STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086
(For candidates admitted during the academic year 2020-21 and thereafter)

B.COM. DEGREE EXAMINATION – APRIL 2024
HONOURS
SIXTH SEMESTER

COURSE	**: MAJOR – CORE**	
PAPER	**: CORPORATE REPORTING**	
CODE	**: 20BH/MC/CR64**	
TIME	**: 3 HOURS**	**MAX. MARKS: 100**

SECTION – A

Answer all the questions: **(10 x 2 = 20)**

1. State the elements of financial statements.
2. What is substance over form?
3. How is negative goodwill treated in the accounts?
4. List the five steps in revenue reorganisation.
5. How is right of use asset measured initially?
6. What are biological assets?
7. Write a short note on creative accounting.
8. Loan note issued for $1,000. The loan note is redeemable at $1,250. The term of the loan is five years and interest paid is at 5.9% pa. The effective rate of interest is 10%. Show how the value of the loan note changes over its life.
9. Roy acquired 60% of the ordinary share capital of morgen on 31 December 20X6 for $240,000. At this date the net assets of Daniel were $360,000. What amount of goodwill arises on the acquisition if the NCI is valued using the fair value method and the fair value of the NCI on the acquisition date is $150,000?
10. From the following particulars prepare the provisions for taxation account?

Opening balance (Cr)	$25,000
Tax paid for financial year 2021 – 22	$28,000
Profit for the year 2022 – 23	$1,50,000
Tax rate	30%

SECTION – B

Answer any five questions: **(5 x 8 = 40)**

11. Discuss in detail the acronym “PIRATE” with reference to intangible assets.
12. Explain credit impairment with an example.
13. Elaborate on the objectives of financial reporting.
14. Discuss the reporting issues with regard to government grants.

15. Edward acquired 24 million $1 shares (80%) of the ordinary shares of Smith by offering a share-for-share exchange of two shares for every three shares acquired in Smith, and a cash payment of $1 per share payable three years later. Edward'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.
    a. Calculate the cost of investment and show the journals to record it in Edward's financial statements. **(5 marks)**
    b. Show how the discount would be unwound. **(3 marks)**
16. ABC & Co enters into a contract with a major chain of retail stores. The customer commits to buy at least $20m products over the next 12 months. The terms of the contract require ABC & Co to make a payment of $1m to compensate the customer for changes that it will need to make to its retail stores to accommodate the products. By 31 December 20X1, ABC & Co has transferred products with a sales value of $4m to the customer.
    How much revenue should be recognised by ABC & Co in the year ended 31 December 20X1?
17. A lessor enters into a three-year leasing arrangement commencing on 1 January 20X3. Under the terms of the lease, the lessee commits to pay $80,000 per annum commencing on 31 December 20X3. A residual guarantee clause requires the lessee to pay $40,000 (or $40,000 less the asset's residual value, if lower) at the end of the lease term if the lessor is unable to sell the asset for more than $40,000.
    The lessor expects to sell the asset based on current expectations for $50,000 at the end of the lease. The interest rate implicit in the lease is 9.2%. The present value of lease payments receivable by the lessor discounted at this rate is $232,502.
    Show the net investment in the lease from 1 January 20X3 to 31 December 20X5 and explain what happens to the residual value guarantee on 31 December 20X5.

SECTION – C

Answer any one questions: **(1 x 20 = 20)**

18. (a) "Amul Co acquired 70% of the 1 million $1 ordinary shares of King Co on 1 July 20X8 for $40,00,000 when King Co retained earnings were $30,00,000. The group policy is to measure non-controlling interests at fair value at the date of acquisition. The fair value of non-controlling interests at 1 July 20X8 was $21,00,000. There has been no impairment of goodwill since the date of acquisition.

    Amul Co acquired a further 20% of King Co share capital on 1 March 20X9 for $1,100,000. The retained earnings reported in the financial statements of Amul Co and King Co as at 30 June20X9 are $9,600,000 and $3,600,000 respectively.

    King Co sold goods for resale to Amul Co with a sales value of $800,000 during the period from 1 March 20X9 to 30 June 20X9. 30% of these goods remain in Amul Co's inventories at the year-end. King Co applies a mark-up of 25% on all goods sold. Profits of both entities can be assumed to accrue evenly throughout the year. "

Required:
Calculate the amounts that will appear in the consolidated statement of financial position of the Amul Group as on 30 June 20X9 for:
(i) Goodwill
(ii) Consolidated retained earnings
(iii) Non-controlling interests **(14 marks)**

(b) Panda acquired 70% of the ordinary share capital of Santa on 1 January 20X5. At 1 January 20X5, the fair value of Santa's net assets was the same as their carrying amount with the exception of a building. The fair value of the building was $600,000 higher than its carrying amount. At acquisition, the remaining useful life of the building was 15 years. Depreciation on the building is presented in cost of sales. In the year ended 31 December 20X9, Panda and Santa had cost of sales of $980,000 and $825,000 respectively and profits for the year of $4.2 million and $2.4 million respectively.

Required
Calculate the following figures for inclusion in the consolidated statement of profit or loss of the Panda Group for the year ended 31 December 20X9:
(i) Cost of sales
(ii) Profit for the year attributable to non-controlling interest **(6 marks)**

19. Marsh, a public limited company, has acquired shares in two companies. The details of the acquisition (acq'n) are as follows:

Company	Date of Acquisition	Ordinary Share capital of $1 $M	Retained earning at Acquisition $M	Fair value of net assets at Acquisition $M	Cost of investment of $1 acquired $M	Ordinary Share capital $M
Halls	1 Jan 20X6	500	440	1040	720	300
Hoper	1May 20X9	240	270	510	225	72

The draft financial statements for the year ended 31 December 20X9 are:

Statements of Financial Position as at 31 December 20X9

	Bailey	Hill	Compbell
	$m	$m	$m
Non-current assets			
Property, plant and equipment	2,300	1,900	700
Investment in Hill	720	-	-
Investment in Campbell	225	-	-

	3,245	1,900	700
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Current assets	3,115	1,790	1,050
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	6,360	3,690	1,750
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Equity share capital	1,000	500	240
Retained earnings	3,430	1,800	330
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	4,430	2,300	570
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-	350	290	220
Non-current liabilities			
Current liabilities	1,580	1,100	960
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	6,360	3,690	1,750
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Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 20X9

	Marsh	Halls	hoper
	$m	$m	$m
Revenue	5,000	4,200	2,000
Cost of sales	(4,100)	(3,500)	(1,800)
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Gross profit	900	700	200
Distribution and administrative expenses	(320)	(175)	(40)
Dividend income from Halls and Hoper	36	-	-
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Profit before tax	616	525	160
Income tax expense	(240)	(170)	(50)
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Profit for the year	376	355	110
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Other comprehensive income			
Items not reclassified to profit or loss			
Gains on property revaluation			
(net of deferred tax)	50	20	10
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Total comprehensive income for the year	426	375	120
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Dividends paid in the year			
(from post-acquisition profits)	250	50	20
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The following information is relevant to the preparation of the group financial statements of the Marsh group:

- Fair value difference in Halls relates to property, plant and equipment being depreciated through cost of sales over a remaining useful life of ten years form the acquisition date.'
- During the year ended 31 December 20X9, Halls sold $200 million of goods to Edwards. Three quarters of these goods had been sold to third parties by the year end. The profit on these goods was 40% of sales price. There were no opening inventories of intragroup goods nor any intragroup balances at the year end.

- Edwards elected to measure the non-controlling interests in Halls at fair value at the date of acquisition. The fair value of the non-controlling interests in Halls at 1 January 20X6 was $450 million.
- Cumulative impairment losses on recognised goodwill in Halls at 31 December 20X9 amounted to $20 million, of which $15 million arose during the year. It is the group's policy to recognise impairment losses on positive goodwill in administrative expenses. No impairment losses have been necessary on the investment in Hoper.

Required
Using the proformas below to help you, prepare the consolidated statement of financial position for the Edwards group as at 31 December 20X9 and the consolidated statement of profit or loss and other comprehensive income for the year then ended.

20. XYZ, a public limited company, has a defined plan for its employees. The present value of the future benefit obligations at 1 January 20X7 was $1,120 million and the fair value of the plan assets was $1,040 million.
Further data concerning the year ended 31 December 20X7 is as follows:

	$m
Current service cost	76
Benefits paid to former employees	88
Contributions paid to plan	94
Present value of benefit obligations at 31 December	1,222*
Fair value of plan assets at 31 December	1,132*
Interest cost (gross yield on 'blue chip' corporate bonds): 5%	

On 1 January 20X7 the plan was amended to provide additional benefits with effect from that date. The present value of the additional benefits at 1 January 20X7 was calculated by actuaries at $40 million.

Prepare the required notes to the statement of profit or loss and other comprehensive income and Assume the contributions and benefits were paid on 31 December 20X7.

21. **Case Study (Compulsory)** **(1 x 20 = 20)**

XYZ Furniture, a family-owned business, operates as an SME specializing in the manufacturing and retailing of wooden furniture. With a workforce of 50 employees, XYZ Furniture serves both local and regional markets.

Reporting Requirements:

Financial Statements: As an SME, XYZ Furniture is required to prepare financial statements comprising a balance sheet, income statement, cash flow statement, and statement of changes in equity. These financial statements must comply with relevant accounting standards applicable to SMEs in their jurisdiction.

Simplified Disclosures: Unlike large corporations, SMEs often benefit from simplified disclosure requirements. However, they are still required to provide adequate information for users to understand the financial position and performance of the business.

Tax Reporting: SMEs must also comply with tax reporting requirements, which may vary depending on the jurisdiction. This includes filing tax returns, calculating and remitting taxes, and adhering to tax regulations applicable to their business activities.

Regulatory Compliance: In addition to financial and tax reporting, SMEs must comply with various regulatory requirements, such as labor laws, environmental regulations, and health and safety standards.

Challenges Faced by XYZ Furniture:

Resource Constraints: Limited financial and human resources pose challenges for XYZ Furniture in meeting reporting requirements efficiently and accurately.

Complexity of Standards: Despite simplified disclosure requirements, SMEs may still find it challenging to navigate complex accounting standards and interpret regulatory guidelines.

Technology Adoption: Lack of sophisticated accounting software and technological infrastructure may hinder XYZ Furniture's ability to streamline reporting processes and maintain accurate financial records.

Compliance Costs: SMEs often incur significant costs associated with compliance, including hiring external professionals for auditing, tax preparation, and legal advice.

Required:

a) Identify and explain three reporting requirements that XYZ Furniture, as an SME, must fulfill. **(6 marks)**
b) Discuss two challenges faced by XYZ Furniture in meeting reporting requirements, and propose strategies to address these challenges. **(4 marks)**
c) Evaluate the importance of financial reporting for XYZ Furniture's stakeholders, and explain how accurate and transparent reporting can benefit the business. **(4 marks)**
d) Assess the role of technology in improving reporting processes for SMEs like XYZ Furniture, and recommend specific technological solutions that could enhance efficiency and accuracy in financial reporting. **(6 marks)**

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