

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

**B.COM IFA- VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**(Examination conducted in May 2023)**

**BCIFA6119- CORPORATE REPORTING** II

**(For current batch students only)**

**Time-2 and 1/2 hours Max Marks-70**

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

**SECTION A**

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

1. Osho hires out industrial plant on long-term operating leases. On  
   1 January 20X1, it entered into a seven-year lease on a mobile crane. The terms of the lease are $175,000 payable on 1 January 20X1, followed by six rentals of $70,000 payable on 1 January 20X2 – 20X7. The crane will be returned to Osho on 31 December 20X7. The crane originally cost $880,000 and has a 25-year useful life with no residual value. Calculate the accounting treatment of the above.
2. State the measurement criteria of termination benefit as per IAS 19.
3. What is significant influence as per IAS 28?
4. T purchases 100% of the shares in F, a non-listed company. F owns 20 houses, which are leased to tenants. The houses are located in the same area. The fair value of the consideration paid for the shares in F is equal to the total fair value of the 20 houses. Determine whether F is a business or not.
5. What are the factors to be considered while determining if an information is material?
6. The CAMRY group has sold its entire 100% holding in an overseas subsidiary for proceeds of $50,000. The net assets at the date of disposal were $20,000 and the carrying amount of goodwill at that date was $10,000. The cumulative balance on the group foreign currency reserve is a gain of $5,000. Calculate the gain/loss to be presented in consolidated statement of profit or loss.

**SECTION B**

**Answer any THREE questions. Each question carries five marks. (3x5=15)**

1. Hola raised finance on 1 January 20X1 by the issue of a two-year 2% bond with a nominal value of $10,000. It was issued at a discount of 5% and is redeemable at a premium of $1,075. Issue costs can be ignored. The bond has an effective rate of interest of 10%. Illustrate and explain how the financial instruments should be accounted for by Hola.
2. Calculate the required cash flows in the following scenario:

20X1 20X0

Property, plant and equipment (PPE) $250 $100

During the year depreciation charged was $20, a revaluation surplus of $60 was recorded, and PPE with a carrying amount of $15 was disposed of. The carrying amount of assets recognised through lease agreements and classified as PPE was $30. How much cash was spent on property, plant and equipment in the period?

1. The Portugal group of companies has a financial year-end of 30 June 20X4. The financial statements were authorised three months later. The group is disposing of many of its subsidiaries, each of which is a separate major line of business or geographical area.

* A subsidiary, England, was sold on 1 January 20X4.
* On 1 January 20X4, an announcement was made that there were advanced negotiations to sell subsidiary Switzerland and that, subject to regulatory approval, this was expected to be completed by 31 October 20X4.
* The board has also decided to sell a subsidiary called France. Agents have been appointed to find a suitable buyer but none have yet emerged. The agent's advice is that potential buyers are deterred by the expected price that Portugal hopes to achieve.
* On 10 July 20X4, an announcement was made that another subsidiary, Croatia, was for sale. It was sold on 10 September 20X4.

Required:

Explain whether each of these subsidiaries meets the definition of a 'discontinued operation' as defined by IFRS 5.

1. Give a brief note on the accounting treatment of step-acquisition.

**SECTION C**

**Answer any TWO questions. Each question carries fifteen marks. (2x15=30)**

1. The statements of profit or loss and extracts from the statements of changes in equity for the year ended 31 December 20X9 are as follows:

Statements of profit or loss for the year ended 31 December 20X9

|  | UAE group | Dubai |
| --- | --- | --- |
| Revenue | 1,106,000 | 900,000 |
| Operating costs | (900,000) | (800,000) |
| Operating profits | 206,000 | 100,000 |
| Investment income | 16,000 | --- |
| Profit before tax | 222,000 | 100,000 |
| Tax | (80,000) | (28,000) |
| Profit for the period | 142,000 | 72,000 |

Extracts from SOCIE for year ended 31 December 20X9

|  | UAE group | Dubai |
| --- | --- | --- |
| Retained earnings b/f | 200,000 | 160,000 |
| Profit for the period | 142,000 | 72,000 |
| Dividend paid | (50,000) | (20,000) |
| Retained earnings c/f | 292,000 | 212,000 |

There were no items of other comprehensive income during the year.

Additional information

* The accounts of the UAE group do not include the results of Dubai.
* On 1 January 20X5 UAE acquired 70% of the shares of Dubai for $200,000 when the fair value of Dubai's net assets was $220,000. Dubai has equity capital of $100,000. At that date, the fair value of the non-controlling interest was $80,000. It is group policy to measure the NCI at fair value at the date of acquisition.
* Dubai paid its 20X9 dividend in cash on 31 March 20X9.
* Goodwill has not been impaired.

You are required to:

1. Prepare the group statement of profit or loss for the year ended 31 December 20X9 for the UAE group on the basis that UAE plc sold its holding in Dubai on 1 July 20X9 for $400,000. This disposal is not yet recognised in any way in UAE group’s statement of profit or loss. Assume that Dubai does not represent a discontinued operation per IFRS 5.
2. Explain and illustrate how the presentation of the group statement of profit or loss would differ from part (a) if Dubai represented a discontinued activity per IFRS 5.
3. ‘Under IFRS 8, an operating segment is a component whose results are regularly reviewed by the entity's chief operating decision maker. This means that the segments reported in the financial statements should be the same as those reviewed in internal management reports.

Management may use more than one set of segment information. For example, they might analyse information by classes of business (different products or services) and by geographical areas. If this is the case then management must identify a singleset of components on which to base the segmental disclosures. The basis of reporting information should be the one that best enables users to understand the business and the environment in which it operates.’ In this regard answer the following questions:

* 1. Identify the components of segment reporting in an entity
  2. Analyse the possibility of aggregation in segment reporting as per IFRS 8
  3. Describe the criteria of quantitative thresholds in segment reporting. (5+5+5)

1. P is an entity that owns 80% of the equity shares of S, a foreign entity that has the Shilling as its functional currency. The subsidiary was acquired on 1 January 20X7 when its retained earnings were 60,000 Shillings. The reporting date is 31 December 20X7.

At the acquisition date the fair value of the net assets of S was equal to the carrying amount with the exception of freehold land. The fair value of this land exceeded its carrying amount by 40,000 Shillings.

At the date of acquisition, the non-controlling interest in S should be measured at its fair value of 50,000 Shillings. Goodwill at the reporting date is not impaired.

**Statements of financial position as at 31 December 20X7**

|  | P($) | S (Shillings) |
| --- | --- | --- |
| Investment in S at cost | 38,180 | -- |
| Assets | 95,000 | 400,000 |
|  | **133,180** | **400,000** |
| Equity and liabilities |  |  |
| Equity capital | 50,000 | 100,000 |
| Retained earnings | 60,000 | 82,000 |
| Liabilities | 23,180 | 218,000 |
|  | **133,180** | **400,000** |

Relevant exchange rates are:

|  | Shillings: $1 |
| --- | --- |
| 1 January 20X7 | 5.5 |
| 31 December 20X7 | 5.0 |
| Average for year to 31 December 20X7 | 5.2 |

Discuss how the goodwill arising on the acquisition of Overseas should be dealt with in the consolidated financial statements of the Parent group for the year ended 31 December 20X7.

**SECTION D**

**Answer the following compulsory question. (1x15=15)**

1. The following information relates to a defined benefit plan operated by Fraser. At 1 January 20X1, the present value of the obligation was $1,000,000 and the fair value of the plan assets amounted to $900,000.

|  | 20X1 | 20X2 | 20X3 |
| --- | --- | --- | --- |
| Discount rate at start of year | 10% | 9% | 8% |
| Current and past service cost ($000) | 125 | 130 | 138 |
| Benefits paid ($000) | 150 | 155 | 165 |
| Contributions paid into plan ($000) | 90 | 95 | 105 |
| PV of obligation at 31 December ($000) | 1,350 | 1,150 | 1,300 |
| FV of plan assets at 31 December ($000) | 1,200 | 1,150 | 1,300 |

Discuss how the defined benefit plan would be shown in the financial statements for each of the years ended 31 December 20X1, 20X2 and 20X3 respectively.

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