These suggested solutions are provided to participants to aid in the learning of the course materials. Although every effort has been made to ensure their factual accuracy, we are not responsible for your ultimate compliance with U.S. GAAP, U.S. GAAS, SEC regulations, and/or IFRS, and you agree not to hold us responsible for such.

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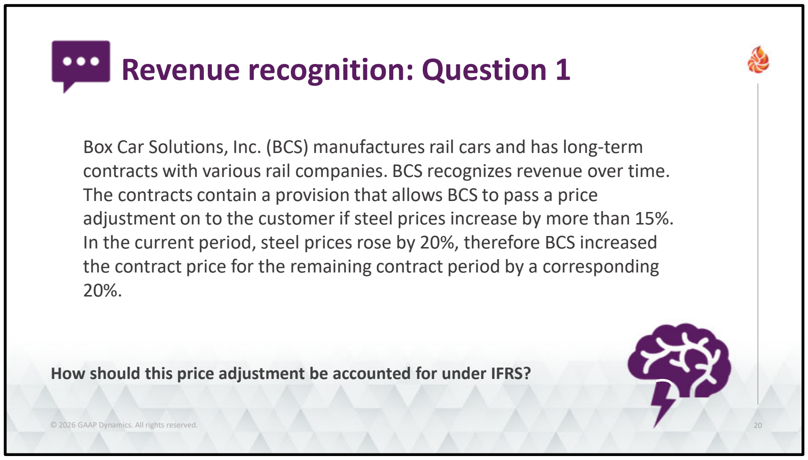
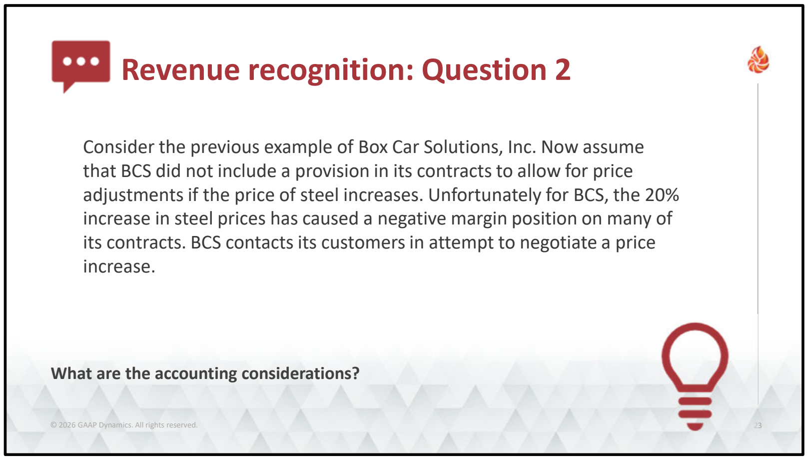


Question: How should this price adjustment be accounted for under IFRS?

Answer: As variable consideration under IFRS 15. Since the contract included a provision that allows for the adjustment of the contract price, this adjustment should be accounted for as variable consideration, not as something else such as a contract modification.

> If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties, or other similar items. The promised consideration also can vary if an entity's entitlement to the consideration is contingent on the occurrence or nonoccurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone.
>
> The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:
>
> a) The customer has a valid expectation arising from an entity's customary business practices, published policies, or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry, or customer this offer may be referred to as a discount, rebate, refund, or credit.
>
> b) Other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer.



Question: What are the accounting considerations?

Answer: It depends on whether customers accept a price increase as a result of the negotiations. If they do, this is a contract modification under IFRS 15 and must be evaluated under that guidance to determine the appropriate accounting. See next slide for a summary of that guidance.

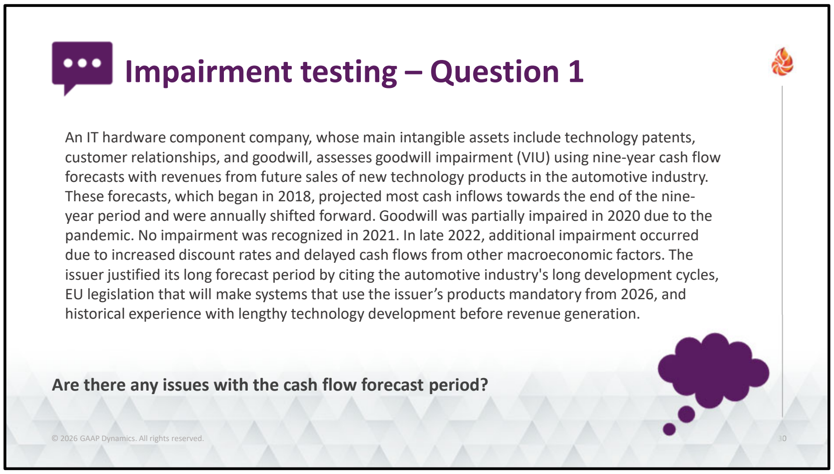
If the customer does not accept the price increase, these contract may be onerous and as such an onerous contract provision may need to be recognized under IAS 37. In addition, there may also be going concern issues due to the severity of the impact.

Question: **How should the tariffs paid be accounted for in the financial statements?**

Answer: **As part of the cost of inventory.** Inventory is recognized at cost in accordance with IAS 2. Cost includes all costs of purchase, costs of conversion/production, and other costs incurred in bringing the inventories to their present location.

Purchase cost includes:
- Purchase price
- **Import duties and other taxes**
- Transport in, handling
- Other costs directly attributable to the acquisition of finished goods, materials and services

Cost of conversion includes:
- Direct material
- Direct labour
- Other direct costs
- Fixed and variable production overheads



Example based on ESMA's Report, *30th Extract from the FRWG (EECS)'s Database of Enforcement* (27 June 2025)

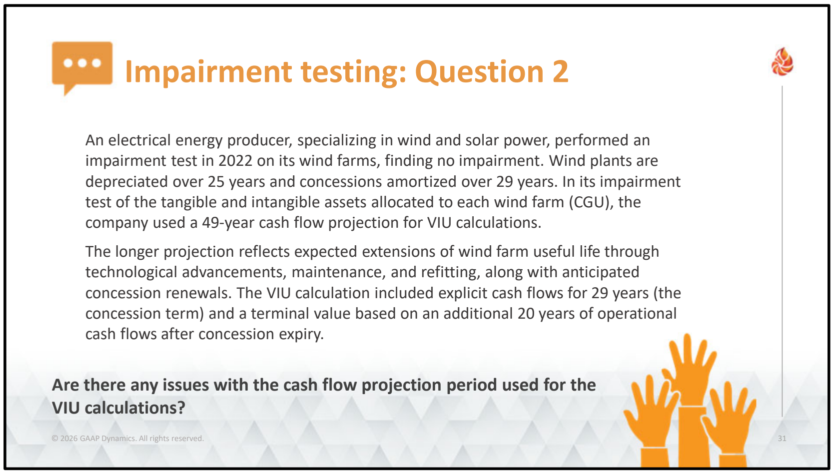
Additional details on the issuer's position from the ESMA report:

- The cash flows depend on demand from the automotive industry, which has a long development cycle and requires extensive quality testing.
- The expected cash flows are affected by changes in legislation. From 2026, systems that use the issuer's products will become mandatory in the EU.
- Experience has shown that it takes time to develop technologies and patents before they start generating revenue.
- One example of the issuer's past experience is a hardware component for mobile phones that was developed between 2004 and 2010 and started generating revenue in 2015. This product is still contributing to the issuer's revenue.

Question: Are there any issues with the cash flow forecast period?

Answer: Yes. Based on the case facts, management is unable to make reliable cash flow forecasts for a projection period as long as nine years. According to paragraph 33(b) of IAS 36, projections based on budgets and forecasts shall cover a maximum period of five years unless a longer period can be justified. Paragraph 35 of IAS 36 stipulates that '*detailed, explicit, and reliable financial budgets and forecasts of future cashflows for periods longer than five years are generally not available. (..) Management may use cashflow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experiences, to forecast cashflows over that longer period*.'

Per the ESMA report "rationale for the enforcement decision":
Because the forecast period of nine years (initially applied by the issuer in 2018) was applied again in 2021 and the initially expected cash flows were continuously shifted forward in time, the enforcer concluded that the cash flows initially projected by the issuer's management have not materialised. This view was also supported by the fact that an adjustment of the forecasted cash flows resulted in a material impairment in 2020. Therefore, the enforcer concluded that the issuer was not able to demonstrate its ability to forecast cashflows over a period as long as nine years, based on past experiences.



Example based on ESMA's Report, *30th Extract from the FRWG (EECS)'s Database of Enforcement* (27 June 2025)

Concession = the granting of rights, often by a government, to a private entity (like a wind farm developer) to develop and operate a wind farm in a specific area. This grant can include access to land, seabed (for offshore wind), and resources, and it often involves a defined period of time.

Question: Are there any issues with the cash flow projection period used for the VIU calculations?

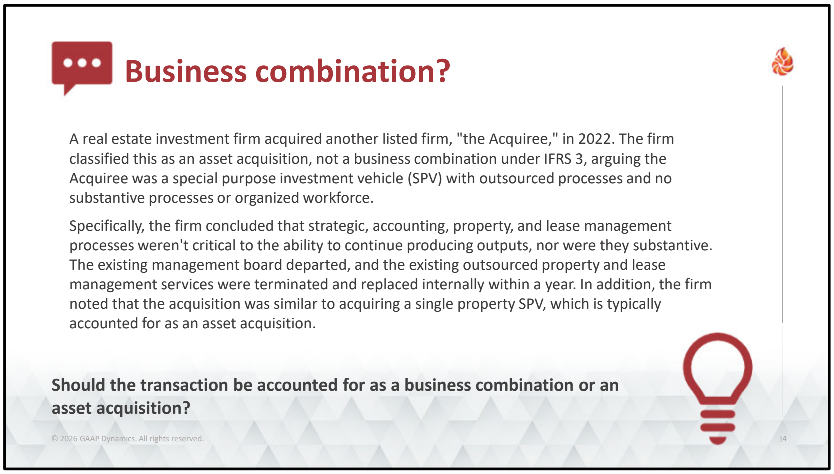
Answer: Yes. The cash flow projection period cannot be longer than the useful life of the concession (29 years), which is an asset essential to the ongoing operation of the issuer's CGUs.

From the ESMA Report "Rationale for the enforcement decision":
The enforcer noted that, according to paragraph 33 of IAS 36, an entity shall base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence. Moreover, paragraph 49 of IAS 36 requires that, when a CGU consists of assets with different estimated useful lives - all of which are essential to the ongoing operation of the CGU, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the CGU when estimating the future cash flows associated with the CGU.

The enforcer considered that, based on paragraphs 33 and 49 of IAS 36, the cashflow projections can usually not cover a period longer than the longest useful life of an asset essential to the ongoing operation of the CGU. Additionally, the enforcer observed that:

a) Currently, the issuer had no evidence about the extension of the useful life of the plant and/or of the concession for a total period of 49 years.
b) While the issuer expected that the concession rights, which are essential to the ongoing operation of the wind farms, would be renewed based on past experience, the issuer did not provide any further evidence to demonstrate that this would happen.

Therefore, the enforcer considered that the cash flows projections used to calculate the ViU of the wind farms could not be longer than the useful life of the concession that represents an asset essential to the ongoing operation.



Example based on ESMA's Report, *30th Extract from the FRWG (EECS)'s Database of Enforcement* (27 June 2025)

Additional details on the case facts (taken from the ESMA report) for reference:
According to paragraph B7 of IFRS 3, a business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. To be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output (paragraph B8 of IFRS 3).

While the issuer identified inputs and outputs resulting from the activities carried out by the Acquiree, it was of the opinion that no substantive processes were acquired. The issuer identified four processes that required further analysis as to whether they were substantive or not: (i) strategic management, (ii) accounting, (iii) property management and (iv) lease management.
The issuer concluded that:

a) None of the acquired processes were critical to the ability to continue producing outputs, as producing outputs and generating revenues was possible for a longer period of time without the need for external processes or intervention.
b) No organised workforce in the Acquiree was acquired, since the management board, that was responsible for all strategic and operational decision making and therefore critical to the management of the entity as a business, left per the terms of the transaction.
c) Although some of the processes (property management and lease management) could be considered as 'significantly contributing to the ability to continue producing outputs', these processes were outsourced, not unique nor scarce and could be readily replaced without significant cost (three months' notice and no termination cost), effort or delay.

When considering the guidance in paragraph B12D of IFRS 3, the issuer concluded that the duration and renewal terms of the outsourcing contracts supported the assessment that these contracts did not give access to an organised workforce. This was supported by the fact that the outsourced services were terminated and replaced by the issuer's internal processes without difficulties one year after the acquisition date.

Question: Should the transaction be accounted for as a business combination or an asset acquisition?

Answer: The transaction should be accounted for as a business combination, not an asset acquisition. Substantive processes, although outsourced, were acquired and therefore all three elements of a business (inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs) were met. See below for more information on this conclusion.

From the ESMA Report "Rationale for the enforcement decision":
The enforcer agreed with the four processes identified by the issuer. In the enforcer's view, three processes (strategic management, property management and lease management) contributed significantly to the ability to

deliver outputs. Given that the strategic management left the Acquiree in accordance with the terms of the acquisition only two of those processes (property management and lease management) were in place at the time of the acquisition.

The enforcer noted that, when assessing whether significant processes were acquired, the issuer should have considered the conditions that existed in the Acquiree at the time of acquisition (and not subsequently). For this purpose, the intentions of management regarding the continuation or discontinuation of such processes and businesses after the acquisition took place were not relevant. In this respect, both the enforcer and the issuer agreed that the property management and lease management processes were in place and operational at the time of acquisition.

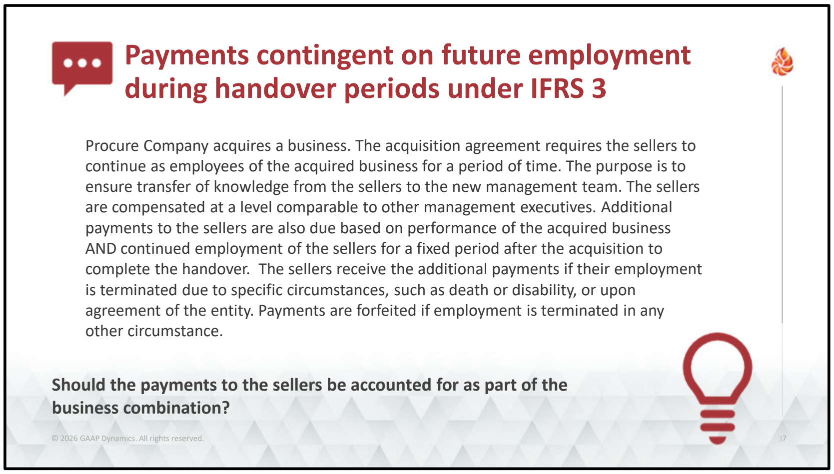
When assessing whether the acquired processes are substantive both conditions in paragraph B12C of IFRS 3 should be considered. The enforcer agreed with the issuer that condition (b) was not met as the acquired processes were not unique nor scarce. However, when assessing whether condition (a) (the process is critical to the ability to continue producing outputs, and the inputs acquired include an organised workforce) was met, the enforcer considered the guidance in paragraph B12D of IFRS 3. With regards to letter (a) of paragraph B12D, the enforcer concluded that the acquired outsourcing contracts gave the issuer access to an organised workforce that performed a substantive process that the issuer controlled. The enforcer reached this conclusion because none of the parties involved in the outsourcing contracts could unilaterally cease operations at the time of acquisition and/or denounce the contracts without incurring significant costs. Under the terms of the outsourcing contracts, the contracts could only be terminated approximately two years after the acquisition date, unless the issuer paid an early termination fee. Consequently, the enforcer concluded that the issuer controlled the organised workforce through these contracts.

With regards to letter (b) of paragraph B12D, difficulties in replacing an acquired workforce may indicate that the organised workforce performs a process that is critical to the ability to create outputs. However, the enforcer noted that the absence of such difficulties does not necessarily imply that the processes are not critical to the ability to create outputs.

With regards to letter (c) of paragraph B12D, based on the assessment of the terms of the outsourcing contracts, the enforcer concluded that the outsourced processes were not ancillary or minor. Specifically, the enforcer noted that, in addition to the day-to-day management of the portfolio (rent collection, annual rent increase, small maintenance, etc.), the outsourcing contracts also covered the acquisition of new tenants, short and mid-term maintenance and refurbishment planning as well as strategic advice. In particular, the outsourcing partners gave strategic advice about the composition of the portfolio. In fact, all important business processes were performed by the outsourcing partner; the board of the Acquiree (which stepped down at the acquisition date) had the final say only regarding major strategic choices.

Based on the above considerations, the enforcer concluded that the two processes acquired were substantive as they were critical to produce outputs. Furthermore, the inputs acquired included organised workforce with the necessary skills, knowledge and experience to perform those processes.

Finally, the enforcer disagreed with the analogy the issuer drew with the acquisition of a single property SPV. In the case of a single property SPV, that SPV is part of a larger portfolio which remains with the seller, and thus the processes also remain with the seller. The issuer, on the contrary, acquired the whole Acquiree, including both the property portfolio and its financing.



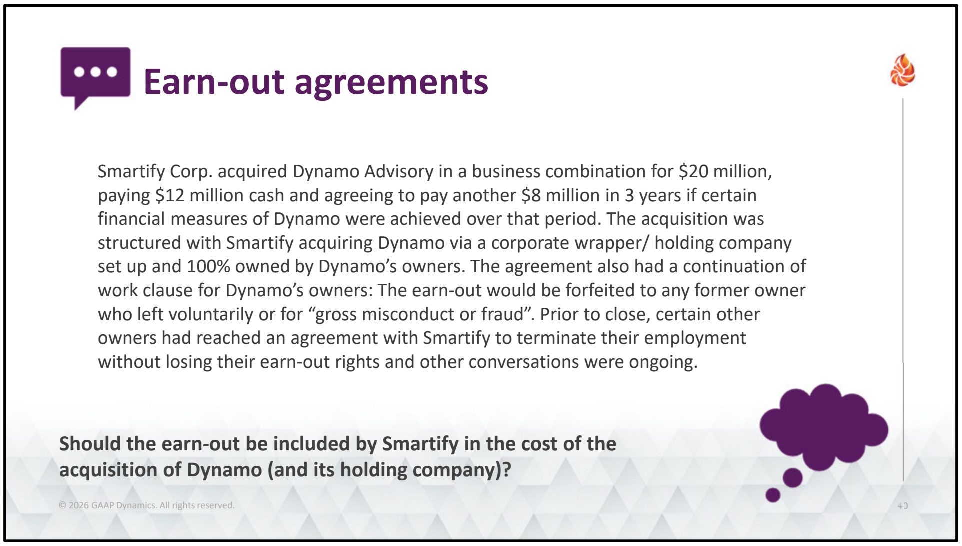
Issue based on IFRIC Agenda Decision, *Payments Contingent on Continued Employment during Handover Periods (IFRS 3 Business Combinations)*, published April 29, 2024

Question: Should the payments to the sellers be accounted for as part of the business combination?

Answer: No. The payments should be accounted for as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.

From the agenda decision:
<u>Fact pattern</u>
In the fact pattern described in the request: a. an entity acquires a business and, as part of the acquisition agreement, requires the sellers to continue as employees of the acquired business. The sellers' continued employment is to ensure the appropriate transfer of knowledge from the sellers to the new management team (handover of the business). b. the sellers are compensated for their services at a level comparable to other management executives. The entity also agrees to make additional payments to the sellers contingent upon both the performance of the acquired business and, as described below, the continued employment of the sellers for a limited period after the acquisition to complete the handover of the business. c. the sellers are entitled to receive the additional payments if their employment is terminated due to specified circumstances—such as death or disability—or with the entity's agreement. The sellers forfeit the additional payments if their employment is terminated in any other circumstance.

<u>Findings</u>
Evidence gathered by the Committee indicated no significant diversity in the accounting for payments contingent upon continued employment in fact patterns such as that described in the request. In these fact patterns, entities apply the accounting described in the Agenda Decision Continuing employment (IFRS 3 Business Combinations), published in January 2013, and account for the payments as compensation for post-combination services rather than as additional consideration for the acquisition, unless the service condition is not substantive.



Example based on EECS/0124-01 from ESMA's Report, *28th Extract from the FRWG (EECS)'s Database of Enforcement* (9 October 2023)

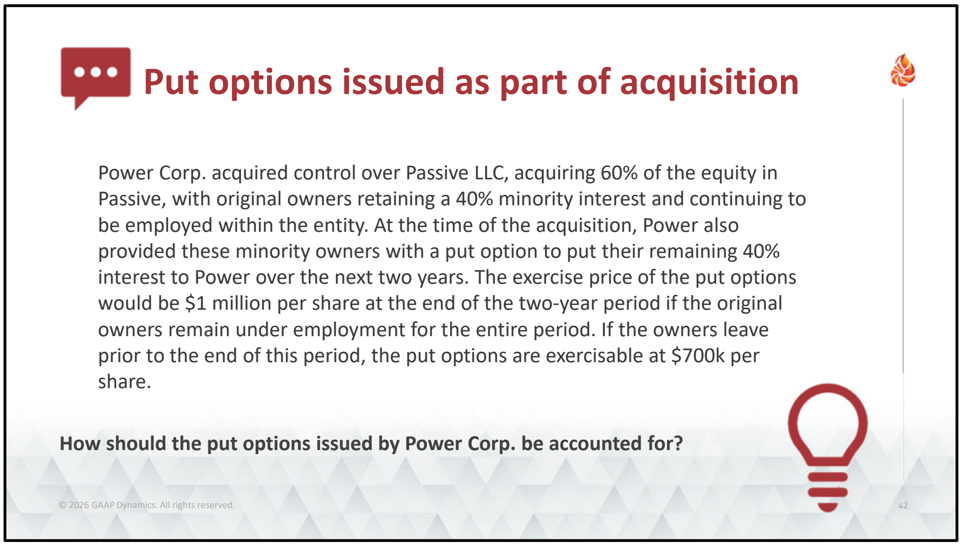
Question: Should the earn-out be included by Smartify in the cost of the acquisition of Dynamo (and its holding company)?
Answer: The earn-out portion should be accounted for APART from the business combination and as a separate transaction (e.g., compensation post acquisition).

Smartify should account for the earn-out as remuneration for post-combination services in accordance with IFRS 3.B55(a) and to exclude the earn-out from the acquisition price of Dynamo Advisory. Despite the terms that could potentially cause Dynamo owners to receive payout without future employment (e.g., voluntary removal, removal for gross misconduct, or separate negotiation), there are instances where payout is contingent on future service and therefore there is commercial substance to the arrangement that includes future service.

Per ESMA report:
The enforcer noted that, according to IFRS 3.52 (b), a transaction that remunerates employees or former owners of the acquiree for future services is likely to be a separate transaction. Furthermore, according to IFRS 3.B55(a) (and taking into consideration the IFRIC agenda decision from January 2013), a contingent consideration arrangement in which payments to an employee are forfeited upon termination of employment is remuneration for post-combination services, and not part of the consideration for an acquisition.

In the opinion of the enforcer, ensuring that the full amount of an earn-out would be paid if the seller is dismissed from the acquired company without cause is a common protective right. Therefore, the enforcer concluded that the clauses regarding continuing employment had economic substance and were legally binding. If the issuer were to dismiss the owners of Dynamo with cause or they chose to leave voluntarily, then they would not have the right to the full amount of the earn-out which demonstrated that it should be accounted for as remuneration and not as part of the acquisition price of the business combination.

Finally, the enforcer considered that the fact that Dynamo was acquired via a holding company (corporate wrapper) owned by the owners of Dynamo did not change the economic substance of the transaction and thus it should not impact the accounting treatment followed.



Example based on EECS/0124-02 from ESMA's Report, *28th Extract from the FRWG (EECS)'s Database of Enforcement* (9 October 2023)

Question: How should the put options issued by Power Corp. be accounted for?
Answer: The put options should be recognized as a financial liability under IFRS 32, but only for an amount based on the DISCOUNTED price as this is the only financial obligation associated with the arrangement (i.e., $700k/share). The "additional" compensation of the put options (i.e., the remaining $300k/share) that requires the original owners to remain employed at Passive LLC should be accounted for as remuneration/ employee benefit over the service period and apart from any business combination accounting.

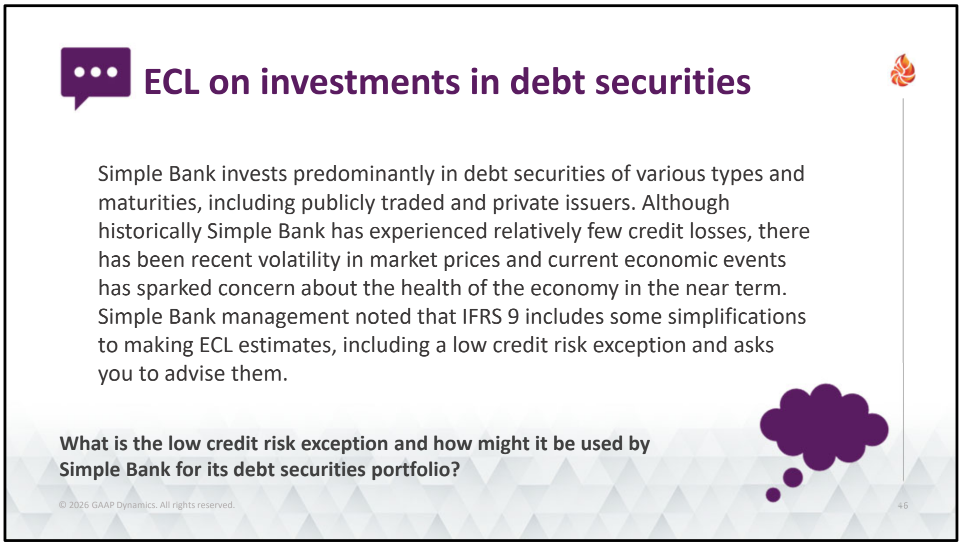
Per ESMA report:
The enforcer did not agree with the accounting treatment of the issuer and required the issuer to account for:

a) a financial liability corresponding to the estimated exercise price of the put options reduced by the discount (i.e. the price that would be paid if the vendors left the company), and,
b) the remaining contingent payment as a remuneration expense (employee benefit) over time, on a pro rata basis, considering the guidance in paragraph B55(a) of IFRS 3.

IAS 32.23 generally requires the recognition of a financial liability when an entity has an obligation to pay cash in the future to purchase the minority's shares, even if the payment of that cash is conditional on the option being exercised by the holder. However, the enforcer disagreed that the full amount of payment to minority shareholders (exercise price of options) should be attributed to the minority shares to be acquired by issuer. The enforcer noted that part of this payment would only be due if the original owners did not leave the employment of Passive LLC. Therefore, the enforcer concluded that part of the amount should be considered as remuneration of the original owners for their services after the acquisition of Passive and should not be part of the consideration for the minority shares.

The enforcer noted that IFRS 3 includes specific guidance on whether an arrangement for payments to employees or selling shareholders is part of the consideration exchange for the acquiree or is a separate transaction from the business combination. Specifically, IFRS 3.B55(a) states that a contingent consideration arrangement in which the payments are automatically forfeited if employment terminates is remuneration for post-combination services.

In the enforcer's view, the guidance in IFRS 3.B55(a) should be applied in this case given the similarities of the discount applied in these transactions and a remuneration for future services. In particular, the discount to the exercise price of the put option should be treated in the same way as the payment that is automatically forfeited on termination of employment referred to IFRS 3.B55(a). A financial liability in accordance with IAS 32.23 should be measured taking into account the estimated exercise price of the put options reduced by discount related to the remuneration for post business combination services.



Question: What is the low credit risk exception and how might it be used by Simple Bank for its debt securities portfolio?

Answer: As an exception to the general requirements, an entity may assume that the credit risk has not increased significantly since initial recognition if the credit risk on the financial instrument is ***low*** at the reporting date. An entity can choose to apply this simplification on an instrument-by-instrument basis.

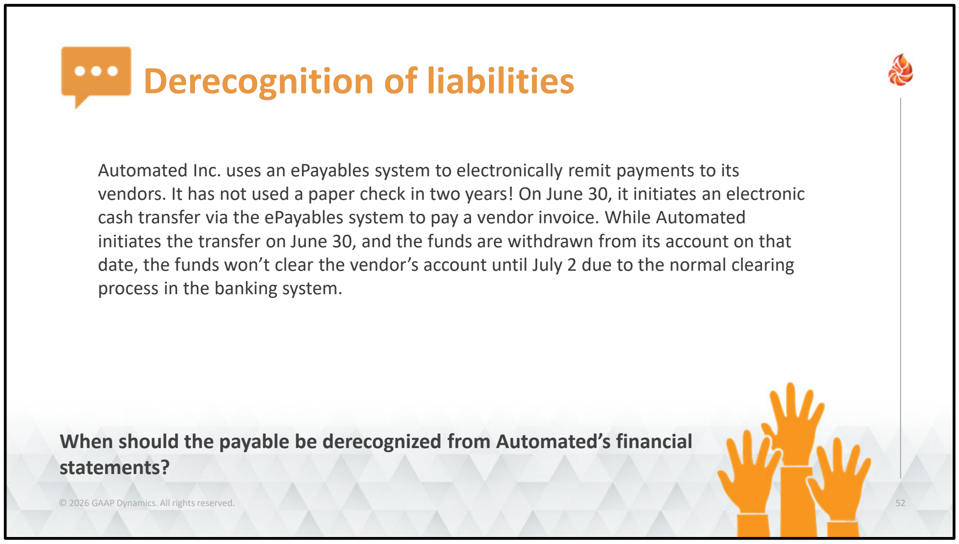
The credit risk of a financial instrument is low if:

- the instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the borrower's ability to fulfil its obligations

A financial instrument with an ***external rating of 'investment grade'*** is an example of an instrument that may be considered to have a low credit risk. However, a financial instrument does not have to be externally rated for the exception to apply.

Simple Bank could therefore apply this exception/simplification to its portfolio of debt securities, however, the following considerations need to be taken into account:

- The exception is best applied to high quality debt securities. Those that are already at the minimum rating to be considered investment grade are unlikely to benefit from this exception, as any further downward movement would force Simple Bank to apply normal SICR principles to determine ECL. (POCI securities would also not be able to apply this simplification as, by definition, they are already credit impaired).
- Simple Bank holds both publicly traded and private debt securities. While publicly traded securities will likely have external ratings, private debt might need to rely on internal ratings. While this is acceptable, it will be more challenging to support this approach, and regulators may question whether it is an appropriate approach to measure ECLs
- Consideration should be given to the market information available and how the simplification is applied. While an entity can "blindly" rely on external ratings, some have questioned whether these ratings rely too much on historical information and are not quick enough to respond to current conditions and economic forecasts. When external ratings do not align with other observable market information (e.g., CDS and bond spreads), consideration might be given to whether the simplification is appropriate. There are two sides to this assessment: While external ratings may be "slow" to respond to economic changes, market prices (e.g., CDS and bond spreads) may be "too volatile" when responding to these changes.



Question: When should the payable be derecognized from Automated's financial statements?

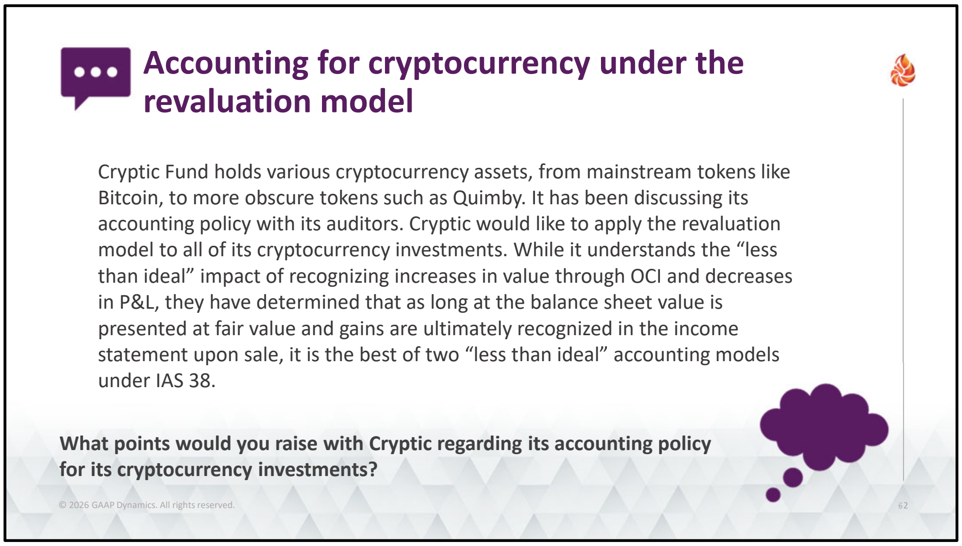
Answer: It depends. Currently there is no clear answer under IFRS which has led to questions and diversity in practice. The IFRIC attempted to deal with this issue in a draft agenda decision published in 2021/2022, but that only addressed the issue of electronic transfer and the derecognition of *financial assets*. That agenda decision was never finalized due to concerns over the impact on financial liabilities.

However, the IASB has issued amendments to the classification and measurement guidance in IFRS 9 that does address the issue of settlement via electronic transfer for financial liabilities. The amendments state that when derecognizing a financial liability, entities should apply settlement date accounting with one possible exception. The guidance permits an entity to select an accounting policy to apply settlement date accounting OR to deem a financial liability (or part of a financial liability) that will be settled with cash using an electronic payment system, to be discharged before the settlement date if the entity has initiated the payment instruction AND:

a) The entity has no ability to withdraw, stop or cancel the payment instruction,
b) The entity has no practical ability to access the cash to be used for settlement as a result of the payment instruction, and
c) The settlement risk associated with the electronic payment system is insignificant

Settlement risk is considered insignificant if the characteristics of the electronic payment system are such that completion of the payment instruction follows a standard administrative process and the time between initiating a payment instruction and the cash being delivered is short. However, settlement risk would not be insignificant if the completion of the payment instruction is subject to the entity's ability to deliver cash on the settlement date.

The amendments also clarified that a financial asset is derecognized on the date on which the contractual rights to the cash flows expire or the asset is transferred.



Question: What points would you raise with Cryptic regarding its accounting policy for its cryptocurrency investments?
Answer: There are at least two issues surrounding Cryptic's accounting policy:

1. ***Revaluation model can only be applied to intangible assets for which there is an "active market" (IAS 38.75).*** This is defined by IFRS 13 as "a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis." In other words, a Level 1 fair value. This is likely to be met for the more well-known and highly traded coins like Bitcoin, Etherium, etc., but unlikely for some of the lesser known coins.
2. ***Under the revaluation model, the revaluation reserve may not flow through the P&L, even upon realization (IAS 38.87).*** The cumulative revaluation reserve may be transferred directly to retained earnings upon derecognition, and possibly by transferring the additional amortization on the revalued amount to retained earnings as the asset is used, but IAS 38 does not allow the revaluation reserve to be transferred via profit or loss.