You are the auditor of Manic Ltd, a company that measures and reports its financial statements in rand. The financial director of the company has approached you for advice on the following unrelated accounting issues that the company has to resolve in its financial statements for the year ending 30 June 2003:

**Issue 1: Change in shareholdings**

Manic Ltd has held a 30% stake in Cans (International) Ltd for a number of years. During this period Cans (International) Ltd has made substantial profits and has seen a significant increase in its fair value. Cans (International) Ltd is a subsidiary of Acorn (SA) Ltd and comprises approximately half the net assets and attributable income of Acorn (SA) Ltd. Acorn (SA) Ltd, which has been listed on the JSE Securities Exchange SA for a number of years, listed on the London Stock Exchange as Acorn Plc during the current financial year. As part of the listing process Manic Ltd elected to exchange its 30% stake in Cans (International) Ltd for a 12% stake in Acorn Plc.

In the opinion of the financial director of Manic Ltd, no accounting entries are necessary to record this transaction as the value of Manic Ltd’s investment has not changed as a result of the exchange of shares.

**REQUIRED**

Prepare a report in which you discuss the following with regard to the annual financial statements of Manic Ltd:

(a) The appropriate recognition and measurement with regard to the share exchange; (5)
(b) The subsequent classification in terms of AC 133, Financial instruments: Recognition and measurement, of the investment in Acorn Plc; and (1)
(c) The headline earnings treatment of the share exchange. (4)

**Issue 2: Investment in a film and related transactions**

Manic Ltd has invested in a film which is to be produced in South Africa, on the following terms:

1. Manic Ltd will acquire the film, when complete and ready for distribution, for £1 million.
2. Manic Ltd will borrow £750 000 to fund the purchase of the film. The loan will attract interest at a fixed rate of 10% per annum. The loan will be repayable after ten years, which is also considered to be the effective commercial life of the film.
3. Manic Ltd will license the film to a distributor in return for an annual licence fee of £75 000 and a final bullet payment on the licence fees of £750 000 after the ten years. The bullet payment is secured through a guarantee from a reputable London bank.
4. In addition to the licence fee, Manic Ltd has a right to 60% of any profits earned on the distribution of the film.
5. Manic Ltd is able to deduct, for tax purposes, the full cost of the film in the year in which it is acquired. Licence fees are taxable when earned.

**REQUIRED**

Prepare a report in which you discuss the following:

(a) The appropriate recognition and measurement with regard to the investment in a film in the annual financial statements of Manic Ltd. (15)
(b) The appropriate disclosure of the licence fee arrangements that Manic Ltd has made with regard to the film production described above. (5)