**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

**BCOM IFA – IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**(Examination conducted in May 2023)**

**BCIFA4122 – Financial Reporting II**

**(For current batch students only)**

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

**This paper contains 6 printed pages and 4 parts**

**PART-A**

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

1. An entity has an outstanding receivables balance with a major customer amounting to $12 million, and this was factored to Finance Co on 1 September 20X7. The terms of the factoring were:

Finance Co will pay 80% of the gross receivable outstanding account to the entity immediately.

* The balance will be paid (less the charges below) when the debt is collected in full. Any amount of the debt outstanding after four months will be transferred back to the entity at its full book value.
* Finance Co will charge 1% per month of the net amount owing from the entity at the beginning of each month. Finance Co had not collected any of the factored receivable amount by the year-end.
* the entity debited the cash from Finance Co to its bank account and removed the receivable from its accounts. It has prudently charged the difference as an administration cost.

How should this arrangement be accounted for in the financial statements for the year ended 30 September 20X7?

1. Mention any 3 exemptions from preparation of group financial statements.
2. What is meant by non-coterminous year ends?
3. J acquired 60% of the ordinary share capital of Daniel on 31 December 20X6 for $240,000. At this date the net assets of Daniel were $360,000. Compute Goodwill at the time of acquisition if the non-controlling interest (NCI) is valued using the proportion of net assets method.
4. ABC has a 75% owned subsidiary DEF. During the year ABC sold inventory to DEF for an invoiced price of $800,000. DEF have since sold 75% of that inventory on to third parties. The sale was at a mark‐up of 25% on cost to ABC. DEF is the only subsidiary of ABC. What is the adjustment to inventory that would be included in the consolidated statement of financial position of ABC at the year‐end resulting from this sale? (show the required workings)
5. During the year, Mac made a 1 for 3 rights issue at $1.60 when the market price was $2.20. Last year’s EPS was 81 cents. There were no other issues of shares during the year. What is the restated earnings per share figure for comparative purposes?

**PART-B**

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

1. During the year ended 30 September 20X4 Ola entered into two lease transactions. On 1 October 20X3, Ola made a payment of $90,000 being the first of five equal annual payments under a lease for an item of plant. The lease has an implicit interest rate of 10% and the present value of the total lease payments on 1 October 20X3 was $340,000. On 1 January 20X4, Ola made a payment of $18,000 for a one‐year lease of an item of equipment. Show the extract of statement of profit or loss with supporting workings.
2. The following information is available for the property, plant and equipment of Stoopa as at 30 September:

20X4 20X3

$000 $000

Carrying amounts 23,400 14,400

The following items were recorded during the year ended 30 September 20X4:

(i) Depreciation charge of $2.5 million

(ii) An item of plant, with a carrying amount of $3 million, was sold for $1.8 million

(iii) A property was revalued upwards by $2 million

(iv) Environmental provisions of $4 million relating to property, plant and equipment were capitalised during the year.

What amount would be shown in Stoopa’s statement of cash flows for purchase of property, plant and equipment for the year ended 30 September 20X4? Show the workings.

1. XYZ Co has a year end of 31 December 20X1 and uses the dollar ($) as its functional currency.

On 25 October 20X1 XYZ Co buys goods from a Swedish supplier for Swedish Krona (SWK) 286,000.

Rates of exchange:

25 October 20X1 $1 = SWK 11.16

16 November 20X1 $1 = SWK 10.87

31 December 20X1 $1 = SWK 11.02

Required:

Show the accounting treatment for the above transactions if:

(a) A payment of SWK 286,000 is made on 16 November 20X1.

(b) The amount owed remains outstanding at the year-end date.

**PART-C**

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

1. A company’s financial statements show profit before tax of $1,000 in each of years 1, 2 and 3. This profit is stated after charging depreciation of $200 per annum, due to the purchase of an asset costing $600 in year 1 which is being depreciated over its 3-year useful life on a straight-line basis.

The tax allowances granted for the asset are:

Year 1 $240

Year 2 $210

Year 3 $150

Income tax is calculated as 30% of taxable profits.

Apart from the above depreciation and tax allowances there are no other differences between the accounting and taxable profits.

Required:

(a) Ignoring deferred tax, prepare statement of profit or loss extracts for each of years 1, 2 and 3.

(b) Accounting for deferred tax, prepare statement of profit or loss and statement of financial position extracts for each of years 1, 2 and 3. **(4+6)**

1. The following trial balance has been extracted from the books of A as at 31 March 20X7

|  | **$000** | **$000** |
| --- | --- | --- |
| Administration expenses | 250 |  |
| Distribution costs | 295 |  |
| Share capital $1 |  | 270 |
| Share premium |  | 80 |
| Revaluation surplus |  | 20 |
| Dividend paid | 27 |  |
| Cash at bank and in hand | 3 |  |
| Receivables | 233 |  |
| Interest paid | 25 |  |
| Dividends received |  | 15 |
| Interest received |  | 1 |
| Land and buildings at cost (Land 380, Buildings 100) | 480 |  |
| Land and buildings: accumulated depreciation |  | 30 |
| Plant and machinery at cost | 400 |  |
| Plant and machinery: accumulated depreciation |  | 170 |
| Retained earnings account (at 1 April 20X6) |  | 235 |
| Purchases | 1260 |  |
| Sales |  | 2165 |
| Inventory at 1 April 20X6 | 140 |  |
| Trade payables |  | 27 |
| Bank loan |  | 100 |
|  | **3113** | **3113** |

**Additional information**

* Inventory at 31 March 20X7 was valued at a cost of $85,000
* Depreciation for the year to 31 March 20X7 is to be charged against cost of sales as follows:

Buildings 5% on cost (straight line)

Plant and machinery 30% on carrying amount (reducing balance)

* Land is to be revalued upwards by $100,000.
* Income tax of $165,000 is to be provided for the year to 31 March 20X7.
* The bank loan is repayable in five years' time.

Prepare the statement of profit or loss, other comprehensive income, and statement of financial position for year ended 31 March 20X7.

1. The following statements of financial position have been prepared at 31 December 20X8.

|  | D ($) | J ($) |
| --- | --- | --- |
| **Non-Current assets:**  Property, plant and equipment | 85,000 | 18,000 |
| Investment: shares in J | 60,000 |  |
| **Current assets** | 160,000 | 84,000 |
|  | **305,000** | **102,000** |
|  |  |  |
| **Equity:**  Ordinary $1 shares | 65,000 | 20,000 |
| Share premium | 35,000 | 10,000 |
| Retained earnings | 70,000 | 25,000 |
|  | 170,000 | 55,000 |
| **Current Liabilities** | 135,000 | 47,000 |
|  | **305,000** | **102,000** |

D acquired 16,000 ordinary $1 shares in J on 1 January 20X8, when Js’ retained earnings stood at $20,000 and its share premium was $10,000. On this date, the fair value of the 20% non-controlling shareholding in J was $12,500.

The D Group uses the fair value method to value the non-controlling interest.

**Prepare the consolidated statement of financial position of D as at 31 December 20X8**

**PART-D**

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

1. (i) Smith Co has net profit for the year ended 30 September 20X5 of $10,500,000. Smith has had 6 million shares in issue for many years. On 1 October 20X4 Smith issued a convertible bond. It had an initial liability element of $2,500,000, and the market interest rate for non‐convertible instruments is 8%. The bond is convertible in five years, with 50 shares issued for every $100 nominal of convertible bond held. Smith Co pays tax at a rate of 28%. What is the Diluted Earnings per Share figure? (Show all the necessary workings to substantiate your answer).

(ii) P owns 100% of the share capital of the following companies. The directors are unsure of whether the investments should be consolidated into the group financial statements of not.

Identify whether the following companies should be consolidated or not.

|  | Consolidated | Not be consolidated |
| --- | --- | --- |
| B is a bank and its activity is so different from the engineering activities of the rest of the group that it would be meaningless to consolidate it. |  |  |
| D is located in a country where local accounting standards are compulsory and these are not compatible with IFRS Standards used by the rest of the group. |  |  |
| G is located in a country where a military coup has taken place and P has lost control of the investment for the foreseeable future. |  |  |

(iii) On 30 June 20X4, the Cheese group disposed of its 60% holding in the ordinary shares of Burger for $15 million in cash. The non‐controlling interest at the acquisition date was measured at its fair value of $2.2 million.   Burger’s net assets at the acquisition and the disposal date were $5 million and $8 million respectively. Goodwill arising on the acquisition of Burger of $1 million had been fully impaired by the disposal date.

What is the profit arising on the disposal of Burger that will be recorded in the consolidated statement of profit or loss for the year ended 31 December 20X4?

**(7+3+5)**

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