LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

THIRD SEMESTER – **NOVEMBER 2022**

UBH 3502 – FINANCIAL REPORTING

Date: 21-11-2022 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

Section A

Answer all the questions **15 x 2 Marks = 30**

1. Which TWO of the following items would qualify for treatment as a change in accounting estimate according to IAS 8 Accounting policies, changes in accounting estimates and errors?
   A.Provision for obsolescence of inventory
   B.Correction necessitated by a material error
   C.A change of inventory valuation from FIFO to weighted average
   D.A change in the useful life of a non-current asset
2. In order to hold a debt instrument at amortised cost, which TWO of the following tests must be applied?
   A Fair value test
   B Contractual cash flow characteristics test
   C Investment appraisal test
   D Business model test
3. Which one of the following would be included in the cost of inventories of goods for resale in accordance with IAS 2 Inventories?
   a.Storage costs
   b.Administrative overheads
   c.Import duties
   d.Selling costs
4. **Which TWO of the following statements about IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are true?**
   AA government grant related to the purchase of an asset must be deducted from the carrying amount of the asset in the statement of financial position.
   B A government grant related to the purchase of an asset should be recognised in profit or loss over the life of the asset.
   C Free marketing advice provided by a government department is excluded from the definition of government grants.
   D Any required repayment of a government grant received in an earlier reporting period is treated as prior period adjustment.
5. SOFT acquired a building with a 40-year life for its investment potential for $8 million on 1 January 20X3. At 31 December 20X3, the fair value of the property was estimated at $9 million with costs to sell estimated at $200,000.
   If SOFT Co uses the fair value model for investment properties, what gain should be recorded in the statement of profit or loss for the year ended 31 December 20X3? $_______________ ,000

6. Which of the following is not one of the 5 steps for recognising revenue according to IFRS 15 Revenue from Contracts with Customers?
   A Identify the contract
   B Assess the likelihood of economic benefits
   C Determine the contract price
   D Allocate the transaction price to the performance obligations in the contract.
7. On 1 January 20X3 Wincarnis purchased 30,000 $1 shares in a listed entity for $5 per share. Transaction costs were $2,000 and Wincarnis elected to recognise the shares at fair value through other comprehensive income. At the year end of 31 December 20X3 the shares were trading at $6.50.
   At what amount will the shares be recognised in the statement of financial position of Wincarnis at 31 December 20X3? ANS:_______________
8. **Which of the following should be capitalised in the initial carrying amount of an item of plant?**
   (1) Cost of transporting the plant to the factory
   (2) Cost of installing a new power supply required to operate the plant
   (3) Cost of a three-year plant maintenance agreement
   (4) Cost of a three-week training course for staff to operate the plant
   A (1) and (3) B (1) and (2) C (2) and (4)
   D (3) and (4)
9. Paul acquired 75% of the share capital of Simon on 1 January 20X1. On this date, the net assets of Simon were $80,000. The non-controlling interest was calculated using fair value, which was calculated as $40,000 at the date of acquisition. At 1 January 20X3 the net assets of Simon were $120,000 and goodwill had been impaired by $10,000. What was the value of the non-controlling interest at 1 January 20X3?
   A $50,000 B $47,500 C $107,500 D $87,500
10. SPICES has an asset carried at $6.5 million in its statement of financial position at 31 December 20X2. The present value of the cash flows which the asset will generate for the rest of its useful life is $5.8 million. The current cost of an identical asset of the same age is $6.1 million. SPICES has received an offer of $6.2 million for the asset. The cost of dismantling the asset and transporting it to the customer would be $200,000. At what amount should the asset be recognised in the statement of financial position at 31 December 20X2? ANS:__________________
11. SACRED has borrowed $2.4 million to finance the building of a factory. Construction is expected to take two years. The loan was drawn down and incurred on 1 January 20X9 and work began on 1 March 20X9. $1 million of the loan was not utilised until 1 July 20X9 so Leclerc was able to invest it until needed. SACRED is paying 8% on the loan and can invest surplus funds at 6%. Calculate the borrowing costs to be capitalised for the year ended 31 December 20X9 in respect of this project.
    A $140,000 B $192,000 C $100,000 D $162,000
12. On 1 September 20X3 Laidlaw factored (sold) $2 million of trade receivables to Finease for an immediate payment of $1.8 million and further amounts depending on how quickly Finease collects the receivables. Finease will charge a monthly administration fee and interest on the outstanding balance and any receivables not collected after four months would be sold back to Laidlaw.
    A.How should Laidlaw account for this factoring arrangement in its financial statements for the year ended 30 September 20X3?
    B.Derecognise the receivables and recognise a loss on disposal of $200,000 Continue to recognise the receivables and treat the $1.8 million received as a loan
    C.Continue to recognise the receivables and treat the $1.8 million as deferred income
    D.Derecognise the receivables and make a provision for the loss of $200,000

13. Where the purchase price of an acquisition is less than the aggregate amount of the non-controlling interest plus fair value of net assets acquired, IFRS 3 requires that the value of the assets acquired and liabilities assumed be reassessed. If no change is made as a result of this reassessment, how should the difference be treated?
A.Deduct from goodwill in the consolidated statement of financial position
B.Recognise immediately as a gain in other comprehensive income
C. Recognise in profit or loss over its useful life
D.Recognise immediately as a gain in profit or loss.

14. At what amount does IAS 41 Agriculture generally require biological assets to be measured upon initial recognition? A Cost B Fair value C Market value D Fair value less costs to sell

15. A company purchased a machine for $50,000 on 1 January 20X1. It was judged to have a five-year life with a residual value of $5,000. On 1 January 20X3 $15,000 was spent on an upgrade to the machine. This extended its remaining useful life to five years with the same residual value. During 20X3 the market for the product declined and the machine was sold on 1 January 20X4 for $7,000. What was the loss on disposal?
A $30,600 B $40,000 C $31,600 D $29,000

SECTION B

Answer the following questions: **3*10=30**

16. The following scenario relates to questions 1-5.
Abena Co prepares financial statements to 30 June each year.
During the year to 30 June 20X5, the company spent $550,000 on new plant as follows:

	$000
Plant cost	525
Delivery to site	3
Building alterations to accommodate the plant	12
Costs of initial testing of the new plant	2
Plant operator training costs	8

Abena Co's fixtures and fittings were purchased on 1 July 20X2 at a cost of $50,000. The directors have depreciated them on a straight line basis over an estimated useful life of eight years assuming a $5,000 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.
Abena Co began a research project in October 20X3 with the aim of developing a new type of
machine. If successful, Abena Co will manufacture the machines and sell them to customers as well as using them in their own production processes. During the year ended 30 June 20X4, costs of $25,000 were incurred on conducting feasibility studies and some market research. During the year ended 30 June 20X5, a further $80,000 was incurred on constructing and testing a prototype of the machine

1. In accordance with IAS 16 Property, Plant and Equipment, what is the value of additions to plant for Abena Co for the year ended 30 June 20X5?
A $525,000 B $542,000 C $550,000 D $540,000

2 Which of the following is TRUE in relation to the change in the remaining useful life of the fixtures and fittings?
A It is a change of accounting policy which should be retrospectively applied
B It is a change of accounting policy which should be disclosed in the notes to the financial statements
C It is a change of accounting estimate which should be retrospectively applied
D It is a change of accounting estimate which should be prospectively applied

3 In accordance with IAS 16, what is the depreciation charge for the fixtures and fittings for Abena Co for the year ended 30 June 20X5?

A $7,500 B $9,000 C $7,750 D $6,750

4. In accordance with IAS 38 Intangible Assets, what is the correct treatment of the $25,000 costs incurred on the research project by Abena Co during the year ended 30 June 20X4?

A They should be recognised as an intangible non-current asset as future economic benefits are expected from the use and sale of the machinery

B They should be written off to profit or loss as an expense as they are research costs at this date

C They should be included in tangible non-current assets as machinery which will be put into use once completed

D They should be set against a provision made for the estimated total cost of the project which was set up at the start of the research

5. In accordance with IAS 38, which of the following is true when Abena Co moves to the production and testing stage of the prototype during the year ended 30 June 20X5?

A The project has moved to the development stage. If the IAS 38 development expenditure criteria are met, Abena Co can choose whether or not to recognise the $80,000 costs as an intangible non-current asset

B The project is still in its research stage and the $80,000 costs incurred by Abena Co cannot be recognised as an intangible non-current asset until a product is ready for sale

C The project has moved to the development stage. If the IAS 38 development expenditure criteria are met, Abena Co must recognise the $80,000 costs as an intangible non-current asset

D The project is still in its research stage and so Abena Co must expense the $80,000 costs to profit or loss

17. The following scenario relates to questions 1-5

Apex received a $10 million 6% loan on 1 April 20X7. The loan will be redeemable at a premium which means the loan has an effective finance cost of 7.5% per annum. The loan was specifically issued to finance the building of a new store. Construction of the store commenced on 1 May 20X7 and it was completed and ready for use on 28 February 20X8, but did not open for trading until 1 April 20X8.

1. How should the loan be treated in the financial statements of Apex for the year ended 31 March 20X8?

A Present value

B Fair value through other comprehensive income

C Fair value through profit or loss

D Amortised cost

2. Which TWO of the statements below regarding IAS 23 *Borrowing Costs* are correct?

A Borrowing costs must be capitalised if they are directly attributable to qualifying assets

B Borrowing costs should cease to be capitalised once the related asset is substantially complete

C Borrowing costs must be capitalised if they are directly attributable to non-current assets

D Borrowing costs may be capitalised if they are directly attributable to qualifying assets

E Borrowing costs should commence to be capitalised once expenditure is being incurred on the construction of the asset

3. How much should be recorded as finance costs in the statement of profit or loss for the year ended 31 March 20X8? $__________ ,000

4. How much interest should be capitalised as part of property, plant and equipment as at 31 March 20X8? $__________ ,000

5. Apex decided that not all of the funds raised were needed immediately and temporarily invested some of the funds in April 20X7, earning $40,000 interest.

How should the $40,000 be accounted for in the financial statements of Apex?
A Net off the amount capitalized in property, plant and equipment
B Taken to the statement of profit or loss as investment income
C Taken as other comprehensive income
D Deducted from the outstanding loan amount in the statement of financial position

18. The following scenario relates to questions 1-5

The following trial balance extract relates to Howard at 30 September 20X5:

	$000	$000
Convertible loan notes – Liability component at 1 Oct X4 (note (i))		28,508
5% loan notes (note (ii))		10,000
Equity investments (note (iii))	6,000	

The following notes are relevant:
(i) The convertible loan notes are 8% $30 million convertible loan notes issued on 1 October 20X4 at par. An equivalent loan without the conversion would carry an interest rate of 10%. Howard's finance director correctly split the instrument into its equity and liability components at 1 October 20X4, but has done nothing else.
(ii) The 5% loan notes were issued at par of $10 million, but Howard incurred $400,000 issue costs. The loan notes have an effective interest rate of 8%.
(iii) The equity investments relate to 1 million shares in Kapoor, an unrelated entity. During the year, Kapoor paid a dividend of 10 cents per share. At 30 September 20X5 the fair value of
each Kapoor share was $7.

1. Which of the items included in the trial balance extract will be classified as financial instruments?
A Convertible loan notes and equity investments only
B Loan notes and equity investments only
C Convertible loan notes and loan notes only
D All three items

2. What should the value of the liability element of the convertible loan note be at 30 September 20X5, to the nearest thousand?
A $28,508,000
B $28,389,000
C $28,959,000
D $30,000,000

3. What finance cost should be shown in the statement of profit or loss in respect of the loan notes? $____________

4. What income should be recorded in the statement of profit or loss in relation to the equity investments?
A $600,000 B $1,100,000 C $1,600,000 D $1,000,000

5. Howard is uncertain of how to treat professional fees. For which of the following investments should professional fees be capitalized as part of initial value of the asset?
A. Fair value through other comprehensive income investments
B. Fair value through profit or loss investments
C. Amortized cost investments
D. None

SECTION-C

Answer the following questions **2*20=40**

19. Fair value adjustments/intra-group balances
    Statements of financial position of P and S as at 30 June 20X8 are given below:

	P	S
	$	$
Non-current assets:		
Land	4,500	2,500
Plant & equipment	2,400	1,750
Investments	8,000	
	------	------
	14,900	4,250
Current assets:		
Inventory	3,200	900
Receivables	1,400	650
Bank	600	150
	------	------
	5,200	1,700
	------	------
	20,100	5,950
	------	------
Ordinary share capital 50c	5,000	1,000
Retained earnings	8,300	3,150
	------	------
	13,300	4,150
Non-current liabilities: 8% loan stock	4,000	500
Current liabilities	2,800	1,300
	------	------
	20,100	5,950
	------	------

(i) P acquired 75% of S on 1 July 20X5 when the balance on S's retained earnings was $1,150. P paid $3,500 for its investment in the share capital of S. At the same time, P invested in 60% of S's 8% loan stock.
(ii) At the reporting date P's payables included an amount due to S of $400. This did not agree to the corresponding amount in S's financial statements of $500. The difference is explained as cash in transit.
(iii) At the date of acquisition it was determined that S's land, carried at cost of $2,500 had a fair value of $3,750. S's plant was determined to have a fair value of $500 in excess of its carrying amount and had a remaining life of 5 years at this time. These values had not been recorded by S.
(iv) The P group uses the fair value method to value the noncontrolling interest. For this purpose the subsidiary share price at the date of acquisition should be used. The subsidiary share price at acquisition was $2.20 per share.
(v) Goodwill has become impaired by $100.

Required:
Prepare the consolidated statement of financial position of the P group as at 30 June 20X8. (20 marks)

20. CFQ is a large retailer, which has been established for many years. CFQ develops and manufactures products themselves, rather than buying them from wholesalers.

Extracts from CFQ's financial statements are shown below:

	20X1	20X0
	$000	$000
Property, plant and equipment	635,000	645,000
FVPL investments	93,000	107,000
Development costs	29,000	24,000

During 20X1, CFQ sold plant for $45 million, which had a carrying amount of $60 million at the date of disposal.

CFQ's statement of profit or loss included the following:

Depreciation of property, plant and equipment $120 million

Loss on FVPL investments $21 million

Amortisation of development costs $8 million

Required: (a) Prepare the cash flows from investing activities section of CFQ's statement of cash flows. Show the workings (8 marks)

(b) Comment on what the investing activities show about CFQ as a business, highlighting any areas which may require further investigation. (7 marks)

(c) List out any five the operating cash flow activities that will be recorded for a banking industry (5 marks)

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