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Register Number:

Date:

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

**B.COM IFA- V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2023**

**(Examination conducted in November /December 2023)**

**BCIFA 5123 STRATEGIC BUSINESS REPORTING I**

**(For current batch students only)**

**Time-2 hours Max Marks-60**

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

**SECTION A**

**Answer any FIVE questions. Each question carries THREE marks (5x3=15)**

1. State the contemporary challenges of ethics in the digital age.
2. Balkan has an investment property that is measured at fair value. This property is rented out on short-term leases. The directors wish to fair value the property by estimating the present value of the net cash flows that the property will generate for Balkan. They argue that this best reflects the way in which the building will generate economic benefits for Balkan. The building is unique, although there have been many sales of similar buildings in the local area.

Discuss whether the valuation technique suggested by the directors complies with International Financial Reporting Standards.

1. Dan sold a good to Stan. Control over the good was transferred on
1 January 20X1. The consideration received by Dan was 1,000 shares in Stan with a fair value of $4 each. By 31 December 20X1, the shares in Stan had a fair value of $5 each. Find out how much revenue should be recognised from this transaction in the financial statements of Dan for the year ended 31 December 20X1?
2. Give three drawbacks of additional performance measures (APMs) in financial statements.
3. What is the purpose of management commentary in financial statements?
4. ‘The subject matter of other reporting standards has been simplified for inclusion within the SMEs Standard’. Identify the key simplifications in the SMEs standard.

**SECTION B**

**Answer any TWO questions. Each question carries FIVE marks. (2x5=10)**

1. Smith has owned 60% of the equity shares of Pixel and 70% of the equity shares of Frame for many years. On 1 January 20X4, Pixel entered into a lease agreement with Frame. Under the terms of the lease, Pixel would lease one of its unused warehouses, with a remaining useful life of 20 years, to Frame for five years. Consideration payable by Frame would be $10,000 a year in arrears. Market rentals for similar sized warehouses tend to be around $100,000 per year.

Discuss the correct treatment of the above transaction in Pixel's financial statements for the year ended 30 June 20X4.

1. Lopez develops and manufactures desktop and laptop computers. Profit after tax for the year-ended 31 December 20X1 is 5% lower than the prior period. Lopez discloses the following non-financial performance measures in its Integrated Report for the year ended 31 December 20X1.

|  |  |  |
| --- | --- | --- |
| ­­ | 20X1 | 20X0 |
| Faults per 1,000 sales | 2.1 | 3.2 |
| Customer service helpline waiting time (minutes) Staff turnover\* (%) \*(leavers/average number of employees × 100)  | 1.56.5 | 4.213.2 |

Discuss how the above information might be interpreted by Lopez’s investors.

1. Briefly explain the five issues that need to be addressed while first-time adopting IFRS.

**SECTION C**

**Answer any TWO questions. Each question carries TEN marks. (2x10=20)**

1. Turid is a public limited company that prepares its financial statements in accordance with International Financial Reporting Standards and has a year-end of 31 December 20X1. It manufactures furniture that is sold to a range of retail outlets. As at the year-end Turid has loans outstanding, with repayments of $7 million due annually in each of the next four years.

You are a potential investor in Turid. You are analysing its statement of cash flows for the year ended 31 December 20X1, which is presented below:

**Statement of cash flows for year ended 31 December 20X1**

|  |  |  |
| --- | --- | --- |
|  | $ m | $ m |
| **Cash flows from operating activities** |  |  |
| Profit before tax | 35 |  |
| Finance cost | 5 |  |
| Depreciation | 12 |  |
| Profit on disposal of PPE | (8) |  |
| Reduction in provisions | (6) |  |
| Increase in inventory | (19) |  |
| Increase in receivables | (14) |  |
| Increase in payables | 13 |  |
| Cash generated from operations | 18 |  |
| Interest paid | (5) |  |
| Tax paid | (10) | **3** |
| **Cash flows from investing activities** |  |  |
| Proceeds from sale of PPE | 20 |  |
| Purchase of PPE | (30) | **(10)** |
| **Cash flows from financing activities** |  |  |
| Proceeds from shares | 15 |  |
| Repayment of loan | (7) |  |
| Dividend paid | -- | **8** |
| **Increase in cash and cash equivalents** |  | **1** |
| Opening cash and cash equivalents |  | (5) |
| **Closing cash and cash equivalents** |  | **4** |

From analysis of the statement of cash flows, what conclusions would you draw about Turid?

1. Kapitol has identified an impairment loss of $41m for one of its cash- generating units. The carrying amount of the unit’s net assets was $150m, whereas the unit’s recoverable amount was only $109m. The draft values of the net assets of the unit are as follows:

|  |  |
| --- | --- |
| Goodwill | $13 m |
| Property | $20 m |
| Machinery | $49 m |
| Vehicles | $35 m |
| Patents | $14 m |
| Net monetary assets | $19 m |

The net selling price of the unit’s assets were insignificant except for the property, which had a market value of $35m. The net monetary assets will be realised in full.

Show calculations as to how the impairment loss is allocated to the assets within the cash-generating unit?

1. Write explanatory notes on:
	1. Issues in digital asset
	2. Accounting for effect of natural disaster. (5+5 marks)

**SECTION D**

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

1. A. An entity has a reporting date of 31 December.
* On 1 January 20X1 it grants 100 share options to each of its 500 employees. Each grant is conditional upon the employee working for the entity until 31 December 20X3. At the grant date the fair value of each share option is $15.
* During 20X1, 20 employees leave and the entity estimates that a total of 20% of the 500 employees will leave during the three-year period.
* During 20X2, a further 20 employees leave and the entity now estimates that only 15% of the original 500 employees will leave during the three-year period.
* During 20X3, a further 10 employees leave.

Calculate and discuss the remuneration expense that will be recognised in each of the three years of the share-based payment scheme. 10 marks

B. Classify the following as adjusting and non-adjusting events:

1. a major business combination after the disposal of a major subsidiary
2. destruction of assets by a fire after the reporting date
3. large changes after the reporting date in foreign exchange rates
4. the bankruptcy of a customer after the reporting date
5. the settlement after the reporting period of a court case 5 marks

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