

ST. JOSEPH'S COLLEGE OF COMMERCE (AUTONOMOUS)
END SEMESTER EXAMINATION - SEPT/OCT. 2018
B.COM (Regular) - III SEMESTER
C1 15MC503: FINANCIAL REPORTING

Duration: 3 Hours

Max. Marks: 70

SECTION - A

I) Answer any TEN questions. Each carries 1 mark. (10x1=10)

1. Name any two uses of Financial Statements.
2. Why India opted for convergence of IFRS instead of adoption of IFRS?
3. Name any TWO criteria which must be satisfied for an Asset to be recognised (included) in the financial statements.
4. Define Intangible Asset.
5. The asset under construction began to be built on 1 March 20X8. This was funded out of general borrowings. Visag had two loans in place during the year, a \$2m 6% loan and a \$3m 9% loan. At 31 December 20X8, the asset was still under construction. How much interest should be capitalised in relation to the asset?
6. Rich Co owns a piece of land. The directors have not yet decided whether to build a factory on it for use in its business or to keep it and sell it when its value has risen. Would this be classified as an investment property under IndAS 40? Give reason.
7. What do you mean by Government Grant?
8. An entity opens a new factory and receives a government grant of \$15,000 in respect of capital equipment costing \$100,000. It depreciates all plant and machinery at 20% pa straight-line. Show the effect of above in Statement of Profit or Loss.
9. Differentiate Provision and Contingent Liability.
10. What is a Related Party Transaction?
11. Give TWO examples for Insurance Contracts.
12. Define Agricultural Activity as per IndAS 41.

SECTION - B

II) Answer any THREE questions. Each carries 6 marks. (3x6=18)

13. Describe the IASB's standard setting process with help of a flowchart.
14. Why do we need International Accounting Standards? Name any TWO International Accounting Standards.
15. Parrys Ltd obtained a Loan for Rs.70 lakhs on 15th April 2017 from a Nationalised Bank, to be utilized as under:

Particulars	Rs.
Construction of Factory shed	25,00,000
Purchase of machinery	20,00,000
Working capital	15,00,000
Advance for purchase of truck	10,00,000

In March 2018, construction of the factory shed was completed and machinery which was ready for its intended use installed. Delivery of Truck was received in the next financial year. Total interest Rs.9,10,000 charged by the bank for the financial year ending 31.3.2018. **Show the treatment of interest under IndAS 23.**

16. A Public Interest Litigation has been filed before the Supreme Court on the environmental influences of air, noise and water pollution, caused by certain manufacturing industries. The matter has been heard by the Court and proceedings show that the Court will direct such Industries to install suitable pollution control equipment. However, till the date the accounts have been approved by the Board of Directors of a Company, no such order has come from the Court. The company feels that no Provisioning or disclosure is required as the Court order has not been served on the Company. **Is this justifiable? Give the analysis.**
17. R Ltd. reported a Profit before Tax of Rs.7 lakhs for the quarter ending 30th September. On enquiry, you observe the following. **Give the treatment required under IndAS 34 and Ascertain the correct quarterly income.**
- Dividend income of Rs.5 lakhs received during the quarter has been recognized to the extent of Rs.2 lakh only.
 - 80% of the Sales Promotion Expenses Rs. 15 lakhs incurred in this quarter has been deferred to the next quarter, as the sales in the next quarter is high.
 - Cumulative loss of Rs.3 lakhs resulting from the change in the method of Valuation of Inventory was recognized in the 2nd quarter, which included Rs. 2 Lakhs related to earlier quarter.
 - Gain of Rs.15 lakhs from Sale of Investments sold in the 1st quarter was apportioned equally over the full year.
 - In this quarter, the Company changed depreciation method from WDV to SLM which resulted in excess depreciation of Rs.12 lakhs. The entire amount has been debited in this quarter though the share of this quarter is only 3 lakhs.
 - Bad debts of Rs.40,000 incurred during the year , 50% of the Bad debts have been deferred to the next quarter.

SECTION - C

III) Answer any TWO questions. Each carries 15 marks. (2x15=30)

18. a. Explain the Conceptual Framework regarding preparation of the Financial Statements. **(7 marks)**
- b. Sony Pharma ordered 12,000 kg. of certain material at Rs. 80 per unit. The purchase price includes excise duty Rs. 4 per kg in respect of which full CENVAT credit is admissible. Freight incurred amounted to Rs. 77,400. Normal transit loss is 3%. The company actually received 11,600 kg. and consumed 10,100 kg. of material. **Compute cost of closing inventory under IndAS-2 and cost of abnormal loss. (8 marks)**

19. a. V Ltd. Had a balance brought forward on the Development Expenditure account of \$ 8 million relating to the development of products now successfully launched.

On 1/7/12, V commenced work on a new project and incurred monthly expenses of \$ 3,00,000 whilst researching the possibilities for this new product. On 31/10/12 the research work was completed and development started immediately afterwards involving monthly expenditure of \$ 4,00,000. Following the development of a successfully prototype, the directors confirmed on 1/2/13 their belief that the product was destined for success and be extremely profitable when it is launched early in 2014.

Amortization of capitalized development expenditure is on the reducing balance basis of 30% p.a. calculated on pro rata basis for the first year.

How much will be charged to P & L for the year ended 31/3/13, in respect of Research & Development Expenditure? (10 marks)

b. Bhoominath Earthmovers Ltd purchased an Earthmoving equipment for Rs.770 lakhs on 1.10.2017. The useful life of the equipment is 6 years and the residual value is estimated at Rs.50 lakhs. The company adopts Straight Line method of depreciation. On 31.3.2018 the management conducted a test for impairment and the following data was obtained:

- a. Fair value (-)Costs of disposal = Rs.550 lakhs
- b. Present value of future cash flows = Rs.520 lakhs and
- c. Residual value at the end of useful life = NIL

Determine the Impairment Loss to be recognized on 31.3.2018 and compute the depreciation charge for the year ending 31.3.2019.

(5 marks)

20. a. Neelakanta Ltd purchased a Machinery for Rs.40 lakhs, useful life 4 years and residual value Rs.8 lakhs. Government Grant received Rs.16 lakhs. Due to non-compliance of certain conditions, the Grant becomes refundable in 3rd year to the extent of Rs.12 lakhs. Give journal entries to record the above transactions for 3 years. What will be the value of Fixed Asset at the beginning of the fourth year? **(10 marks)**

b. The following data is provided by X Ltd. And its Subsidiaries with a list of Properties given below:

- (i) Land held by X Ltd. For undetermined future use
- (ii) Vacant Building owned by X Ltd and leased out
- (iii) Property held by X Ltd., a Real Estate Firm, in the ordinary course of business
- (iv) Property held by X Ltd. for the use in production
- (v) A Hotel owned by Z Ltd. a subsidiary of X Ltd. and for which Z Ltd. provides Security Maintenance Services to Guests.

Required: Which of the above properties would qualify under IndAS 40 as Investment Property in the books of X Ltd. Give appropriate reasons.

(5 Marks)

21. a. In which of the following circumstances might a provision be recognized? Give reasons.

- a. On 13/12/2018, the board of directors of an entity decided to close down a division. The accounting date of the company is 31/12/2018.

