STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086
(For candidates admitted during the academic year 2023-2024)

B.COM (BFE) DEGREE EXAMINATION – NOVEMBER 2024
BANKING, FINANCE AND ENTREPRENEURSHIP
THIRD SEMESTER

COURSE : MAJOR CORE
PAPER : CORPORATE FINANCIAL REPORTING
COURSE CODE : 23BF/MC/CR34
TIME : 3 HOURS **MAX. MARKS: 100**

Q. No.	**SECTION A** **Answer all the questions: (5 x 2=10)**	**CO**	**KL**
1.	Define Integrated reporting.	1	K1
2.	Bring out the differences between IFRS and U.S. GAAP.	1	K1
3.	Assume that on Nov 1, 2020, Swift Corp. prepaid four months of rent by paying Rs.8,000. Pass the necessary journal and adjusting entry as on December 31, 2020.	1	K1
4.	Arun Ltd. has an accounts receivables balance of Rs.85,000 as on January 1, 2020. On December 31, 2020 the balance in accounts receivables was Rs.50,000. During the year, Arun Ltd. collected Rs.8,05,000 from credit sales. Credit sales during the year was Rs.7,95,000. Calculate the value of bad debts to be written off.	1	K1
5.	Ram purchased Ravi’s business on 1st April, 2022. The profits of Ritik’s business for the last five years were Rs.15,000, Rs.18,000, Rs.22,000, Rs.25,000 and Rs.27,000. Calculate the value of Goodwill on the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4 and 5 serially to be profits.	1	K1
Q. No.	**SECTION B** **Answer any four questions: (4 x 5=20)**	**CO**	**KL**
6.	Discuss the elements of value creation model.	2	K2
7.	Minu’s Auto Shop purchased a piece of equipment for Rs.50,000 on Jan 1,2020. The equipment has an estimated five-year life and an estimated salvage value of Rs.5,000. Minu uses the straight-line method depreciation. On December 31, 2022, Minu sold the equipment for Rs.32,000. Calculate the gain or loss on sale.	2	K2
8.	Catherine Ltd. has purchased all of its inventory in three batches. Batch 1 was for 4000 units at Rs.4.25 per unit. Batch 2 was for 2000 units for Rs.4.50 per unit. Batch 3 was for 3000 units for Rs.5 per unit. In total, 4000 units were sold during the year. Compute the ending inventory and cost of goods sold using Weighted average method.	2	K2

<table>
<tr><td>9.</td><td>On January 1, 2020 Rex Ltd. purchased Rs.5,00,000, four-year bond at par with annual interest at 4.25 percent paid on December 31st each year. Rex Ltd. classified the investment as held to maturity. At the end of 2022, Rex Ltd. received the full interest payment of Rs. 21,250, but determined that it would only collect Rs.11,500 each year in interest for the remaining three years (along with the face value of Rs. 5,00,000 at maturity). Present value of Rs.1 at 4.25 percent for three years is 0.88262 and present value of an ordinary annuity of Rs. 1 at 4.25 percent for three years is 2.76198. Prepare the entry that Rex Ltd. will record at the end of 2022 to recognize the impairment.</td><td>2</td><td>K2</td></tr>
<tr><td>10.</td><td>On May 1, 2021 Mr. Alex receives Rs.600 in prepayments from customers for three events that Mr. Alex will host for Rs.200 per event. By the end of May, 2021 Mr. Alex has hosted two of the three events. Prepare both the initial and adjusting entries.</td><td>2</td><td>K2</td></tr>
<tr><td>11.</td><td>BGSE Capital Corp. presents the following transactions:
The opening balances are as follows:
Preferred stock Rs.2,00,000
Common stock Rs.9,90,000
Additional paid in capital: preferred stock Rs.30,000
Addition paid in capital: common stock Rs.24,75,000
Retained earnings Rs.12,65,000
Net income Rs.61,85,000
Other comprehensive income Rs.12,000
Cash dividend Rs.9,50,000
Issue of common stock Rs.10,000
Additional issue of common stock Rs.25,000
You are required to prepare statement of equity shareholders.</td><td>2</td><td>K2</td></tr>
<tr><td>Q. No.</td><td>SECTION C
Answer the following questions: (4 x 10= 40)</td><td>CO</td><td>KL</td></tr>
<tr><td>12.a)

b)</td><td>A software company enters into a contract with a customer for Rs.2,50,000. The contract was to provide software license, installation service and technical support for a three-year period for Rs.1,60,000, Rs.20,000 and Rs.90,000. The entity sells the license, installation service and technical support separately. The company charges an additional fee of Rs.20,000. The technical support services were performed only for 2 years, 2 months. All the other services were provided fully. Determine how the software company should recognize the revenue for these transactions.
(OR)
Sydney Ltd. presents the following comprehensive income in the Year 1. The tax rate for comprehensive items is 25% for Year 1.
<table>
<tr><th>Particulars</th><th>Amount (Rs.)</th></tr>
<tr><td>Unrealized holding gains</td><td>4,00,000</td></tr>
<tr><td>Foreign currency transaction gains</td><td>50,000</td></tr>
<tr><td>Unrealized holding losses</td><td>1,20,000</td></tr>
<tr><td>Foreign currency transaction loss</td><td>1,20,000</td></tr>
<tr><td>Revenue</td><td>20,00,000</td></tr>
<tr><td>Expenses</td><td>18,40,000</td></tr>
</table>
Compute the net of tax amounts to be reported in the statement of comprehensive income.</td><td>3

3</td><td>K3

K3</td></tr>
</table>

13.a) A new Company has non-current assets of Rs.4,60,000 which will be depreciated to nil on straight-line method over 10 years. Net current assets will be Rs.75,000, and annual profit will be Rs.30,000. ROI is measured as return on net assets. Calculate the company's ROI in year 2 and year 6. 4 K4

(OR)

b) Royal Ltd. was incorporated on Jan 1, 2021. The Company's common stock has a par value of Rs.5 and preferred stock of Rs.20. The company had the following transactions during the year. 4 K4

(i) Feb 1, 2021 Sold 10,000 shares of common stock and 5000 shares of preferred stock for 1,50,000 in total. Both the stocks were sold at par value.
(ii) Feb 10, 2021 Sold 3000 shares of common stock for Rs.40,000.
(iii) Feb 21, 2021 Sold 1000 shares of preferred stock for 25,000 Calculate the effect of these transactions and pass the necessary journal entries.

14.a) A company has two profit centres, A and B. A sells half of its output on the open market and transfers the other half to B. Costs and external revenues in an accounting period are as follows: 3 K3

Particulars	A (Rs.)	B (Rs.)	Total (Rs.)
External Sales	8,000	24,000	32,000
Costs of production	12,000	10,000	22,000
Company profit			10,000

What are the consequences of setting a transfer price at market value?

(OR)

b) Radha Ltd. provides the following information: 3 K3

- April 01: Inventories on hand are 50 units at the rate of Rs.2 and 100 units at the rate of Rs.4.50
- April 05: Purchased 100 units at Rs.1.80
- April 10: 80 units issued to factory
- April 15: 50 units issued to factory
- April 20: 20 units purchased at Rs.1.50
- April 25: 70 units issued to factory
- April 30: 50 units purchased at Rs.1.70

Show the value of the inventory on hand on 30 April using the LIFO method under perpetual system.

15.a) Alpha Ltd. produces the following information at the end of the current year. The company uses LIFO and values its ending inventory using the lower of cost or market method (values in Rs.) 4 K4

Item	Cost	Replacement cost	Selling price	Costs of completion	Normal profit
1	20.50	19	25	1	6
2	26	20	30	2	7
3	10	12	15	1	3
4	40	55	60	6	4

Calculate the value of the inventory and validate your answer.

(OR)

b) Following is the balance sheet of Maruthy Co. Ltd. as on 31st March 2021. 4 K4

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
60,000 Equity shares of Rs.100 each, fully paid	60,00,000	Goodwill at cost	5,00,000
		Plant and Machinery	17,00,000
Capital reserve	2,00,000	Furniture	6,00,000
General reserve	13,90,000	Stock	32,00,000
Profit and loss	30,000	Debtors	20,00,000
Creditors	25,70,000	Cash	49,10,000
Provision for tax	15,00,000	Preliminary expenses	1,00,000
Proposed Dividend	13,20,000		
	1,30,10,000		1,30,10,000

The following additional information is provided to you:

(i) The reasonable return on capital employed in the industry in which Maruthy Co. Ltd. is engaged is 18%.

(ii) The rate of tax is 50%. The balance in provision for taxation account is in respect of profit for the year ended 31stMarch2021.

(iii) The year 2020-2021 was a normal year and the prospects for 2021-2022 are equally good.

Calculate value of goodwill at four year's purchase of super profits of the company.

SECTION D

Q. No. **Answer any two questions:** **(2 x 15= 30)** **CO** **KL**

16. Prepare Multiple step income statement for the year ending March 31,2023 of Eme Ltd. 5 K5

Particulars	Amount (Rs.'000)	Amount (Rs.'000)
Sales		380
Sales returns	25	
Sales discounts	5	
Service revenue		200
Rental revenue		100
Cost of goods sold	200	
Cost of services sold	150	
Cost of rental income	60	
Salaries	70	
Freight out	25	
Commissions	40	
Advertising	15	
Insurance expense	20	
Depreciation expense	80	
Income tax expense	100	
Interest revenue		170
Other revenue		130
Gain on sale of fixed assets		50
Interest expense	50	
Loss on sale of fixed assets	40	
Loss on sale of investments	100	

17. The trial balance below presents the income statement accounts for Year 1 from the Sports company. The Hockey division of the sports company has been losing money on monthly basis. The board of directors decides on April 30, Year 1, to dispose of the Hockey division. The carrying value of the golf division on April 30, Year 1 is 40,00,000 and its fair value less cost to sell is 22,00,000. After months of negotiations, the division's net assets are sold on June 30, Year 2, for 20,00,000. The hockey division had continuous losses in Year 2 of Rs. 2,00,000 per month. All sports divisions income tax is at 40% for Year 1 and Year 2. Assume that all sports income from continuing operations is Rs.48,75,000 in Year 1 and Rs.52,00,000 in Year 2. How should the disposal of the hockey division be reported on all sports company's Year 1 and Year 2 financial statements?

Particulars	**Amount (Rs.)**	**Amount (Rs.)**
Sales		25,00,000
Cost of goods sold	18,50,000	
Freight out	1,35,000	
Commissions	2,20,000	
Advertising	6,00,000	
Salaries	8,50,000	
Insurance expenses	7,50,000	
Depreciation	4,95,000	
Impairment loss	18,00,000	

5

K5

18. On 31st December 2020, the balance sheet of a limited company disclosed the following position:

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Issued capital in Rs. 10 shares	8,00,000	Fixed Assets	10,00,000
Profit and loss	40,000	Current Assets	4,00,000
Reserves	1,80,000	Goodwill	80,000
5% Debentures	2,00,000		
Current liabilities	2,60,000		
	14,80,000		14,80,000

On 31.12.2020, the fixed assets were independently valued at Rs.7,00,000 and the goodwill at Rs.1,00,000. The net profits for the three years were Rs.1,03,200, 104,000 and Rs.1,03,300 of which 20% was placed to reserves, this proportion being considered reasonable in the industry may be which the company is engaged and where a fair return on investment may be taken at 10%. Compute the value of the company's share by

(a) Fair value method
(b) Net assets method
(c) Yield method

5

K5

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