

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

**BBA (Strategic Finance) - II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2020**

**BBASF - 2419 – FINANCIAL REPORTING**

**Time – 2 ½ hrs Max Marks – 70**

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

**SECTION A**

**Answer any FIVE of the following. Each question carries two marks. (5x2=10)**

1. (i) Which of the following costs should **not** be included in inventory valuation?
2. Manufacturing overhead costs
3. Cash discounts
4. Shipping costs (freight – in)
5. Interest costs related to inventory preparation

(ii) Why does the balance sheet classify assets, liabilities and shareholders’ equity separately?

1. To show when each liability is due
2. So they can be analysed more easily
3. To show which assets are most liquid
4. So shareholders know how much was earned
5. If the amount of external funding is too high for the company, which of the following actions can it take? Justify your answer.
6. Reduce its dividend payout
7. Increase its dividend payout
8. Increase its sales growth rate
9. Reduces its accounts payables (in relation to sales)
10. Dexter is analysing inventory of companies from four different industries: consumer goods, sports good manufacturers, electronics and aircraft manufacturers. Assuming the inventory valuation methods reflect the actual flow of inventory and the inventory includes finished goods, which of the following industries will most likely have zero LIFO reserve?
11. Consumer goods
12. Sports goods manufacturers
13. Electronics
14. Aircraft manufactures
15. What is meant by Transaction price? Mention any two considerations to determine transaction price.
16. Write a note on Intangible Assets? State any two of its classification.
17. What is meant by capital lease?

**SECTION B**

**Answer any THREE of the following questions. Each question carries five marks.**

**(3x5=15)**

1. In 2010, Mine co. purchased a mineral mine for $2,200,000 with removable ores estimated at 5,000,000 tons. The property has an estimated PV of restoration cost of $400,000 after the ore has been extracted with residual value of $100,000. The company incurred $500,000 of development costs preparing the mine for production. During the year 2010, 400,000 tons were removed and 300,000 tons were sold
2. Calculate the depletion base and the unit depletion rate
3. Calculate the amount of depletion in 2010 and the amounts of depletion to be included in COGS and inventory for the year.
4. Draft out the difference between LIFO and FIFO.
5. (i) What is meant by depreciation?

(ii) Calculate depreciation under Straight Line Method (SLM) and Sum of years digit (SYD) Method for a Machinery bought on 1/2/2001 for $10,000 with useful life of 4 years and Salvage value of $2,000.

1. Draft out the any five comparisons between US GAAP and IFRS.

**SECTION C**

**Answer any TWO of the following questions. Each question carries fifteen marks.**

**(2x15=30)**

1. In 2018, Amenda Inc., purchased some land that it used to build a factory expenditures during the year included:

* $100,000 to buy the land
* $5,000 in Realtor fees
* $3,000 in accrued property tax
* $10,000 to demolish an old building on the property
* $2,000 salvage value from the demolished building
* $16,000 for architectural fees
* $54,000 for construction costs
* $7,000 for supervision during construction
* $1,500 for 6 months of insurance during construction
* Construction was completed in 5 months
* $4,400 for shrubs and fences
* $8,000 for office furniture

**Questions**

1. Cost of the land = \_\_\_\_\_\_\_\_\_\_\_\_\_
2. Cost of the factory = \_\_\_\_\_\_\_\_\_\_\_\_
3. In 2018, Amenda Inc., exchanged equipment with Mercury manufacturing

|  |  |  |
| --- | --- | --- |
|  | Amenda | Mercury manufacturing |
| Equipment (cost)  Accumulated depreciation  Fair value (FV)  Cash given up | $100,000  $50,000  $60,000 | $80,000  $25,000  $50,000  $10,000 |

Value of asset(s) that Amenda Inc., gives up = \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Gain or loss on the exchange for Amenda Inc., = \_\_\_\_\_\_\_\_\_\_\_\_\_
2. Value of asset(s) that Mercury manufacturing gives up = \_\_\_\_\_\_\_\_
3. Gain or loss on the exchange for Mercury Manufacturing = \_\_\_\_\_\_\_\_

**(3+3+3+2+2+2)**

1. Information for Dunlop is shown below:

|  |  |  |
| --- | --- | --- |
| **Dunlop Comparative Balance Sheet as of December 31** | | |
| Cash  Accounts receivable  Inventories  Long-term investments  Total Assets  Accounts payable  Operating expense payable  Bonds payable  Common stock  Retained earnings  **Total liabilities and stockholders’ equities** | **2018 ($**)  21,500  195,000  180,000  NIL  396,500  75,000  24,000  70,000  125,000  102,500  396,500 | **2017 ($)**  120,000  105,000  225,000  60,000  510,000  120,000  15,000  100,000  125,000  150,000  510,000 |

|  |  |
| --- | --- |
| **Dunlop Income statement for the year ended December 31, 2018 (in $)** | |
| Sales  Cost of goods sold  Gross profit  Operating expenses  Operating income  Loss on sale of investment  Net loss | 560,000  375,000  185,000  180,000  5,000  (7,500)  (2,500) |

**Other information:**

* Accounts payable relate to the purchase of Inventory.
* $60,000 of long-term investments were sold for $ 52,500.
* Cash dividends of $45,000 were declared and paid in 2017.

**Questions**

1. Prepare the statement of cash flows using the indirect method
2. Prepare the operating section of the statement of cash flows using direct method.

**(12+3)**

1. State the application of Rule SFAS 123R (Share-based Payments to Employees) and give short notes on the following questions
2. Stock option
3. Option pricing models
4. Vesting period
5. Recording stock options

**SECTION D**

**Answer the following questions. The question carries fifteen marks. (1x15=15)**

1. Winglet Co. gives you the following balances from its books of accounts for the year ended 12/31/2019. The company has an authorized capital stock of $500000.

$

Inventory (1/1/2019) 50000

Sales 425000

Purchases 300000

Wages 70000

Discount allowed 4200

Discount received 3150

Salaries 18500

Rent 6000

General expenses 8950

Retained Earnings 6220

Printing and stationary 2400

Advertisement 3800

Bonus 10500

Debtors 38700

Creditors 35200

Bonds payable 3380

Plant and Machinery 80000

Furniture 17000

Cash in Bank 134700

Reserves 25000

Common Stock 250000

Bad debts 3200

Prepare Income statement and Balance Sheet for the year ended 12/31/2019 after considering the following information:

1. Closing inventory $91500
2. Provide depreciation @15% on plant and 10% on furniture
3. Outstanding liabilities are wages $5200, salaries$1200 and rent $600
4. Ignore taxation.