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

Registration Number:

Date & Session 13-12-2022 (9AM)

**BCom IFA – III SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCIFA3122: Financial Reporting I**

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

**This paper contains \_\_\_8\_\_ printed pages and \_\_\_4\_\_ parts**

**Section A**

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

1. Which of the following statements relating to regulatory frameworks is/are true?

|  |  |  |  |
| --- | --- | --- | --- |
| Sl. No |  | True | False |
| a. | Accounting standards on their own provide a complete regulatory framework |  |  |
| b. | A regulatory framework is required to ensure that financial reporting meets the needs of primary users. |  |  |

1. Which **2** of the following are **NOT** the advantages of applying a principles‐based framework of accounting rather than a rules‐based framework?
   1. It avoids ‘fire‐fighting’, where standards are developed in responses to specific problems as they arise
   2. It allows preparers and auditors to deal with complex transactions which may not be specifically covered by an accounting standard
   3. Principles‐based standards are thought to be harder to circumvent
   4. A set of rules is given which attempts to cover every eventuality
   5. It is easier to prove non‐compliance
2. List out any four items that will be covered under IAS 41.
3. R has prepared its draft financial statements for the year ended 30 September 20X4. It has included the following transactions in revenue at the amounts stated below. Which of these has been correctly included in revenue according to IFRS 15 Revenue from Contracts with Customers?
   1. Agency sales of $250,000 on which R is entitled to a commission of 10%.
   2. Sale proceeds of $20,000 for motor vehicles which were no longer required by R.
   3. Sales of $150,000 on 30 September 20X4. The amount invoiced to and received from the customer was $180,000, which includes $30,000 for ongoing servicing work to be done by R over the next two years.
   4. Sales of $200,000 on 1 October 20X3 to an established customer who (with the agreement of R) will make full payment on 30 September 20X5. R has a cost of capital of 10%.
4. A manufacturing entity receives a grant of $1m towards the purchase of a machine on 1 January 20X3. The grant will be repayable if the entity sells the asset within 4 years, which it does not intend to do. The asset has a useful life of 5 years. What is the deferred income liability balance at 30 June 20X3? Show the split between current and non-current liability.
5. A's year end is 31 December 20X7. The following events all occurred in January 20X8. State whether the events below would be classed as adjusting or non-adjusting events.

|  |  |  |
| --- | --- | --- |
| Events | Adjusting | Non-adjusting |
| Insolvency of a customer |  |  |
| Loss of inventory due to a flood |  |  |
| Completion of the purchase of another company |  |  |
| Evidence showing that the net realisable value of inventory is below cost |  |  |

**Section B**

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

1. Luck sells machines, and also offers installation and technical support services. The individual selling prices of each product are shown below. Sale price of goods   $75 Installation     $30 One-year service    $45 Luck sold a machine on 1 May 20X1, charging a reduced price of $100, including installation and one year’s service. Luck only offers discounts when customers purchase a package of products together.

**According to IFRS 15 Revenue from Contracts with Customers, how much should Luck record in revenue for the year ended 31 December 20X1? Workings should be rounded to the nearest $.**

1. S Co purchased a new building with a 50‐year life for $10 million on 1 January 20X3. On 30 June 20X5, S Co moved out of the building and rented it out to third parties on a short‐term lease. S Co uses the fair value model for investment properties. At 30 June 20X5 the fair value of the property was $11 million and at 31 December 20X5 it was $11.5 million.

**Show the extract of statement of profit or loss of S Co for the year ended 31 December 20X5.**

1. A division of an entity has the following balances in its financial statements:

|  |  |
| --- | --- |
|  | $ |
| Goodwill  Plant  Building  Intangibles  Other net assets | 700,000  950,000  2,300,000  800,000  430,000 |

Following a period of losses, the recoverable amount of the division is deemed to be $4 million. A recent valuation of the building showed that the building has a market value of $2.5 million. The other net assets are at their recoverable amount. The entity uses the cost model for valuing building and plant.

**To the nearest thousand, what is the balance on the building following the impairment review?**

**Section C**

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

1. The following scenario relates to questions a – e.

On 7 January 20X5, H was informed that it was being sued by an employee in respect of a workplace accident that took place in October 20X4. Legal advisors advise that H is certain to lose the case. They have provided the following information:

|  |  |
| --- | --- |
| Estimated pay‐out | Probability of payment occurring |
| $1 million  $2 million  $3 million | 30%  60%  10% |

Her has sold 100,000 machines that are covered by a warranty agreement as at 31 December 20X4. If a machine develops a major fault then the average cost to H of repairing it is $100. If a machine develops a minor fault then the average cost to H of repairing it is $30. It is believed that 6% of the machines under warranty will develop major faults and that 8% will develop minor faults. The time value of money can be ignored.

On 15 December 20X4, the directors of H decided to restructure the business and created a detailed and formal plan. On that date, an announcement was made to the employees who were informed that they would be made redundant in March 20X5. The directors estimate that the restructuring exercise will involve the following costs:

|  |  |
| --- | --- |
| Type of cost | $m |
| Redundancy payments  Staff relocation  Investment in new systems | 1.2  0.8  2.0 |

* 1. Which of the following are outlined in IAS 37 Provisions, Contingent Liabilities and Contingent Assets as criteria required for recognising a provision?

1. An entity has a present obligation from a past event.
2. It is possible that an outflow of resources will be required.
3. A reliable estimate can be made of the amount of the obligation.

A (i), (ii) and (iii)

B (i) and (ii) only

C (i) and (iii) only

D (ii) and (iii) only

* 1. What amount should be recognised as a provision in respect of the workplace accident claim in the year ended 31 December 20X4?

A Nil

B $1.8 million

C $2 million

D $3 million

* 1. What amount should be recognised as a warranty provision in the year ended 31 December 20X4? $\_\_\_\_\_\_\_\_\_
  2. What amount should be recognised as a restructuring provision in the year ended 31 December 20X4?

A $1.2 million

B $2.0 million

C $3.2 million

D $4.0 million

* 1. The following situations have arisen in the year ended 31 December 20X4: **Situation 1:** A law was introduced in November 20X4 requiring Hermione to fit new smoke filters in its factory by February 20X5 at an estimated cost of $500,000. By the reporting date, Hermione had not fitted the smoke filters.

**Situation 2:** The management accountant of Hermione has reliably forecast an operating loss of $4 million for the year ended 31 December 20X5. Which, if any, of the situations require a provision to be recognised?

|  |  |  |
| --- | --- | --- |
|  | Provision | No Provision |
| Situation 1  Situation 2 |  |  |

1. M Co is an international airline which flies to destinations all over the world. M Co experienced strong initial growth but in recent periods the company has been criticised for under‐investing in its non‐current assets. Extracts from M Co’s financial statements are provided below.

**Statements of financial position as at 30 June**

|  |  |  |
| --- | --- | --- |
|  | **20X7** | **20X6** |
|  | **$000** | **$000** |
| **Assets**  **Non-current assets**  Property, plant and equipment  **Current assets**  Inventories  Trade and other receivables  Cash and cash equivalents  **Total Assets**  **Equity and liabilities**  **Equity**  Equity shares  Retained earnings  Revaluation surplus  **Liabilities**  **Non-current liabilities**  6% loan notes  **Current liabilities**  Trade and other payables  6% loan notes  **Total equity and liabilities** | 337,000  500  6,100  9,300  **352,980**  3,000  44,100  145,000  130,960  10,480  19,440  352,980 | 190,000  490  6,300  22,100  **218,890**  3,000  41,800  -  150,400  4,250  19,440  218,890 |

Other **EXTRACTS** from M Co’s financial statements for the years ended 30 June:

|  |  |  |
| --- | --- | --- |
|  | 20X7 ($000) | 20X6 ($000) |
| Revenue  Profit from operations  Finance costs  Cash generated from operations | 154,000  12,300  (9,200)  18,480 | 159,000  18,600  (10,200)  24,310 |

**Calculate the following ratios for the years ended 30 June 20X6 and 20X7 and write 2 points of professional interpretation:**

(1) Operating profit margin

(2) Return on capital employed

(3) Interest cover

**Note: For calculation purposes, all loan notes should be treated as debt.**

1. A company owns a machine which it purchased four years ago for $100,000. The accumulated depreciation on the machine to date is $40,000. The machine could be sold to another manufacturer for $50,000 but there would be dismantling costs of $5,000. To replace the machine with a new version would cost $110,000. The cash flows from the existing machine are estimated to be $25,000 for the next two years followed by $20,000 per year for the remaining four years of the machine's life.

The relevant discount rate for this company is 10% and the discount factors are:

Year 1 0.909

Year 2 0.826

Years 3 – 6 inclusive 2.619 (annuity rate)

**Calculate the following values for the machine:**

(a) Historical cost

(b) Net realisable value

(c) Replacement cost

(d) Economic value

**Section D**

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

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

|  |  |  |
| --- | --- | --- |
|  | **$000** | **$000** |
| Administration expenses  Distribution costs  Share capital $1  Share premium  Revaluation surplus  Dividend paid  Cash at bank and in hand  Receivables  Interest paid  Dividends received  Interest received  Land and buildings at cost (land 380, building 100)  Land and buildings: accumulated depreciation  Plant and machinery at cost  Plant and machinery: accumulated depreciation  Retained earnings account (at 1st April 20X6)  Purchases  Sales  Inventory at 1st April 2016  Trade payables  Bank loan | 250  295  27  3  233  25  480  400  1,260  140  3,113 | 270  80  20  15  1  30  170  235  2165  27  100  3,113 |

**Additional information**

1. Inventory at 31 March 20X7 was valued at a cost of $95,000. Included in this balance were goods that had cost $15,000. These goods had become damaged during the year and it is considered that the goods could be sold for $5,500, less commission of $500.
2. 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)
3. Land is to be revalued upwards by $100,000.
4. Income tax of $165,000 is to be provided for the year to 31 March 20X7.
5. The bank loan is repayable in five years' time.

**Prepare for year ended 31 March 20X7**

* 1. Statement of profit or loss and other comprehensive income,
  2. statement of changes in equity and
  3. statement of financial position.

**Note: Show all necessary workings.**