**Registration Number:**

 **Date & Session:**

**ST. JOSEPH’S COLLEGE BENGALURU – 27**

**BCOM – VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May/June 2024)**

**BCIFA 6123: Strategic Business Reporting II**

**(For current batch students only)**

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

**This paper contains 3 printed pages and 4 parts**

**Part A**

**Answer any 5 of the following. Each question carries 3 marks. (5 X 3 = 15)**

1. Bolt Co hedges commodity price risk in aluminium and such transactions were classified as ‘highly probable’ in accordance with IFRS 9 Financial Instruments. However, the purchases which were considered highly probable prior to the natural disaster, are no longer expected to occur. How the hedge of the commodity price risk in aluminium should be accounted for in the financial statement for the year ended 31 December 20X7?
2. According to IFRS 10, when an investor is said to control an investee?
3. Spring buys 70% of the equity shares of Still for $500,000 in cash. At the acquisition date, Still had cash and cash equivalents of $25,000. How this will be recorded in the consolidated statement of cash flows?
4. What is meant by functional currency and presentation currency?
5. List out any 3 criteria to classify an item into Non current asset held for sale (IFRS 5).
6. What are the components of interim financial report?

**Part B**

**Answer any 2 of the following. Each question carries 5 marks. (2 X 5 = 10)**

1. Prima Co is worried that the poor remuneration package offered to employees is putting the company at risk of reputational damage. Consequently, Prima Co changed its pension scheme on 30 September 20X5 to include all of itsstaff. The benefits accrue from the date of their employment but only vest after two years additional service from 30 September 20X5. The net pension obligation at 30 September 20X5 of $78 million has been updated to include this change. During the year, benefits of $6 million were paid under the scheme and Prima Co contributed $10 million to the scheme. These payments had been recorded in the financial statements but no other entries for the year have been made. The following information relates to the pension scheme:

|  |  |
| --- | --- |
| Net pension obligation at 30 September 20X5Net pension obligation at 30 September 20X4Current service cost for yearPast service cost relating to scheme amendment at 30 September 20X5Discount rate at 30 September 20X4Discount rate at 30 September 20X5 | $78m$59m$18m$9m5.5%5.9% |

Advise Prima Co on the principles of accounting for the pension scheme, including calculations, for the year to 30 September 20X5.

1. Briefly explain the limitations of segmental reporting,
2. 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. An agent has 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.

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

**Part – C**

**Answer any 2 of the following. Each question carries 10 marks. (2 X 10 = 20)**

1. Dutch is a lessor and is drawing up a lease agreement for a building. The building has a remaining useful life of 50 years. The lease term, which would commence on 1 January 20X0, is for 30 years. Dutch would receive 40% of the asset’s value upfront from the lessee. At the end of each of the 30 years, Dutch will receive 6% of the asset’s fair value as at 1 January 20X0. Legal title at the end of the lease remains with Dutch, but the lessee can continue to lease the asset indefinitely at a rental that is substantially below its market value. If the lessee cancels the lease, it must make a payment to Dutch to recover its remaining investment. As per IFRS 16 Leases, should the lease be classified as an operating lease or a finance lease?
2. P purchased 60% of the shares of S on 1 January 20X1. At the acquisition date, S had share capital of $10,000 and retained earnings of $190,000. The property, plant and equipment of S includes land with a carrying amount of $10,000 but a fair value of $50,000. Included within the intangible assets of S is goodwill of $20,000 which arose on the purchase of the trade and assets of a sole trader business. S has an internally generated brand that is not recognised (in accordance with IAS 38 Intangible Assets). The directors of P believe that this brand has a fair value of $150,000.

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, the financial statements of S disclose the fact that a customer has initiated legal proceedings against them. If the customer wins, which lawyers have advised is unlikely, estimated damages would be $1 million. The fair value of this contingent liability has been assessed as $100,000 at the acquisition date. The directors of P wish to close one of the divisions of S. They estimate that this will cost $200,000 in redundancy payments.

Discuss, with calculations, the fair value of S’s identifiable net assets at the acquisition date.

1. Explain the criticisms of IAS 21.

**Part – D**

**Answer the following compulsory question. The question carries 15 marks. (1X15 = 15)**

1. Aron has owned 90% of the ordinary shares of Fauna for many years. Aron also has a 10% investment in the shares of Byrne, which was measured at fair value through profit or loss and held in the consolidated statement of financial position as at 31 December 20X6 at $24,000 in accordance with IFRS 9 Financial Instruments. On 30 June 20X7, Aron acquired a further 50% of Byrne’s equity shares at a cost of $160,000. The draft statements of profit or loss for the three companies for the year ended 31 December 20X7 are presented below:

Statements of profit or loss for the year ended 31 December 20X7

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Aron ($’000)** | **Fauna ($’000)** | **Byrne ($’000)** |
| RevenueCost of salesGross profitOperating costsProfit from operationsIncome taxProfit for the period | 500(300)200(60)140(28)112 | 300(70)230(80)150(30)120 | 200(120)80(60)20(4)16 |

The non-controlling interest is calculated using the fair value method. On 30 June 20X7, fair values were as follows:

• Byrne’s identifiable net assets – $200,000

• The non-controlling interest in Byrne – $100,000

• The original 10% investment in Byrne – $26,000

Prepare the consolidated statement of profit or loss for the Aron Group for the year ended 31 December 20X7 and calculate the goodwill arising on the acquisition of Byrne.