LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **HONOURS**

THIRD SEMESTER – **NOVEMBER 2019**

18UBH3MC02 – FINANCIAL REPORTING

Date: 05-11-2019 Dept. No. Max. : 100 Marks
Time: 09:00-12:00

SECTION A

Answer **ALL Questions:** **(10 X 2 = 20)**

1. An entity purchased property for $6 million on 1 July 20X3. The value of the land was$1 million and the buildings $5 million. The expected life of the building was 50 years and its residual value nil. On 30 June 20X5 the property was revalued to $7 million (land$1.24 million, buildings $5.76 million). On 30 June 20X7, the property was sold for$6.8 million.

What is the gain on disposal of the property that would be reported in the statement of profit or loss for the year to 30 June 20X7?

A Gain $40,000
B Loss $200,000
C Gain $1,000,000
D Gain $1,240,000

2. An entity has the following loan finance in place during the year:

$1 million of 6% loan finance, $2 million of 8% loan finance. It constructed a new factory which cost $600,000 and this was funded out of the existing loan finance. The factory took 8 months to complete.

To the nearest thousand, what borrowing costs should be capitalised?
A $44,000
B $29,000
C $28,000
D $24,000

3. Amco Co carries out research and development. In the year ended 30 June 20X5 Amco incurred total costs in relation to project X of $750,000. These were incurred at the same amount each month up to 30 April 20X5, when the project was completed. The product produced by the project went on sale from 31 May 20X5.

The project had been confirmed as feasible on 1 January 20X5, and the product produced by the project was expected to have a useful life of five years.

What is the carrying amount of the development expenditure asset as at 30 June 20X5?

A $295,000
B $725,000
C $300,000
D $0

4. On 30 September 20X4 Razor'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 Razor a commission of 25%.
At what value will the closing inventory of Razor be reported in its statement of financial position as at 30 September 20X4?

$_____________

5. Viking issues $100,000 5% loan notes on 1 January 20X4, incurring issue costs of $3,000. These loan notes are redeemable at a premium, meaning that the effective rate of interest is 8% per annum.

What is the finance cost to be shown in the statement of profit or loss for the year ended 31 December 20X5?

A $8,240
B $7,981
C $7,760
D $8,000

6. For a debt investment to be held under amortised cost, it must pass two tests. One of these is the contractual cash flow characteristics test.

What is the other test which must be passed?

A The business model test
B The amortised cost test
C The fair value test
D The purchase agreement test

7. For which category of financial instruments are transaction costs excluded from the initial value, and instead expensed to profit or loss?

A Financial Liabilities at amortised cost
B Financial Assets at fair value through profit or loss
C Financial Assets at fair value through other comprehensive income
D Financial Assets at amortised cost

8. Pamela acquired 80% of the share capital of Samantha on 1 January 20X1. Part of the purchase consideration was to pay additional cash on 1 January 20X4 of $200,000. The applicable cost of capital is 10%.

What will the deferred consideration liability be at 31 December 20X2?

A $150,262
B $165,288
C $200,000
D $181,818

9. **Identify whether the following facts about impairment are true or false.**

It will always be deducted in full from the parent's retained earnings
It will be apportioned between the parent company and the non-controlling interest (NCI) when the NCI is valued at fair value

10. The following extracts of the financial statements of Wiggo have been obtained:

Revenue	$980,000
Cost of sales	($530,000)
Operating expenses	($210,000)
Equity	$600,000
Loan	$300,000

Deferred tax	$44,000
Payables	$46,000

What is the return on capital employed of Wiggo?

A 24.2%
B 25.4%
C 26.7%
D 50%

SECTION B

Answer any **FOUR** questions: (4 X5 = 20)

Q.NO:11
On 1 April 20X8 the fair value of Xu's property was $100,000 with a remaining life of 20 years. Xu's policy is to revalue its property at each year end. At 31 March 20X9 the property was valued at $86,000. The balance on the revaluation surplus at 1 April 20X8 was $20,000 which relates entirely to the property. Xu does not make a transfer to realised profit in respect of excess depreciation.

Required:

1 Prepare extracts of Xu's financial statements for the year ended31 March 20X9 reflecting the above information.

2 State how the accounting would be different if the opening revaluation surplus did not exist. **(5 marks)**

Q.No:12
WS prepares its financial statements to 30 June. The following profits (before tax) were recorded from 20X1 to 20X3:
20X1 $100,000
20X2 $120,000
20X3 $110,000

The entity provides for tax at a rate of 30% and incorporates this figure in the year-end accounts. The actual amounts of tax paid in respect of 20X1 and 20X2 were $28,900 and $37,200.

Required:
Prepare extracts from the statement of profit or loss and statement of financial position of WS for each of the 3 years, showing the tax charge and tax liability. (3 marks)

(b) Tamsin Co's accounting records show the following:

Income tax payable on current year profits	$60,000
Over-provision in relation to the previous year	$4,500
Opening provision for deferred tax	$2,600
Closing provision for deferred tax	$3,200

What is the income tax expense that will be shown in the statement of profit or loss for the year?
$______________ 2 marks

Q.No:13
(a) On 31 December 20X1, the issued share capital consisted of 4,000,000ordinary shares of 25¢ each. On 1 July 20X2 the entity made a rights issue in the proportion of 1 for 4 at 50¢ per share and the shares were quoted immediately before the issue at $1. Its trading results for the last two years were as follows:
Year ended 31 December

	20X2	20X1
	$	$
Profit after tax	425,000	320,000

Show the calculation of basic EPS to be presented in the financial statements for the year ended 31 December 20X2 (including comparative).
3 marks

(b) On 1 January 20X7, a company has 4 million ordinary shares in issue and issues options for a further million shares. The profit for the year is$500,000. During the year to 31 December 20X7 the average fair value of one
ordinary share was $3 and the exercise price for the shares under option was $2.

Calculate basic EPS and DEPS for the year ended 31 December20X7. 2 marks

Q.No:14
(a) A herd of five 4 year-old pigs was held on 1 January 20X3. On 1 July20X3 a 4.5 year-old pig was purchased for $212.

The fair values less estimated point of sale costs were:
4 year-old pig at 1 January 20X3 $200
4.5 year-old pig at 1 July 20X3 $212
5 year-old pig at 31 December 20X3 $230

Required:
Calculate the amount that will be taken to the statement of profit or loss for the year ended 31 December 20X3.
3 marks

(b) In accordance with IAS 36 *Impairment of Assets* which of the following statements are true?

1 An impairment review must be carried out annually on all intangible assets.

2 If the fair value less costs to sell of an asset exceed the carrying amount there is no need to calculate a value in use.

3 Impairment is charged to the statement of profit or loss unless it reverses a gain that has been recognised in equity in which case it is offset against the revaluation surplus.

A All three B 1 and 2 only C 1 and 3 only D 2 & 3 only (2 marks)

Q.NO:15
(a) What is meant by CGU as per IAS 36? How do impairment of CGU is accounted following the guidelines as per IAS 36? 3 marks

(b) What are the internal and external indications of impairment of assets? 2 marks

Q.NO:16

(a) What are financial instruments? Give examples. As per IAS 32 how do liabilities differ from equity instruments
2.5 marks

(b) How is investments in equity instruments accounted on initial and subsequent recognition?
2.5 marks

Q.No:17

On 1 January 20X1, Painting sells an item of machinery to Collage for its fair value of $3 million. The asset had a carrying amount of $1.2 million prior to the sale. This sale represents the satisfaction of a performance obligation, in accordance with IFRS 15 *Revenue from Contracts with Customers*. Painting enters into a contract with Collage for the right to use the asset for the next five years. Annual payments of $500,000 are due at the end of each year. The interest rate implicit in the lease is 10%.

The present value of the annual lease payments is £1.9 million. The remaining useful life of the machine is much greater than the lease term.

Required:
Explain how Painting will account for the transaction on 1 January 20X1 (5 marks)

SECTION C

Answer any **THREE** questions **(3 X 20 = 60)**

18. Papilla acquired 70% of Satago three years ago, when Satago's retained earnings were $430,000.

The financial statements of each company for the year ended 31 March20X7 are as follows:

Statements of financial position as at 31 March 20X7.

	P	**S**
	$000	**$000**
Non-current assets		
Property, plant and equipment	900	400
Investment in S at cost	700	-
Current assets	300	600
	1,900	**1,000**
Share capital ($1)	200	150
Share premium	50	-
Retained earnings	1,350	700
	1,600	**850**
Non-current liabilities	100	90
Current liabilities	200	60
	1,900	**1,000**

Statements of profit or loss for the year ended 31 March 20X7

	P	**S**
	$000	**$000**
Revenue	1,000	260
Cost of sales	(750)	(80)
Gross Profit	250	180
Operating expenses	(60)	(35)
Profit from operations	190	145
Finance costs	(25)	(15)
Investment income	20	–
Profit before tax	185	130
Income tax expense	(100)	(30)
Profit for the year	85	100

You are provided with the following additional information:

(i) Satago had plant in its statement of financial position at the date of acquisition with a carrying amount of $100,000 but a fair value of$120,000. The plant had a remaining life of 10 years at acquisition. Depreciation is charged to cost of sales.

(ii) The Papilla group values the non-controlling interest at fair value. The fair value of the non-controlling interest at the date of acquisition was $250,000. Goodwill has been impaired by a total of 30% of its value at the reporting date, of which one third related to the current year.

(iii) At the start of the year Papilla transferred a machine to Satago for$15,000. The asset had a remaining useful life of 3 years at the date of transfer. It had a carrying amount of $12,000 in the books of Papilla at the date of transfer.

(iv) During the year Satago sold some goods to Papilla for $60,000 at a mark-up of 20%. 40% of the goods remained unsold at the year-end. At the year-end, Satago's books showed a receivables balance of $6,000 as being due from Papilla. This disagreed with the payables balance of $1,000 in Papilla's books due to Papilla having sent a cheque to Satago shortly before the year end which Satago had not yet received.

(v) Satago paid a dividend of $20,000 on 1 March 20X7.

Required:
Prepare the consolidated statement of financial position and consolidated statement of profit or loss for the year ended 31 March 20X7 for the Papilla group. [20 marks]

19. P acquired 80% of S on 1 December 20X4 paying $4.25 in cash per share. At this date the balance on S's retained earnings was $870,000. On 1 March 20X7 P acquired 30% of A's ordinary shares. The consideration was settled by a share exchange of 4 new shares in P for every 3 shares acquired in A. The share price of P at the date of acquisition was $5. P has not yet recorded the acquisition of A in its books.

The statements of financial position of the three companies as at 30 November 20X7 are as follows:

	P	**S**	**A**
	$000	$000	$000
Non-current assets			
Property	1,300	850	900
Plant & equipment	450	210	150
Investments	1,825	-	-
Current assets			
Inventory	550	230	200
Receivables	300	340	400
Cash	120	50	140
	4,545	**1,680**	**1,790**
Share capital $1	1,800	500	250
Share premium	250	80	–
Retained Earnings	1,145	400	1,200
	3,195	**980**	**1,450**
Non-current liabilities			
10% Loan notes	500	300	–

Current liabilities			
Payables	520	330	250
Taxation	330	70	90
	4,545	1,680	1,790

The following information is relevant:

(i) As at 1 December 20X4, plant in the books of S was determined to have a fair value of $50,000 in excess of its carrying amount. The plant had a remaining life of 5 years at this date.

(ii) During the post-acquisition period, S sold goods to P for $400,000 at a mark-up of 25%. P had a quarter of these goods still in inventory at the year-end.

(iii) In September 20X4 A sold goods to P for $150,000. These goods had cost A $100,000. P had $90,000 (at cost to P) in inventory at the year-end.

(iv) As a result of the above inter-company sales, P's books showed $50,000 and $20,000 as owing to S and A respectively at the yearend. These balances agreed with the amounts recorded in S's and A's books.

(v) Non-controlling interests are measured using the fair value method. The fair value of the non-controlling interest in S at the date of acquisition was $368,000. Goodwill has impaired by $150,000 at the reporting date. An impairment review found the investment in the associate to be impaired by $15,000 at the year-end.

(vi) A's profit after tax for the year is $600,000.

Required:
Prepare P's consolidated statement of financial position as at 30 November 20X7.

20. A. Briefly explain the following as per IAS 37 provisions, contingent assets and contingent liabilities

(i) provisions (ii) recognition criteria for provisions (iii) measurement of provisions (iv) provisions for restructuring / reorganisations. 10 marks

B. IAS - 10: Events after the Reporting Date - Explain the guidelines related to accounting treatment for events after the reporting date. 5 marks

C. what is meant by fair value and how fair value to be measured as per IFRS 13? 5 marks

21. Statement of financial position and statements of profit or loss for Ocean Motors are set out below.

Ocean Motors statement of financial position

	20X2		20X1	
	$000	$000	$000	$000
Non-current assets:				
Land and buildings				
Cost	1,600		1,450	
Depreciation	(200)	1,400	(150)	1,300
Plant and machinery:				
Cost	600		400	
Depreciation	(120)		(100)	
		480		300
		1,880		1,600

Current assets:				
Inventory	300		100	
Receivable	400		100	
		700		200
TOTAL ASSETS		2,580		1800
Equity:				
Share Capital-				
$1 ordinary shares		1,200		1,200
Retained earnings		310		220
		1,510		1420
Current Liabilities:				
Bank overdraft	590		210	
Payables and accruals	370		70	
Taxation	110		100	
		1070		300
		2,580		1,800

Ocean Motors statement of profit or loss

	20X2 $000	20X1 $000
Sales revenue	1,500	1,000
Cost of sales	(700)	(300)
Gross Profit	800	700
Administration and distribution expenses	(400)	(360)
Profit before tax	400	340
Income tax expense	(200)	(170)
Profit for the year	200	170

The dividend for 20X1 was $100,000 and for 20X2 was $110,000.

Calculate the following ratios for Ocean Motors and briefly comment upon what they indicate:

Profitability ratios:

- Gross profit margin
- Operating profit margin
- ROCE
- Net asset turnover

Liquidity and working capital ratios:

- Current ratio
- Quick ratio
- Inventory collection period
- Accounts receivable collection period
- Accounts payable payment period

****