Revenue	8200
	CR Consulting service expense	8200
	To eliminate intragroup service revenue + expense	
31 March 2020	DR Dividends Revenue	13600
	CR Dividends Paid	13600
	To eliminate intra group dividends that have been paid in cash	
31 March 2020	DR Dividends Revenue	11900
	CR Dividends Declared	11900
	To eliminate intra group dividends (Revenue + declared)	
31 March 2020	DR Dividends Payable	11900
	CR Dividends Receivable	11900
	To eliminate intra group dividends (liability + asset)	
31 March 2020	DR Loan Payable	25000
	CR Loan Receivable	25000
	To eliminate intra group loan and borrowing	
31 March 2020	DR Loan Interest Revenue	2000
	CR Loan Interest Expense	2000
	To eliminate intra group loan interest revenue and expense	

31 March 2020	DR Inventory Sale Revenue	16000
	CR Inventory Cost of Goods sold	12000
	CR Inventory	4000
	To eliminate intra group transfer of inventory	
31 March 2020	DR Deferred Tax Asset	1200
	CR Income Tax Expense	1200
	To eliminate intra group tax of inventory transferred	
31 March 2020	DR Gain on sale	50000
	CR Land	50000
	To eliminate intra group transfer of Land	
31 March 2020	DR Deferred Tax Asset	15000
	CR Income Tax Expense	15000
	To eliminate intra group tax of transfer of Land	