Part (a) Assuming that the US dollar is the functional currency of TrueHealth –
(i) calculate the various amounts that will be included in profit or loss in the consolidated statement of profit or loss of the PharmSure group for the year ended 30 June 2015 arising from the disposal of TrueHealth

**Marks**

<table>
<thead>
<tr>
<th>Alternative 1: Loss on sale of share</th>
<th>ZAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ZAR</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds (given) (USD4 000 000 x 12)</td>
<td>48 000 000</td>
</tr>
<tr>
<td>Less: Value lost (excluding goodwill) (98 664 258 x 50%)</td>
<td>98 664 258</td>
</tr>
<tr>
<td>Net asset value (from analysis)</td>
<td>100 166 568</td>
</tr>
<tr>
<td>Less: Goodwill at acquisition</td>
<td>(1 502 310)</td>
</tr>
<tr>
<td>Less: Goodwill realised</td>
<td>(1 024 443)</td>
</tr>
<tr>
<td>= [1 075 665 (Parent goodwill) x 50 / 52,5]</td>
<td></td>
</tr>
<tr>
<td>Remeasurement loss</td>
<td>(1 071 828)</td>
</tr>
<tr>
<td>Fair value</td>
<td>1 446 000</td>
</tr>
<tr>
<td>Less: Remaining interest (98 664 258 x 2.5%)</td>
<td>(2 466 606)</td>
</tr>
<tr>
<td>Less: Remaining Goodwill (1 075 665 x 2.5% / 52,5)</td>
<td>(51 222)</td>
</tr>
<tr>
<td>Fair value increase related to debentures [74 500 + 79 500] OR [(10 000 x 10,70 x 12,00) – 1 130 000]</td>
<td>154 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Alternative 2: Loss on sale of share</th>
<th>ZAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ZAR</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds (given) (USD4 000 000 x 12)</td>
<td>48 000 000</td>
</tr>
<tr>
<td>Fair value of remaining ordinary shares (5 000 x 24,10 x 12,00)</td>
<td>1 446 000</td>
</tr>
<tr>
<td>Fair value increase related to debentures [74 500 + 79 500] OR [(10 000 x 10,70 x 12,00) – 1 130 000]</td>
<td>154 000</td>
</tr>
<tr>
<td>Cost</td>
<td>(10 140 000)</td>
</tr>
<tr>
<td>Share of opening retained earnings of TrueHealth (from analysis: 39 421 800 x 52,5%)</td>
<td>(20 696 445)</td>
</tr>
<tr>
<td>Share of profit of TrueHealth [from analysis: (10 154 484 + 23 621 363) x 52,5%]</td>
<td>(17 732 320)</td>
</tr>
<tr>
<td>Share of opening foreign currency translation reserve (from analysis: 6 716 769 x 52,5%)</td>
<td>(3 526 304)</td>
</tr>
<tr>
<td>Share of foreign currency translation reserve arising during 2015 (from analysis: 1 484 443 x 52,5%)</td>
<td>(779 333)</td>
</tr>
</tbody>
</table>
**Alternative 3: Loss on sale of share**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds (given) (USD4 000 000 x 12)</td>
<td>48 000 000</td>
<td>1</td>
</tr>
<tr>
<td>Fair value of remaining ordinary shares (5 000 x 24,10 x 12,00)</td>
<td>1 446 000</td>
<td>1</td>
</tr>
<tr>
<td>Fair value increase related to debentures [74 500 + 79 500] OR [(10 000 x 10,70 x 12,00) – 1 130 000]</td>
<td>154 000</td>
<td>1</td>
</tr>
<tr>
<td>NCI derecognised per analysis (from part (a)(ii))</td>
<td>47 292 167</td>
<td>1P</td>
</tr>
<tr>
<td>Net assets derecognised per analysis (including goodwill)</td>
<td>(100 166 568)</td>
<td>1P</td>
</tr>
</tbody>
</table>

**Alternative 4: Loss on sale of share**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds (given) (USD4 000 000 x 12)</td>
<td>48 342 857</td>
<td>1</td>
</tr>
<tr>
<td>Since retained earnings sold</td>
<td>(36 598 824)</td>
<td>1P</td>
</tr>
<tr>
<td>Since FCTR sold</td>
<td>(4 100 606)</td>
<td></td>
</tr>
<tr>
<td>Remeasurement loss</td>
<td>(1 071 828)</td>
<td>1P</td>
</tr>
<tr>
<td>Fair value</td>
<td>1 446 000</td>
<td></td>
</tr>
<tr>
<td>Less: Remaining interest (98 664 258 x 2.5%)</td>
<td>(2 466 606)</td>
<td></td>
</tr>
<tr>
<td>Less: Remaining Goodwill (1 075 665 x 2.5% / 52.5%)</td>
<td>(51 222)</td>
<td></td>
</tr>
<tr>
<td>Fair value increase related to debentures [74 500 + 79 500] OR [(10 000 x 10,70 x 12,00) – 1 130 000]</td>
<td>154 000</td>
<td>1</td>
</tr>
</tbody>
</table>

Other adjustments:
- Reclassification of FCTR [from analysis: (6 716 769 + 1 484 443) x 52.5%] | 4 305 637      | 1P    |
- Realisation of remaining intragroup gains (1 008 000 / 60 x 21 months remaining) OR before tax (1008 000 / 72% = 1 400 000 / 60 x 21 = 490 000) | 352 800 / 490 000 | 1    |

**Part (a) Assuming that the US dollar is the functional currency of TrueHealth –**

(ii) **present the following in the consolidated statement of changes in equity of the PharmSure group for the year ended 30 June 2015:**
- Retained earnings attributable to the owners of the parent; and
- Non-controlling interests

<table>
<thead>
<tr>
<th>Retained earnings</th>
<th>Marks</th>
<th>Non-controlling interests</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZAR</td>
<td></td>
<td>ZAR</td>
</tr>
<tr>
<td>Balance on 30 June 2014</td>
<td>[C1] 42 676 980</td>
<td>1C</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>[C5] 8 710 952</td>
<td>1C</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td></td>
</tr>
<tr>
<td>Loss of control of subsidiary</td>
<td>–</td>
<td>(47 292 167)</td>
</tr>
<tr>
<td>Balance on 30 June 2014</td>
<td>51 400 462</td>
<td>–</td>
</tr>
</tbody>
</table>
### Complete analysis of equity of TrueHealth

<table>
<thead>
<tr>
<th></th>
<th>PharmSure (52,5%)</th>
<th>NCI (47,5%)</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>At acquisition</td>
<td>Since acquisition</td>
<td></td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>ZAR</td>
<td>ZAR</td>
</tr>
<tr>
<td>At acquisition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1 000 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>730 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>1 730 000</td>
<td>9.98</td>
<td>17 265 400 (1)</td>
</tr>
<tr>
<td>Goodwill</td>
<td>150 532</td>
<td>9.98</td>
<td>1 502 310</td>
</tr>
<tr>
<td>Consideration + NCI</td>
<td>1 880 532</td>
<td>9.98</td>
<td>18 767 709 (1)</td>
</tr>
<tr>
<td>Gdwl (1)</td>
<td></td>
<td></td>
<td>10 140 000</td>
</tr>
<tr>
<td>Gdwl (1) (given)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prior years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3 620 000</td>
<td>10.89</td>
<td>39 421 800 (1)</td>
</tr>
<tr>
<td>FCTR (balancing)</td>
<td>6 716 769 (1C)</td>
<td></td>
<td>3 526 304</td>
</tr>
<tr>
<td>FCTR (goodwill)</td>
<td>273 968</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FCTR (other)</td>
<td>6 442 801</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>5 500 532</td>
<td>11.80</td>
<td>64 906 278 (1)</td>
</tr>
<tr>
<td>Current year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Given</td>
<td>3 700 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less profit on portfolio</td>
<td>(1 993 364)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 706 636</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit evenly over 6 months to 31/12/2014</td>
<td>853 318 (1)</td>
<td>11.90</td>
<td>10 154 484 (1)</td>
</tr>
<tr>
<td>Gain on portfolio on 30/09/2014</td>
<td>1 993 364 (1)</td>
<td>11.85</td>
<td>23 621 363 (1)</td>
</tr>
<tr>
<td>FCTR (balancing)</td>
<td>1 484 443 (1C)</td>
<td></td>
<td>779 333</td>
</tr>
<tr>
<td>FCTR (goodwill)</td>
<td>30 106</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FCTR (other)</td>
<td>1 454 337</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>8 347 214</td>
<td>12.00</td>
<td>100 166 568 (1)</td>
</tr>
</tbody>
</table>
### Consolidated opening balance of retained earnings

<table>
<thead>
<tr>
<th>Description</th>
<th>ZAR</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance in separate trial balance of PharmSure</td>
<td>32 000 000</td>
<td>1</td>
</tr>
<tr>
<td>Reversal of intercompany interest received in PharmSure</td>
<td>(37 422)</td>
<td>1P</td>
</tr>
<tr>
<td>($100 000 x 4.5% x 11.55 = 51 975 x 72%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative fair value adjustments on investment in ordinary shares</td>
<td>(11 666 400)</td>
<td>1</td>
</tr>
<tr>
<td>[{(105 000 x 17.60 x 11.80) – 10 140 000} ]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on above (11 666 400 x 66.6% x 28%)</td>
<td>2 175 550</td>
<td>1P</td>
</tr>
<tr>
<td>Cumulative fair value adjustments on investment in debentures</td>
<td>(79 500)</td>
<td>1</td>
</tr>
<tr>
<td>[{(10 000 x 10.25 x 11.80) – 1 130 000}]</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax on above (79 500 x 28%)</td>
<td>22 260</td>
<td>1P</td>
</tr>
<tr>
<td>Unrealised intragroup gains</td>
<td>(453 600)</td>
<td></td>
</tr>
<tr>
<td>Reversal of profit on sale (given)</td>
<td>(1 008 000)</td>
<td>1</td>
</tr>
<tr>
<td>Realisation up to 30/06/2014 (1 008 000 / 60 x 33)</td>
<td>554 400</td>
<td>1</td>
</tr>
<tr>
<td><strong>From analysis:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of retained earnings of TrueHealth (39 421 800 x 52.5%)</td>
<td>20 696 445</td>
<td>1P</td>
</tr>
<tr>
<td>Reversal of intercompany interest expense in TrueHealth</td>
<td>19 647</td>
<td>1P</td>
</tr>
<tr>
<td>($100 000 x 4.5% x 11.55 = 51 975 x 52.5% x 72%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>42 676 980</td>
<td></td>
</tr>
</tbody>
</table>

### Opening balance of non-controlling interest

<table>
<thead>
<tr>
<th>Description</th>
<th>ZAR</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>From analysis:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Alternative 1:</strong></td>
<td>[3T]</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest at acquisition (95 000 x 9.10 x 9.98)</td>
<td>8 627 710</td>
<td>1</td>
</tr>
<tr>
<td>Share of opening retained earnings (39 421 800 x 47.5%)</td>
<td>18 725 355</td>
<td>1P</td>
</tr>
<tr>
<td>Share of foreign currency translation reserve (6 716 769 x 47.5%)</td>
<td>3 190 465</td>
<td>1P</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30 543 530</td>
<td></td>
</tr>
<tr>
<td><strong>Alternative 2:</strong></td>
<td>[3T]</td>
<td></td>
</tr>
<tr>
<td>Net assets per analyses (including goodwill) on 30/6/2014</td>
<td>64 906 278</td>
<td>1P</td>
</tr>
<tr>
<td>Less total goodwill</td>
<td>(1 502 310)</td>
<td></td>
</tr>
<tr>
<td>NCI share at 47.5%</td>
<td>30 116 884</td>
<td>1P</td>
</tr>
<tr>
<td>NCI goodwill</td>
<td>426 645</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30 543 530</td>
<td></td>
</tr>
<tr>
<td><strong>Alternative 3:</strong></td>
<td>[3T]</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interest at acquisition (95 000 x 9.10 x 9.98)</td>
<td>8 627 710</td>
<td>1</td>
</tr>
<tr>
<td>NAV per analysis (incl goodwill) on 30/6/2014</td>
<td>64 906 278</td>
<td></td>
</tr>
<tr>
<td>Less: NAV per analysis (incl goodwill) at acq</td>
<td>(18 767 709)</td>
<td></td>
</tr>
<tr>
<td>Since acquisition growth in reserves</td>
<td>46 138 569</td>
<td>1P</td>
</tr>
<tr>
<td>NCI share at 47.5%</td>
<td>21 915 820</td>
<td>1P</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30 543 530</td>
<td></td>
</tr>
</tbody>
</table>
### Question 1: NCI Share in Current Year Profit

<table>
<thead>
<tr>
<th>From analysis:</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCI share of profit for the current year up to 31/12/2014</td>
<td>ZAR</td>
</tr>
<tr>
<td>[(10 154 484 + 23 621 363) x 47.5%]</td>
<td>16 043 527</td>
</tr>
</tbody>
</table>

### Question 2: NCI Share in Foreign Currency Translation Reserve Arising during 2015

<table>
<thead>
<tr>
<th>From analysis:</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of foreign currency translation reserve arising during 2015</td>
<td>ZAR</td>
</tr>
<tr>
<td>(1 484 443 x 47.5%)</td>
<td>705 110</td>
</tr>
</tbody>
</table>

### Question 3: Consolidated Profit for 30 June 2015

<table>
<thead>
<tr>
<th>From analysis:</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance in separate trial balance of PharmSure</td>
<td>ZAR</td>
</tr>
<tr>
<td>15 600 000</td>
<td>1</td>
</tr>
<tr>
<td>Reversal of intercompany interest income in TrueHealth</td>
<td>(19 278)</td>
</tr>
<tr>
<td>($100 000 x 4.5% x 6/12 x 11.90 = 26 775 x 72%)</td>
<td></td>
</tr>
<tr>
<td>Fair value adjustments on investment in ordinary shares</td>
<td>(8 559 600)</td>
</tr>
<tr>
<td>[(105 000 x 24,10 x 12) – 21 806 400 (105 000 x 17,60 x 11,80)]</td>
<td></td>
</tr>
<tr>
<td>Tax on above (8 559 600 x 66.6% x 28%)</td>
<td>1 596 194</td>
</tr>
<tr>
<td>Fair value adjustments on investment in debentures</td>
<td>(74 500)</td>
</tr>
<tr>
<td>[(10 000 x 10,70 x 12) - 1 209 500) or ((10 000 x 10,25 x 11,80))]</td>
<td></td>
</tr>
<tr>
<td>Tax on above (74 500 x 28%)</td>
<td>20 860</td>
</tr>
<tr>
<td>Profit on sale of shares in separate financial statements</td>
<td>(19 080 000)</td>
</tr>
<tr>
<td>- Proceeds (4 000 000 x 12,00)</td>
<td>48 000 000</td>
</tr>
<tr>
<td>- Carrying amount (fair value) (100 000 x 24,10 x 12,00)</td>
<td>(28 920 000)</td>
</tr>
<tr>
<td>Reclassification of FCTR [from part (a)(i)]</td>
<td>4 305 637</td>
</tr>
<tr>
<td>Intragroup gains</td>
<td>453 600</td>
</tr>
<tr>
<td>Realised intragroup gains for first 6 months (1 008 000 / 60 x 6)</td>
<td>100 800</td>
</tr>
<tr>
<td>Realisation of remaining intragroup gains on disposal [from part (a)(i)]</td>
<td>352 800</td>
</tr>
<tr>
<td>Loss on sale of shares [from part (a)(i)]</td>
<td>(3 274 402)</td>
</tr>
<tr>
<td>Share of profit of TrueHealth</td>
<td>17 732 320</td>
</tr>
<tr>
<td>[(10 154 484 + 23 621 363) x 52.5%]</td>
<td></td>
</tr>
<tr>
<td>Reversal of intercompany interest expense in TrueHealth</td>
<td>10 121</td>
</tr>
<tr>
<td>($100 000 x 4.5% x 6/12 x 11.90 = 26 775 x 52.5% x 72%)</td>
<td></td>
</tr>
<tr>
<td>Total for part (a)</td>
<td>38</td>
</tr>
</tbody>
</table>
Part (b) Critically discuss and conclude on TrueHealth’s management decision that the USD is the functional currency of TrueHealth

| The **functional currency** of an entity is the currency of the primary economic environment in which the entity operates. |
| The **primary economic environment** in which an entity operates is normally the one in which it primarily generates and expends cash. |
| An entity considers various factors in determining its functional currency. **When the functional currency is not obvious management should use its judgement** to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. |
| In this respect management should **give priority** to the primary indicators of an entity's functional currency, before considering those indicators which are designed to provide additional supporting evidence to determine an entity's functional currency. |
| The **primary indicators** of an entity's functional currency are: |
| (i) The currency that mainly influences sales prices for goods and services (which is often the currency in which sales prices are denominated and settled); |
| (ii) The currency of the country whose competitive forces and regulations mainly determine the sales prices of the entity's goods and services; |
| (iii) The currency that mainly influences labour, material and other costs of providing goods or services (which is often the currency in which such costs are denominated and settled). |
| **Prices for the products** of TrueHealth are **denominated in US dollar**. In addition, the largest single market for the company's products is the United States and many of the company's products are developed solely for this market. |
| However, it appears that **competitors price their products in a variety of currencies**, implying that setting prices in US dollar is not standard practice in this industry. |
| The company also considers the **rules of regulators** in the United Kingdom and European Union (where currencies other than the USD are used) in setting prices for its products. |
| Furthermore, the **research and development costs** of TrueHealth are budgeted for and incurred in **GBP**. |
| In addition, all of the manufacturing facilities are located in countries which use the EUR and the **potential profitability of each product is evaluated in EUR**. |
| Consequently, while it could be argued that the assessment of the outputs of TrueHealth support the USD as functional currency, the inputs tend to support the EUR or GBP. The primary indicators are therefore mixed and **the secondary indicators should also be considered**. |
| The following **secondary indicators** can also be considered as evidence of an entity's functional currency: |
| (i) The currency in which funds from financing activities are generated; |
| (ii) The currency in which receipts from operating activities are usually retained. |
| TrueHealth **generates its equity financing in EUR**, as its equity instruments are denominated and quoted in euro. |
| The outstanding debt instruments of the company are denominated in USD. |
| TrueHealth **deposits all surplus cash in an USD** bank account at a registered Irish bank and **retains its funds in this currency** until they are required for operational or investment purposes. |
| Based on the above assessment, the secondary indicators are also mixed. The debt and surplus cash support the USD but the equity is raised in EUR. |
| Management should apply their judgement to select the USD or the EUR as the **functional currency**. |
When an entity is a foreign operation to a parent, it also has to assess whether its currency is the same as that of the reporting entity, the following additional factors should be considered:

(i) Whether the activities of the foreign operation are carried out as an extension of the reporting entity or carried out with a significant degree of autonomy.

(ii) Whether transactions with the reporting entity are high or a low proportion of the foreign operation’s activities.

(iii) Whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it.

(iv) Whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.

The fact that TrueHealth sold its whole portfolio of products to a competitor, resulting in the loss of synergies for PharmSure, indicates that it carried out its activities with a significant degree of autonomy.

Cash flow budgets of TrueHealth consistently show that it has sufficient cash flows to operate as an independent company, implying that it will be able to service its debts. In addition, it has sufficient cash flows to pay regular dividends to its shareholders.