LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

B.Com. DEGREE EXAMINATION – **HONOURS**

THIRD SEMESTER – **APRIL 2023**

UBH 3502 – FINANCIAL REPORTING

Date: 09-05-2023 Dept. No. Max. : 100 Marks
Time: 09:00 AM - 12:00 NOON

Section A

Answer all the questions **15 x 2 Marks = 30**

1. Leclerc has borrowed $2.4 million to finance the building of a factory. Construction is expected to take two years. The loan was drawn down and incurred on 1 January 20X9 and work began on 1 March 20X9. $1 million of the loan was not utilised until 1 July 20X9 so Leclerc was able to invest it until needed. Leclerc is paying 8% on the loan and can invest surplus funds at 6%. Calculate the borrowing costs to be capitalised for the year ended 31 December 20X9 in respect of this project.
   A $140,000 B $192,000 C $100,000 D $162,000
2. At what amount does IAS 41 Agriculture generally require biological assets to be measured upon initial recognition?
   A Cost B Fair value C Market value D Fair value less costs to sell
3. A company purchased a machine for $50,000 on 1 January 20X1. It was judged to have a five-year life with a residual value of $5,000. On 1 January 20X3 $15,000 was spent on an upgrade to the machine. This extended its remaining useful life to five years with the same residual value. During 20X3 the market for the product declined and the machine was sold on 1 January 20X4 for $7,000. What was the loss on disposal?

   A $30,600 B $40,000 C $31,600 D $29,000
4. On 1 September 20X3 Laidlaw factored (sold) $2 million of trade receivables to Finease for an immediate payment of $1.8 million and further amounts depending on how quickly Finease collects the receivables. Finease will charge a monthly administration fee and interest on the outstanding balance and any receivables not collected after four months would be sold back to Laidlaw.
   A.How should Laidlaw account for this factoring arrangement in its financial statements for the year ended 30 September 20X3?
   B.Derecognise the receivables and recognise a loss on disposal of $200,000 Continue to recognise the receivables and treat the $1.8 million received as a loan
   C.Continue to recognise the receivables and treat the $1.8 million as deferred income
   D.Derecognise the receivables and make a provision for the loss of $200,000

5. Where the purchase price of an acquisition is less than the aggregate amount of the non-controlling interest plus fair value of net assets acquired, IFRS 3 requires that the value of the assets acquired and liabilities assumed be reassessed. If no change is made as a result of this reassessment, how should the difference be treated?
   A.Deduct from goodwill in the consolidated statement of financial position
   B.Recognise immediately as a gain in other comprehensive income
   C. Recognise in profit or loss over its useful life
   D.Recognise immediately as a gain in profit or loss.
6. Which TWO of the following items would qualify for treatment as a change in accounting estimate according to IAS 8 Accounting policies, changes in accounting estimates and errors?
   A.Provision for obsolescence of inventory
   Correction necessitated by a material error
   C.A change of inventory valuation from FIFO to weighted average
   D.A change in the useful life of a non-current asset
7. Pisces has an asset carried at $6.5 million in its statement of financial position at 31 December 20X2. The present value of the cash flows which the asset will generate for the rest of its useful life is $5.8 million. The current cost of an identical asset of the same age is $6.1 million. Pisces has received an offer of $6.2 million for the asset. The cost of dismantling the asset and transporting it to the customer would be $200,000. At what

amount should the asset be recognised in the statement of financial position at 31 December 20X2? ANS:__________________

8. Which one of the following would be included in the cost of inventories of goods for resale in accordance with IAS 2 Inventories? a.Storage costs b.Administrative overheads c.Import duties d.Selling costs
9. On 1 January 20X3 Wincarnis purchased 30,000 $1 shares in a listed entity for $5 per share. Transaction costs were $2,000 and Wincarnis elected to recognise the shares at fair value through other comprehensive income. At the year end of 31 December 20X3 the shares were trading at $6.50. At what amount will the shares be recognized in the statement of financial position of Wincarnis at 31 December 20X3? ANS:_______________
10. Which of the following should be capitalized in the initial carrying amount of an item of plant?

    (1) Cost of transporting the plant to the factory
    (2) Cost of installing a new power supply required to operate the plant
    (3) Cost of a three-year plant maintenance agreement
    (4) Cost of a three-week training course for staff to operate the plant
    A (1) and (3) B (1) and (2) C (2) and (4) D (3) and (4)
11. Which TWO of the following statements about IAS 20 Accounting for Government Grants and Disclosure of Government Assistance are true?

    AA government grant related to the purchase of an asset must be deducted from the carrying amount of the asset in the statement of financial position.
    B A government grant related to the purchase of an asset should be recognized in profit or loss over the life of the asset.
    C Free marketing advice provided by a government department is excluded from the definition of government grants.
    D Any required repayment of a government grant received in an earlier reporting period is treated as prior period adjustment.
12. Croft acquired a building with a 40-year life for its investment potential for $8 million on 1 January 20X3. At 31 December 20X3, the fair value of the property was estimated at $9 million with costs to sell estimated at $200,000. If Croft Co uses the fair value model for investment properties, what gain should be recorded in the statement of profit or loss for the year ended 31 December 20X3? $________________ ,000

13. Which of the following is not one of the 5 steps for recognizing revenue according to IFRS 15 Revenue from Contracts with Customers?

    A Identify the contract
    B Assess the likelihood of economic benefits
    C Determine the contract price
    D Allocate the transaction price to the performance obligations in the contract.
14. Paul acquired 75% of the share capital of Simon on 1 January 20X1. On this date, the net assets of Simon were $80,000. The non-controlling interest was calculated using fair value, which was calculated as $40,000 at the date of acquisition. At 1 January 20X3 the net assets of Simon were $120,000 and goodwill had been impaired by $10,000.

    What was the value of the non-controlling interest at 1 January 20X3?
    A $50,000 B $47,500 C $107,500 D $87,500
15. In order to hold a debt instrument at amortized cost, which TWO of the following tests must be applied?

    A Fair value test
    B Contractual cash flow characteristics test
    C Investment appraisal test
    D Business model test

SECTION B

Answer the following questions: **3*10=30**

16. The following scenario relates to questions (1)-(5)

The following issuesrelating to Chestnut Co's noncurrent assets are outstanding for the year ended 31 December 20X7:

Factory

At 1 January 20X7, Chestnut Co's factory had a carrying amount of $5m. It has a remaining useful life of ten years at that date. On 31 December 20X7 there was an impairment review of the factory and the recoverable amount was deemed to be $2.5m. Chestnut Co's factory had previously been revalued upwards and the revaluation surplus has a credit balance of $1m relating to this factory.

Head Office

Chestnut Co's head office cost $12m on 1 January 20X1 and is being depreciated over a 40 year life. On 31 December 20X4, there was an impairment review of the head office and the recoverable amount was deemed to be $9m. A more recent valuation, at 31 December 20X7, has estimated that the recoverable amount of the head office is $11m.

Machinery

On 1 April 20X7, Chestnut Co received a grant of $2.6m towards new production machinery. The machinery cost $4m and is expected to have a useful life of five years. Depreciation is charged on a straight-line proportionate basis. Chestnut Co uses the cost model when accounting for its head office, and the deferred income method in relation to government grants

1) Which of the following assets belonging to Chestnut Co require an annual impairment review?

A The head office only B The machinery only C Both the head office and the machinery

D Neither the head office nor the machinery

2) In accordance with IAS 36 Impairment of Assets, what is the correct journal entry to reflect the depreciation and the impairment of Chestnut Co's factory for the year ended 31 December 20X7?

A Dr Statement of profit or loss $1.5m, Dr Revaluation surplus $1m, Cr Noncurrent assets $2.5m

B Dr Statement of profit or loss $2.5m, Cr Non-current assets $2.5m

C Dr Non-current assets $2.5m, Cr Statement of profit or loss $1.5m, Cr Noncurrent assets $1m

D Dr Non-current assets $2.5m, Cr Statement of profit or loss $2.5m

3) What is the carrying amount of Chestnut Co's head office in the statement of financial? Position as at 31 December 20X7?

A $8.25m B $9.9m C $10.8m D $11m

4**) Which of the following statements relating to government grants is correct?**

A The deferred income method should always be used for grants related to assets

B Grants related to income must be disclosed separately in the statement of profit or loss as other income

C The deferred income method should only be used if the grant is repayable

D Grantsrelated to assets can be accounted for using either the deferred income method or by deducting from the asset's carrying amount

5) What is the carrying amount of the noncurrent liability in respect of the government grant in Chestnut Co's statement of financial position as at 31 December 20X7?

A $2.08m B $1.69m C $2.21m D $1.56m

17. The following scenario relates to questions (1-5)

Apex received a $10 million 6% loan on 1 April 20X7. The loan will be redeemable at a premium which means the loan has an effective finance cost of 7.5% per annum. The loan was specifically issued to finance the building of a new store. Construction of the store commenced on 1 May 20X7 and it was completed and ready for use on 28 February 20X8, but did not open for trading until 1 April 20X8.

1**. How should the loan be treated in the financial statements of Apex for the year ended 31 March 20X8?**

A Present value

B Fair value through other comprehensive income

C Fair value through profit or loss

D Amortised cost

2. **Which TWO of the statements below regarding IAS 23 Borrowing Costs are correct?**

A Borrowing costs must be capitalised if they are directly attributable to qualifying assets

B Borrowing costs should cease to be capitalised once the related asset is substantially complete

C Borrowing costs must be capitalised if they are directly attributable to non-current assets

D Borrowing costs may be capitalised if they are directly attributable to qualifying assets

E Borrowing costs should commence to be capitalised once expenditure is being incurred on the construction of the asset

3. **How much should be recorded as finance costs in the statement of profit or loss for the year ended 31 March 20X8? $__________ ,000**

4. **How much interest should be capitalised as part of property, plant and equipment as at 31 March 20X8? $__________ ,000**

5. **Apex decided that not all of the funds raised were needed immediately and temporarily invested some of the funds in April 20X7, earning $40,000 interest. How should the $40,000 be accounted for in the financial statements of Apex?**

A Net off the amount capitalised in property, plant and equipment

B Taken to the statement of profit or loss as investment income

C Taken as other comprehensive income

D Deducted from the outstanding loan amount in the statement of financial position

18. The following scenario relates to questions 1-5

Speculate owns two properties and uses fair value accounting where possible. Property A: An office building used by Speculate for administrative purposes. At 1 April 20X2 it had a carrying amount of $2 million and a remaining life of 20 years. On 1 October 20X2, the property was let to a third party and reclassified as an investment property. The property had a fair value of $2.3 million at 1 October 20X2, and $2.34 million at 31 March 20X3. Property B: Another office building let on a 12-month lease to a subsidiary of Speculate. At 1 April 20X2, it had a fair value of $1.5 million which had risen to $1.65 million at 31 March 20X3

1. What is the correct treatment when Property A is reclassified as an investment property?

A Take $350,000 gain to other comprehensive income
B Take $350,000 gain to the statement of profit or loss
C Take $400,000 gain to other comprehensive income
D Take $400,000 gain to the statement of profit or loss

2. Which of the following models can Speculate use to account for investment properties in its individual financial statements?

(i) Cost model
(ii) Revaluation model
(iii) Fair value model

A (i) and (ii) only
B (i) and (iii) only
C (ii) and (iii) only
D All three

3. What is the total gain for investment properties to be included in Speculate's individual statement of profit or loss for the year ended 31 March 20X3? Enter your answer to the nearest dollar ($).

$ ___________________

4. In the individual and consolidated financial statements of Speculate, how would Property B be accounted for?

Individual	**Consolidated**
Investment property	Investment property
Property, plant & equipment	Property, plant & equipment
Within goodwill	Cancelled as an intra-group item

5. What would the carrying amount of Property A be at 31 March 20X3 if Speculate used the cost model for investment properties?

A $1,950,000
B $1,900,000
C $2,185,000
D $2,182,051

SECTION-C

Answer the following questions **2*20=40**

19. Peppermint acquired 80% of the share capital of Spearmint two years ago, when the reserves of Spearmint stood at $125,000. Peppermint paid initial cash consideration of $1 million. Additionally Peppermint issued 200,000 shares with a nominal value of $1 and a market value at the acquisition date of $1.80. It was also agreed that Peppermint would pay a further $500,000 in three years' time. Current interest rates are 10% pa. The appropriate discount factor for $1 receivable three years from now is 0.75. The shares and deferred consideration have not yet been recorded.

Below are the statements of financial position of Peppermint and Spearmint as at 31 December 20X4:

	Peppermint	Spearmint
	$000	$000
Non-current assets		
Property, plant & equipment	5,500	1,500
Investment in Spearmint at cost	1,000	
Current assets		
Inventory	550	100
Receivables	400	200
Cash	200	5 0
	7,650	1,850
Equity		
Share capital	2,000	500

Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:
(i) At acquisition the fair values of Spearmint's plant exceeded its book value by $200,000. The plant had a remaining useful life of five years at this date.
(ii) For many years Spearmint has been selling some of its products under the brand name of 'Mintfresh'. At the date of acquisition the directors of Peppermint valued this brand at $250,000 with a remaining life of 10 years. The brand is not included in Spearmint's statement of financial position.
(iii) The consolidated goodwill has been impaired by $258,000.
(iv) The Peppermint Group values the non-controlling interest using the fair value method. At the date of acquisition the fair value of the 20% non-controlling interest was $380,000.
Prepare the consolidated statement of financial position as at 31 December 20X4. (20 marks)

20. CFQ is a large retailer, which has been established for many years. CFQ develops and manufactures products themselves, rather than buying them from wholesalers.
Extracts from CFQ's financial statements are shown below:
20X1 20X0
$000 $000
Property, plant and equipment 635,000 645,000
FVPL investments 93,000 107,000
Development costs 29,000 24,000
During 20X1, CFQ sold plant for $45 million, which had a carrying amount of $60 million at the date of disposal.
CFQ's statement of profit or loss included the following:
Depreciation of property, plant and equipment $120 million
Loss on FVPL investments $21 million
Amortisation of development costs $8 million
Required: (a) Prepare the cash flows from investing activities section of CFQ's statement of cash flows. Show the workings (8 marks)
(b) Comment on what the investing activities show about CFQ as a business, highlighting any areas which may require further investigation. (7 marks)
(c) List out any five the operating cash flow activities that will be recorded for a banking industry (5 marks)

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