 **Registration** 

**Number:**

**Date & Session:**

**ST. JOSEPH’S UNIVERSITY BENGALURU – 27**

**BCOM IFA – II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**(Examination conducted in May 2023)**

**BCIFA2322: Financial Reporting I**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 60**

**This paper contains 5 printed pages and 4 parts**

**Part A**

**Answer any 5 of the following. Each question carries 3 marks. (5 X 3 = 15)**

1. Rio owned a one-year-old herd of cattle on 1 Jan 20X6, recognized in the financial statements at $140,000. At 31 December 20X6, the fair value of a two-year-old herd of cattle is $170,000. Costs to sell are estimated to be $5,000. Show the treatment of the given information by preparing the extracts of Statement of Profit or loss and Statement of Financial Position with appropriate workings.
2. D acquired an item of plant on 1st October 20X2 at a cost of $500,000. It is being depreciated over five years, using straight-line depreciation and an estimated residual value of 10%. As at 30th September 20X4, the manufacturer of the plant still makes the same item of plant and its current price is $600,000. What is the correct carrying amount to be shown in the statement of financial position of D as at 30th September 20X4 under current cost? (Show required workings).
3. GG Co. enters into a contract with a major chain of retail stores. The customer commits to buy at least $20m of products over the next 12 months. The terms of the contract require GG co. to make a payment of $1m to compensate the customer for changes that it will need to make to its retail stores to accommodate the products.

By 31st December 20X1, GG Co. has transferred products with a sale value of $4m to the customer.

How much revenue should be recognized by GG Co. in the year ended 31st December 20X1? (Show required workings).

1. List out any three disadvantages of harmonization.
2. Give the meaning of the concept faithful representation.
3. What is meant by Government grants and Government Assistance?

Part B

**Answer any 2 of the following. Each question carries 5 marks. (2 X 5 = 10)**

1. On 30 September 20X4 Alpha’s closing inventory was counted and valued at its cost of $1 million. This included some items of inventory which had cost $210,000 and had been damaged in a flood on 15 September 20X4. These are not expected to achieve their normal selling price which is calculated to achieve a gross profit margin of 30%.

The sale of these goods will be handled by an agent who sells them at 80% of the normal selling price and charges Alpha a commission of 25%.

At what value will the closing inventory of Alpha be reported in its statement of financial position as at 30 September 20X4? **(Show all the necessary workings)**

1. On 1 July 20X7, B Co. did an annual impairment and it is discovered that the damage to a machine is worse than originally thought. The machine is now considered to be worthless and the recoverable amount of the factory as a cash‐generating unit is estimated to be $950,000. At 1 July 20X7, the cash‐generating unit comprises the following assets:

|  | $000 |
| --- | --- |
| Building | 500 |
| Plant and equipment (including the damaged machine at a carrying amount of $35,000) | 335 |
| Goodwill | 85 |
| Net current assets (at recoverable amount) | 250 |
|  | **1,170** |

In accordance with IAS 36 Impairment of Assets, what will be the carrying amount of B Co’s Assets when the impairment loss has been allocated to the cash‐generating unit? **Show your calculations in a table format as per the following format.**

| **CGU** | **Carrying amount** | **Impairment** | **Recoverable Amount** |
| --- | --- | --- | --- |
|  |  |  |  |

1. Sparrow entered a contract to construct an asset for a customer on 1 January 20X4 which is expected to last 24 months. The agreed price for the contract is $5 million. At 30 September 20X4, the costs incurred on the contract were $1.6 million and the estimated remaining costs to complete were $2.4 million. On 20 September 20X4, Sparrow received a payment from the customer of $1.8 million which was equal to the full amount billed. Sparrow calculates contract progress using the input method, based on costs incurred compared to the estimated total costs. Show the extracts of statement of profit or loss and Statement of Financial Position.

**Part – C**

**Answer any 2 of the following. Each question carries 10 marks. (2 X 10 = 20)**

1. (i) A Co with 31st December as yearend, purchased a Machinery on 1 July 20X2 at a cost of $100,000. The directors have depreciated them on a straight-line basis over an estimated useful life of eight years assuming a $10,000 residual value. At 1 July 20X4, the directors realise that the remaining useful life of the fixtures is five years. There is no change to the estimated residual value. In accordance with IAS 16, show the extracts of the financial statements of A Co as on 31st December 20X4. (Show detailed workings). **(6 Marks)**

(ii) On 31 January 20X5, before the financial statements were authorised for issue, a plant was sold at a loss of $100,000 and the redundancies were settled at $50,000 more than expected by A Co. Identify whether each of the below item represents an adjusting or non‐adjusting event according to IAS 10 Events After the Reporting Period. **(2 Marks)**

|  | **Adjusting event** | **Non-adjusting event** |
| --- | --- | --- |
| Disposal of plant |  |  |
| Redundancy settlement |  |  |

(iii) A Co’s sales director is close to selling another large machine, offering free service, therefore selling the entire machine for $560,000. A Co never sells servicing separately. How should this discount be applied in relation to the sale of the machinery?

| **Sales element** | **Discount applied** | **Discount not applied** |
| --- | --- | --- |
| Machine |  |  |
| Installation |  |  |

**(2 Marks)**

1. The following trial balance relates to Pat at 31 March 20X1:

|  | **$000** | **$000** |
| --- | --- | --- |
| Revenue |  | 53,000 |
| Cost of sales | 13,500 |  |
| Dividends received |  | 2,100 |
| Administration expenses | 4,900 |  |
| Distribution costs | 3,700 |  |
| Interest paid | 1,900 |  |
| Prepayments | 250 |  |
| Dividends paid | 3,900 |  |
| Property, plant and equipment | 42,500 |  |
| Short-term investments | 27,000 |  |
| Inventory at 31 March 20X1 | 1,140 |  |
| Trade receivables | 4,180 |  |
| Cash and cash equivalents | 120 |  |
| Trade payables |  | 1,360 |
| Long-term loans (repayable 20X9) |  | 12,000 |
| Share capital |  | 15,000 |
| Share premium |  | 8,000 |
| Retained earnings at 31 March 20X0 |  | 11,630 |
|  | **1,03,090** | **1,03,090** |

The following information should also be taken into account:

* The tax charge for the year has been estimated at $4,700,000.
* The directors declared a final dividend of $2,700,000 on 3 April 20X1.

Prepare statement of profit or loss and other comprehensive income, and statement of financial position of Pat for the year ended 31 March 20X1.

1. V Plc was into hotel and travel business. However, in the mid of the year ended 31 March 20X6, the hotel business was closed and the assets sold off, incurring losses on the disposal of non-current assets of $7,600,000 and redundancy costs of $ 3,700,000. The directors reorganized the continuing business at a cost of $9,800,000. Trading results may be summarized as follows:

|  | **Travel $000** | **Hotel $000** |
| --- | --- | --- |
| Revenue | 65,000 | 32,000 |
| Cost of sales | 32,000 | 15,000 |
| Distribution | 6,000 | 9,000 |
| Administration | 12,000 | 11,000 |

Other trading information (to be allocated to continuing operations) is as follows:

|  | $000 |
| --- | --- |
| Finance costs | 1,700 |
| Tax | 3,100 |

Draft the statement of profit or loss for the year ended 31 March 20X6. **(10 Marks)**

**Part – D**

**Answer the following compulsory question. The question carries 15 marks. (1X15 = 15)**

1. GoAir Co is an international airline which flies to destinations all over the world. GoAir Co experienced strong initial growth but in recent periods the company has been criticized for under‐investing in its non‐current assets. Extracts from GoAir Co’s financial statements are provided below.

**Statements of financial position as at 30 June:**

|  | **20X7 ($000)** | **20X6 ($000)** |
| --- | --- | --- |
| **Assets**  **Non-current assets**  Property, plant and equipment | 317,000 | 174,000 |
| Intangible assets (note ii) | 20,000 | 16,000 |
|  |  |  |
| **Current Assets** |  |  |
| Inventories | 580 | 490 |
| Trade and other receivables | 6100 | 6300 |
| Cash and cash equivalents | 9,300 | 22,100 |
| **Total Assets** | **352,980** | **218,890** |
| **Equity and Liabilities**  **Equity**  Equity shares | 3,000 | 3,000 |
| Retained earnings | 44,100 | 41,800 |
| Revaluation surplus | 145,000 | Nil |
|  |  |  |
| **Liabilities** |  |  |
| **Non-Current Liabilities** |  |  |
| 6% loan notes | 130,960 | 150,400 |
|  |  |  |
| **Current liabilities** |  |  |
| Trade and other payables | 10,480 | 4,250 |
| 6% loan notes | 19,440 | 19,440 |
| **Total equity and liabilities** | **352,980** | **218,890** |

**Other EXTRACTS from GoAir Co’s financial statements for the years ended 30 June:**

|  | **20X7 ($000)** | **20X6 ($000)** |
| --- | --- | --- |
| Revenue | 154,000 | 159,000 |
| Profit from operations | 12,300 | 18,600 |
| Finance costs | (9,200) | (10,200) |
| Cash generated from operations | 18,480 | 24,310 |

The following information is also relevant:

* GoAir Co had exactly the same flight schedule in 20X7 as in 20X6, with the overall number of flights and destinations being the same in both years.
* In April 20X7, GoAir Co had to renegotiate its licences with five major airports, which led to an increase in the prices GoAir Co had to pay for the right to operate flights there. The licences with ten more major airports are due to expire in December 20X7, and GoAir Co is currently in negotiation with these airports.

**Required:**

1. Calculate the following ratios for the years ended 30 June 20X6 and 20X7:

* Operating profit margin
* Return on capital employed
* Current ratio
* Interest cover
* Gearing (Debt/Equity).

**Note**: For calculation purposes, all loan notes should be treated as debt. **(10 Marks)**

1. Comment on the performance and position of GoAir Co for the year ended 30 June 20X7 using the given scenario.

**Note**: Your answer should highlight any issues which GoAir Co should be considering in the near future. **(5 Marks)**