Roll No. [| | | | | | |]

Paper Code: BCH 201 (ACCA)

B. COM(H) (ACCA) EndSem Examination 2023

2nd Semester

Paper Name – Financial Reporting

Time: Three Hours

MM. 100

Note:

(i) All questions are compulsory.

(ii) Answer any two sub questions among a, b & c in each main question.

Q1.) (2X10=20 Marks) CO1

a) Define non-current assets held forsale and discontinued operations.

b) An entity has incurred the following expenditure during the current year:

(i) A brand name relating to a specific range of chocolate bars,purchased for $200,000. By the year end, a brand specialist hadvalued this at $250,000.

(ii) $500,000 spent on developing a new line of confectionery,including $150,000 spent on researching the product beforemanagement gave approval to fully fund the project.

(iii) Training costs for staff to use a new manufacturing process. Thetotal training costs amounted to $100,000 and staff are expectedto remain for an average of 5 years.

Explain the accounting treatment for the above issues.

c) State why directors may not wish to consolidate a subsidiary and when this is permitted by IFRS Standards and other applicable regulation.

Q2. (2X10=20 Marks) CO2

a) Distinguish between and account for adjustingand non-adjusting events after the reportingperiod.

b) On 1 April 20X8 the fair value of Xu's property was $100,000 with aremaining life of 20 years. Xu's policy is to revalue its property at eachyear end. At 31 March 20X9 the property was valued at $86,000. Thebalance on the revaluation surplus at 1 April 20X8 was $20,000 whichrelates entirely to the property.

Xu does not make a transfer to realised profit in respect of excessdepreciation.

Required:

1 Prepare extracts of Xu's financial statements for the yearended 31 March 20X9 reflecting the above information.

2 State how the accounting would be different if the openingrevaluation surplus did not exist.

c) Describe and account for the factoring of receivables.

Q3. (2X10=20 Marks) CO3

a) ABC Co issues a convertible loan that pays interest of 2% perannum in arrears. The market rate is 8%, being the interest rate for anequivalent debt without the conversion option. The loan of $5 million isrepayable in full after three years or convertible to equity. Discountfactors are as follows:

Year	**Discount factor @ 8%**
1	0.926
2	0.857
3	0.794

Required:

Split the loan between debt and equity at inception and calculate the finance charge for each year until conversion/redemption.

b) Riyad enters into an agreement to lease an asset. The terms of thelease are as follows.

1 Primary period is for four years from 1 January 20X2 with a rentalof $2,000 pa payable on 31 December each year.

2 The present value of the lease payments is $5,710

3 The interest rate implicit in the lease is 15%.

What figures will be shown in the financial statements for the yearended 31 December 20X2?

c) Anderson's year end is 31 December 20X7. The following events alloccurred in January 20X8.State whether the events below would be classed as adjusting or non-adjusting events: (any five)

i. Insolvency of a customer
ii. Loss of inventory due to a flood
iii. Completion of the purchase ofanother company
iv. Evidence showing that the netrealisable value of inventory isbelow cost
v. A court case from August issettled by Anderson
vi. The discovery of a fraudshowing the financial statementswere incorrect

Q4. (2X10=20 Marks) CO4

a) Demonstrate the format of consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for a simple group dealing with an acquisition in the period and non-controlling interest.

b) Distinguish between and account for adjusting and non-adjusting events after the reporting period.

c) On 1 January 20X1, Baker entered into a contract with a customer toconstruct a specialised building for consideration of $2m plus a bonusof $0.4m if the building is completed within 18 months. Estimated coststo construct the building were $1.5m. If the contract is terminated by thecustomer. Baker can demand payment for the costs incurred to dateplus a mark-up of 30%. On 1 January 20X1, as a result of factors outside of its control, Baker was not sure whether the bonus would be achieved.

At 31 December 20X1 Baker had incurred costs of $1m. They were still unsure as to whether the bonus target would be met. Baker measuresprogress towards completion based on costs incurred.At 31 December 20X1 Baker had received $1 million from thecustomer.

Required:

How should this transaction be accounted for in the year ended31 December 20X1?

Q5. (2X10=20 Marks) CO5

a) McDonald operates a dairy farm. At 1 January 20X1, he owns 100cows worth $1,000 each on the local market. At 31 December 20X1, heowns 105 cows worth $1,100 each. During 20X1 he sold 40,000gallons of milk at an average price of $5 a gallon. When cows are soldat the local market, the auctioneer charges a commission of 4%. Show extracts from the financial statements for 20X1 for theseactivities, assuming that no cows were purchased or sold duringthe year.

b) Maxwell had the following capital and reserves on 1 April 20X1:

	$000
Share capital ($1 ordinary shares)	14,000
Share premium	1,800
Revaluation surplus	1,000
Retained earnings	18,000
Shareholders' funds	34,800

Maxwell makes a bonus issue of one share for every seven held, on31 August 20X2.
Maxwell's results are as follows: 20X3 20X2

	$000	$000
Profit after tax	2,300	1500

Calculate EPS for the year ending 31 March 20X3, together withthe comparative EPS for 20X2 that would be presented in the 20X3accounts.

c) Jack acquired 24 million $1 shares (80%) of the ordinary shares of Becky by offering a share-for-share exchange of two shares for every three shares acquired in Becky, and a cash payment of $1 per share payable three years later. Jack's shares have a nominal value of $1 and a current market value of $2. The cost of capital is 10% and the value of $1 receivable in 3 years' time can be taken as $0.75.

(i) Calculate the cost of investment and show the journals to record it in Jack's financial statements.

(ii) Show how the discount would be unwound.