

Register Number:

Date:

**ST JOSEPH’S UNIVERSITY, BENGALURU -27**

**B. COMIFA– III SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCIFA 3123 FINANCIAL REPORTING II**

**(For current batch students only)**

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

**This paper contains four printed pages and four parts**

**Section A**

I. Answer any **five** of the following  **(5 X 3 = 15marks)**

1. What is meant by Historic rate, Closing rate and Average rate as per IAS 21.
2. What is diluted EPS?
3. Write down the three elements of control identified as per IFRS 10.
4. AB has owned 80% of CD for many years. In the current year ended 30 June 20X3, AB has reported total revenues of $5.5 million, and CD of $2.1 million. AB has sold goods to CD during the year with a total value of $1 million, earning a margin of 20%. Half of these goods remain in year-end inventories. What is the consolidated revenue figure for the AB group for the year ended 30 June 20X3?
5. Differentiate between positive and negative goodwill.
6. Identify the purpose of consolidated accounts for a group.

**Section B**

II. Answer any **two** of the following **(2 x 5 = 10 marks)**

1. On 1 January 20X6, Sidebar sold a property for its fair value of $4 million, transferring title to the property on that date. Sidebar then leased it back under a 5‐year lease, paying $3,00,000 per annum on 31 December each year. The present value of rentals payable was $1,198,000 and the interest rate implicit in the lease was 8%. The carrying amount of the property on 1 January 20X6 was $3,200,000 and it had a remaining useful life of 20 years. Calculate depreciation and pass the journal entry on initial recognition.
2. VU has an 80% subsidiary SONIE, which has been a subsidiary of VU for the whole of the current year. SONIE reported a profit after tax of $600,000 in its own financial statements. You ascertain that at the year-end there was unrealised profit of $60,000 on sales by SONIE to VU.

What is the non-controlling interest in SONIE that would be reported in the consolidated statement of profit or loss and other comprehensive income of VU for the year?

1. Beatles bought 30% of Abba on 1 January 20X8, when Abba had share capital of 100,000 $1 shares and $400,000 retained earnings. The consideration comprised one Beatles share for every 3 shares bought in Abba. At the date of acquisition, Beatles’ shares had a market value of $4.50 and Abba’s had a market value of $2. At 31 December 20X8, Abba’s net assets were $460,000.

What is the value of investment in associate shown in the consolidated statement of financial position as at 31 December 20X8?

**Section C**

III. Answer any **two** of the following **(2 x 10 = 20 marks)**

1. The following trial balance **extracts** relate to Bosco as at 30 June 20X5:

|  |  |  |
| --- | --- | --- |
|  | $000 | $000 |
| Revenue |  | 113,500 |
| Cost of sales | 88,500 |  |
| Research and development cost (note 1) | 7,800 |  |
| Distribution cost | 2,800 |  |
| Administrative cost (note 3) | 6,800 |  |
| Loan note interest and dividend paid (note 3) | 5,000 |  |
| Investment income |  | 300 |
| 5 % loan notes (note 3) |  | 20,000 |
| Property at valuation 1 July 20X4 (note 2) | 28,500 |  |
| Plant and equipment at cost (note (2)) | 27,100 |  |
| Accumulated depreciation plant and equipment 1 July 20X4 |  | 9,100 |

The following notes are relevant:

(1) Bosco commenced a research and development project on 1 January 20X5. It spent $1 million per month on research until 31 March 20X5, at which date the project passed into the development stage. From this date it spent $1.6 million per month until the year end (30 June 20X5), at which date development was completed. However, it was not until 1 May 20X5 that the directors of Bosco were confident that the new product would be a commercial success.

Expensed research and development costs should be charged to cost of sales.

(2) Non‐current assets:

Bosco’s property is carried at fair value which at 30 June 20X5 was $29 million. The remaining life of the property at the beginning of the year (1 July 20X4) was 15 years. Bosco does not make an annual transfer to retained earnings in respect of the revaluation surplus. Ignore deferred tax on the revaluation.

Plant and equipment is depreciated at 15% p.a. using the reducing balance method.

No depreciation has yet been charged on any non‐current asset for the year ended 30 June 20X5. All depreciation is charged to cost of sales.

(3) The 5% loan note was issued on 1 July 20X4 at its nominal value of $20 million incurring direct issue costs of $500,000 which have been charged to administrative expenses. The loan note will be redeemed after three years at a premium which gives the loan note an effective finance cost of 8% per annum. Annual interest was paid on 30 June 20X5.

(4) A provision for current tax for the year ended 30 June 20X5 of $1.2 million is required, together with an increase to the deferred tax provision to be charged to profit or loss of $800,000.

Prepare the statement of profit or loss and other comprehensive income for Bosco for the year ended 30 June 20X5.

1. On 1 April 20X4, Runner Co acquired 80% of Jogger Co's equity shares when the retained earnings of Jogger Co were $19.5m. The consideration consisted of cash of $42.5m paid on 1 April 20X4 and a further cash payment of $21m, deferred until 1 April 20X5. No accounting entries have been made in respect of the deferred cash payment. Runner Co has a cost of capital of 8%. The appropriate discount rate is 0.926.

The draft, summarised statements of financial position of the two companies at 31 March 20X5 are shown below:

|  |  |  |
| --- | --- | --- |
| Assets | Runner Co. ($000) | Jogger Co. ($000) |
| PPE | 455,800 | 44,700 |
| Investments | 55,000 | -- |
| Inventory  | 22,000 | 16,000 |
| Trade receivables  | 35,300 | 9,000 |
| Bank | 2,800 | 1,500 |
| **Total Assets** | **5,70,900** | **71,200** |
| Equity |  |  |
| Equity shares of $1 each | 202,500 | 25,000 |
| Retained earnings | 286,600 | 28,600 |
| Trade payables | 81,800 | 17,600 |
| **Total equity and liabilities** | **5,70,900** | **71,200** |

(1) Runner Co’s policy is to value the non‐controlling interest at fair value at the date of acquisition. The fair value of the non‐controlling interest in Jogger Co on 1 April 20X4 was estimated at $13m.

(2) The fair values of Jogger Co's other assets, liabilities and contingent liabilities at 1 April 20X4 were equal to their carrying amounts with the exception of a specialised piece of plant which had a fair value of $10m in excess of its carrying amount. This plant had a ten-year remaining useful life on 1 April 20X4.

(3) In December 20X4 Jogger Co sold goods to Runner Co for $6.4m, earning a gross margin of 15% on the sale. Runner Co still held $4.8m of these goods in its inventories at 31 March 20X5.

(4) Jogger Co still had the full invoice value of $6.4m in its trade receivables at 31 March 20X5. Runner Co’s payables only showed $3.4m as it made a payment of $3m on 31 March 20X5 which was not recorded by Jogger Co until 3 April 20X5.

Prepare the consolidated statement of financial position for Runner Co as at 31 March 20X5.

1. Answer both the below independent questions:

(i)C Co. issues a convertible loan that pays interest of 2% per annum in arrears. The market rate is 8%, being the interest rate for an equivalent debt without the conversion option. The loan of $5 million is repayable in full after three years or convertible to equity.

You are required to split the loan between debt and equity at inception and calculate the finance charge for each year until conversion or redemption. 5 marks

(ii) During the year to 31st July 20X7 SP made a profit of $37,500 after accounting for depreciation of $2,500. During the year non-current assets were purchased for $16,000, receivables increased by $2,000, the inventories decreased by $3,600 and trade payables increased by $700. Compute the increase or decrease in cash and bank balances during the year. 5 marks

**Section D**

IV **Answer the following (1 X 15 = 15 marks)**

1. A. On 1 January 20X5 Bland bought a $10,000 6% bond for $9,000, incurring acquisition costs of $144. Interest is received annually in arrears, and the bond will be redeemed at a premium of $500 over its nominal value on 31 December 20X7. The effective rate of interest is 11%. The fair value of the bond was as follows:

31 December 20X5 $11,000

31 December 20X6 $10,400

Show how the financial asset will be accounted for over the three-year period if Bland planned to hold the bond until the redemption date in SOPL and SOFP. 7 marks

B. R acquired a 70% investment in D for $20,000 two years ago. It is group policy to measure non-controlling interests at fair value at the date of acquisition. The fair value of the non-controlling interest in D at the date of acquisition was $8,000 and the fair value of D's net assets was $19,000. The goodwill has not been impaired. R disposed of all of its shares in D for sale proceeds of $30,000. The fair value of D’s net assets at the date of disposal was $24,000.

Calculate the profit/loss on disposal that would be recorded in:

1. R's individual statement of profit or loss.
2. R's consolidated statement of profit or loss. 8 marks

\*\*\*\*\*\*\*\*\*\*\*\*End of Paper\*\*\*\*\*\*\*\*\*\*\*\*