

Registration Number:

Date & session:

**ST.JOSEPH’S UNIVERSITY, BENGALURU -27**

**B.COM IFA – II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in MAY/JUNE 2024)**

**BCIFA 2322: FINANCIAL REPORTING-I**

**(For current batch students only)**

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

**Paper contains EIGHT printed pages and FOUR parts**

**PART-A**

1. **Answer *any five* of the following**  (**3 x 5 = 15 marks)**
2. Why Regulatory Framework is necessary?
3. If an oil rig was built in the sea, the cost to be capitalized is likely to include the cost of constructing the asset and the present value of the cost of dismantling it. If the asset cost $10 million to construct, and would cost $4 million to remove in 20 years, then the present value of this dismantling cost must be calculated. If interest rates were 5%.

**Find out the present value of the dismantling costs.**

1. The following information relates to three assets:

|  |  |  |  |
| --- | --- | --- | --- |
|  | A | B | C |
| $000 | $000 | $000 |
| Carrying amount | 100 | 150 | 120 |
| Net realisable value | 110 | 125 | 100 |
| Value in use | 120 | 130 | 90 |

**What is the recoverable amount of each asset?** **Calculate the impairment loss for each of the three assets.**

1. List out the Five steps in Revenue recognition.
2. The following costs relate to a unit of goods: Cost of raw materials $1, Direct labour $0.50 During the year $60,000 of production overheads were incurred. 8,000 units were produced during the year which is lower than the normal level of 10,000 units. This was as a result of a fault with some machinery which resulted in 2,000 units having to be scrapped. At the year-end, 700 units are in closing inventory. **Compute the value of closing inventory?**
3. List out the recognition criteria for the Income in the financial statements?

**PART-B**

1. **Answer *any two* of the following**  (**5 x 2 = 10 marks)**
2. An entity revalued its land and buildings at the start of the year to $60million ($15million for the land).The property cost $30million ($6million for the land) ten years prior to the revaluation.The total expected useful life of 40years remained unchanged.The entity’s policy is to make an annual transfer of realised amounts to retained earnings.

**Show the extracts of the above on the financial statements for the year.**

1. Jack Co enters into a contract with a customer to supply furniture on 30 September 20X3. Control of the furniture transfers to the customer on that date. The price stated in the contract is $750,000 and is due for payment on 30 September 20X5. Market rates of interest available to this particular customer are 7%. **How this transaction should be accounted for in the financial statements of Jack Co for the year ended 30 September 20X3 and 20X4.**
2. Given below are the statements of profit or loss for Rainbow Motors for the last two years.

**Statements of profit or loss**

|  |  |  |
| --- | --- | --- |
|  | **20X2** | **20X1** |
|  | **$000** | **$000** |
| 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** |

In 20X1 dividends were $100,000 and in 20X2 they were $110,000. The company is financed by 1,200,000 $1 ordinary shares and the market price of each share was $1.64 at 31 December 20X2 and $1.53 at 31 December 20X1.

**For each year calculate the following ratios:**

**a) EPS and b)P\E Ratio**

**PART-C**

1. Answer ***any two*** of the following (**10 x 2 = 20 marks)**
2. The following shows an extract from Wagnor Ltd's nominal ledger at 30 April 20X1:

|  |  |  |
| --- | --- | --- |
|  | $ | $ |
| Administration expenses | 950,000 |  |
| Distribution costs | 531,000 |  |
| Purchases | 2,875,000 |  |
| Finance costs | 9,000 |  |
| Investment income |  | 5,700 |
| Revenue |  | 5,350,000 |
| Ordinary share capital $1 |  | 1,000,000 |
| Receivables | 55,700 |  |
| Inventory at 1 May 20X0 | 1,670,000 |  |
| Cash and cash equivalents | 242,000 |  |
| Land and buildings |  |  |
| Cost at 1 May 20X0 | 900,000 |  |
| Accumulated depreciation at 1 May 20X0 |  | 36,000 |
| Plant and equipment  Cost at 1 May 20X0  Accumulated depreciation at 1 May20X0 | 102,800 | 36,400 |

|  |  |  |
| --- | --- | --- |
| Intangible asset –  carrying amount at 1 May 20X0 | 68,000 |  |
| Retained earnings at 1 May 20X0 |  | 813,300 |
| Bank loan (repayable on 1 June 20X9) |  | 100,000 |
| Payables |  | 62,100 |
|  | **7,403,500** | **7,403,500** |

**The following additional information is available:**

i.The tax charge for the year is estimated at $227,000.

ii.During the year a piece of plant costing $56,000 with accumulated depreciation of $21,000, met the criteria of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The plant is available for sale at the price of $32,000 and costs of $1,000 will be incurred in order to complete the sale.

iii.Plant and machinery should be depreciated at 20% on cost and charged to cost of sales.

iv.The land and buildings were originally acquired on 1 May 20W7 for $900,000 of which $300,000 related to land. Depreciation is calculated on a straight line basis over a 50 year life and charged to administration expenses.

v.At the beginning of the year Wagnor Ltd revalued their land and buildings to $1,400,000 of which $460,000 related to land. The remaining life remains unchanged. This has not been accounted for.

vi..Closing inventory was valued at $1,820,000 before any adjustments for damaged items. At the year-end inventory count it was discovered that one line of goods in the warehouse had been damaged. The count shows that 1,250 items were damaged. The inventory was recorded at cost of $150 per item, but following the damage the items have a scrap value of $40 each.

vii.The intangible asset is a brand which was acquired for $68,000. The useful life of the brand is considered to be indefinite and therefore Wagnor Ltd carries out an annual impairment review to identify the recoverable amount. An expert has estimated the brand's fair value less costs to sell to be $60,000 and the financial controller has estimated the value in use to be $62,000.

**Prepare a statement of profit or loss for the year ended 30 April 20X1.**

1. Niel specialises in long-term contracts. In each contract Niel is entitled to receive payments reflecting the progress of the work, so revenue should be recognised over time.

One of its contracts, with Better Homes, is to build a complex of luxury flats. The price agreed for the contract is $40 million and its scheduled date of completion is 31 December 20X2. Details of the contract to 31 March 20X1 are:

|  |  |
| --- | --- |
| Commencement date  Contract costs: | 1 July 20X0  $000 |
| Architects’ and surveyors’ fees | 500 |
| Materials | 2,800 |
| Direct labour costs | 3,500 |
| Overheads are apportioned at 40% of direct labour costs |  |
| Estimated cost to complete (excluding depreciation – see below) | 14,800 |

Plant and machinery used exclusively on the contract cost $3,600,000 on 1 July 20X0. At the end of the contract it is expected to be transferred to a different contract at a value of $600,000. Depreciation is to be based on a time-apportioned basis. Better Homes made a progress payment of $12,800,000 to Niel on 31 March 20X1.

Niel accounts for profit on its construction contracts using the input method, measured using the percentage of the cost to date compared to the total estimated contract cost.

**Prepare extracts from the financial statements of Niel reflecting the impact of the contract with Better Homes for the year to 31 March 20X1.**

1. Regina sold and installed a large item of machinery for $800,000 on 1 November 20X7. Included within the price was a 2 year servicing contract which has a value of $240,000 and a fee for installation of $50,000. Regina works as an agent for a number of smaller contractors, earning commission of 10%. Regina’s revenue includes $6 million received from clients under these agreements with $5.4 million in cost of sales representing the amount paid to the contractors. Regina sold a large number of vehicles to a new customer for $10 million on 1 July 20X7. The customer paid $990,000 up front and agreed to pay the remaining balance on 1 July 20X8. Regina has a cost of capital of 6%.
2. Compute Regina’s revenue in its statement of profit or loss for the year ended 31 December 20X7 in relation to the large machinery sale? (2 Marks)
3. Regina’s sales director is close to selling another large machine, offering free service, therefore selling the entire machine for $560,000. Regina never sells servicing separately. (2 Marks)

How should this discount be applied in relation to the sale of the machinery?

|  |  |  |
| --- | --- | --- |
| Sales element | Discount applied | Discount not applied |
| Machine |  |  |
| Installation |  |  |
| Service |  |  |
|  |  |  |

1. What adjustment needs to be made to revenue in respect of the commission sales?Choose the right answer and **show necessary calculation.**  (2 Marks)
2. Reduce revenue by $6 million
3. Reduce revenue by $5.4 million
4. Increase revenue by $600,000
5. No adjustment is required
6. How much should initially be recorded in revenue in respect of the sale of vehicles in the statement of profit or loss for the year ended 31 December 20X7? (2 Marks)
7. On 31 December 20X7 Regina sold some maturing goods to a bank for $3 million. The estimated value of the goods at that date was $5 million, which is expected to keep rising. Regina keeps the goods on its premises and has the option to repurchase the goods on 31 December 20X9 for $3.63 million.(2 Marks)

Which of the following outlines the correct treatment for the maturing inventory and **show the workings**?

a)Record a loss on disposal of $2 million in the statement of profit or loss

b)Take $3 million to revenue, disclosing the repurchase option

c)Leave the inventory in current assets, increasing in value as the goods mature

d)Treat the $3 million as a loan with 10% compound interest accruing over the 2 years.

**PART-D**

**IV. Answer the following (15marks)**

###### 13. Canva assembles computer equipment from bought-in components and distributes the equipment to various wholesalers and retailers. It has recently subscribed to an inter-firm comparison service. Members submit accounting ratios as specified by the operator of the service, and in return, members receive the average figures for each of the specified ratios taken from all subscribing entities in the same sector.

###### The specified ratios and the average figures for Canva’s sector are shown below.

Ratios of companies reporting a full year’s results for periods ending between 1 July 20X3 and 30 September 20X3:

|  |  |
| --- | --- |
| Net asset turnover | 1.8 times |
| Gross profit margin | 30% |
| Return on Capital employed | 22.1% |
| Debt to Equity | 40% |
| Receivables days | 45 days |
| Payables days | 55 days |
| Inventory days | 46days |

|  |  |
| --- | --- |
| Revenue | $000  2,425 |
| Cost of sales | (1,870) |
| Gross profit | 555 |
| Other operating expenses | (215) |
| Profit from operations | 340 |
| Finance costs | (34) |
| Exceptional item | (120) |
| Profit before tax | 186 |
| Income tax expense | (90) |
| Profit for the year | 96 |

Canva’s financial statements for the year to 30 September 20X3 are set out below:

|  |  |  |
| --- | --- | --- |
| Extract from statement of changes in equity | | |
|  | $000 | $000 |
| Retained earnings – 1 October 20X2 |  | 179 |
| Profit for the year |  | 96 |
| Dividends paid (interim $60,000, final $30,000) |  | -90 |
| Retained earnings – 30 September 20X3 |  | 185 |
|  |  |  |
| [Statement of financial position](#_TOC_250001) | | |
|  | $000 | $000 |
| Non-current assets |  | 540 |
| Current Assets |  |  |
| Inventory | 275 |  |
| Receivables | 320 | 595 |
|  |  | **1,135** |
| **Equity** |  |  |
| Ordinary shares (25 cents each) |  | 150 |
| Retained earnings |  | 185 |
| **Non-current liabilities** |  |  |
| 8% loan notes |  | 300 |
| **Current liabilities** |  |  |
| Bank overdraft | 65 |  |
| Trade payables | 350 |  |
| Taxation | 85 | 500 |
|  |  | **1,135** |

**Notes:**

1. The details of non-current assets are:

|  |  |  |
| --- | --- | --- |
| Cost | Accumulated depreciation | Carrying amount |
| $000 | $000 | $000 |
| At 30 September 20X3 3,600 | 3,060 | 540 |

1. The exceptional item relates to losses on the sale of a batch of computers that had become worthless due to improvements in microchip design.
2. The market price of Canva’s shares throughout the year averaged $6 each.

**Calculate the below ratios of Canva and interpret the same with that of its sector ratios.**

1. **Net Asset Turnover Ratio**
2. **Gross Profit Margin**
3. **Return on capital employed**
4. **Debt to Equity**
5. **Inventory Days**
6. **Receivable Days**
7. **Payable Days**

**(Calculation of ratios - 7 marks & Interpretation - 8 marks)**