	UNIVERSITY OF RUHUNA **FACULTY OF MANAGEMENT AND FINANCE**	No. of Pages: 06 No. of Questions: 05 Total Marks: 70

BACHELOR OF BUSINESS ADMINISTRATION HONOURS DEGREE

4000 LEVEL FIRST SEMESTER END EXAMINATION -AUGUST/SEPTEMBER 2023

Three Hours

ACC 41103 – Corporate Reporting — Academic Year 2022/2023

Instructions

- **Answer all five (05) questions**
- **Calculators are permitted.**

Question No.01

On 01st April 2022, Philips Company acquired 80% of Samsung Company's equity shares in a share exchange of three shares in Philips Company for every two shares acquired in Samsung Company. The market prices of Philips Company's and Samsung Company's shares at the date of acquisition were Rs. 650 and Rs. 850 respectively.

In addition to this Philips Company agreed to pay a further amount on 01st April 2023 that was contingent upon post-acquisition performance of Samsung Company. At the date of acquisition Philips Company assessed the fair value of this contingent consideration at Rs. 1,200 million, but by 31st March 2023 it was clear that the actual amount to be paid would be only Rs. 1,000 million (ignore discounting).

In addition to above share exchange and contingent consideration value Philips Company agreed to defer a further amount of Rs. 1,562.5 million until 01st April 2025. Philips Company's cost of capital is 16% per annum (the discount factor on 01st April 2025 is 0.640).

Philips Company has recoded the share exchange and provided for the initial estimate of Rs. 1,200 million for the contingent consideration but the deferred payment has not been recorded.

On 01st October 2022 Philips Company also acquired 40% of the equity shares of Apple Company paying Rs. 600 cash per acquired share and issuing at par one Rs. 4,000, 12% loan note for every 10 shares acquired in Apple Company. This consideration has been recorded by Philips Company in its books.

The summarized statements of financial position of the three companies as at 31st March 2023 are as follows.

	Philips	*Samsung*	*Apple*
	Rs. Million	*Rs. Million*	*Rs. Million*
Assets			
Non-current assets			
Property, plant and equipment	8,000	5,000	4,000
Intangible assets	1,000	1,000	-
Investments	12,000	1,000	1,000
Current assets			
Inventories	2,000	1,500	1,000
Trade receivables	1,500	1,000	500
Cash and cash equivalents	500	500	500
Total assets	**25,000**	**10,000**	**7,000**

Equity			
Stated share capital			
Ordinary shares of Rs. 200 each	10,000	2,000	1,000
Retained earnings: at 01st April 2022	5,000	3,000	2,500
: for the year ended 31st April 2023	3,000	1,000	2,000
Non-current liabilities			
12% loan notes	3,000	1,000	-
Current liabilities			
Contingent consideration	1,200	-	-
Trade payables	2,000	2,500	1,000
Payable income tax	800	500	500
Total equity and liabilities	**25,000**	**10,000**	**7,000**

The following adjustments are to be made in preparing the consolidated statement of financial position as at 31st March 2023.

1. At the date of acquisition the fair values of Samsung Company's property, plant and equipment was equal to its carrying amount with the exception of Samsung Company's factory which had a fair value of Rs. 500 million above its carrying amount. Samsung Company has not adjusted the carrying amount of the factory as a result of the fair value exercise. This requires additional annual depreciation of Rs. 100 million in the consolidated financial statements in the post-acquisition period. Also at the date of acquisition, Samsung Company had an intangible asset of Rs. 100 million for software in its statement of financial position. Philips Company's directors believed the software to have no recoverable value at the date of acquisition and Samsung Company wrote it off shortly from the profit after the acquisition.

2. At the date of acquisition, Philips Company valued Samsung Company's customer relationship as a customer base intangible asset at fair value of Rs. 500 million. Samsung Company has not accounted for this asset. The trading relationships with Samsung Company's customers lasts for an average of five years.

3. At 31st March 2023 Philips Company's current account with Samsung Company was Rs. 600 million of debit balance. This did not agree with the equivalent balance in Samsung Company's books due to some goods-in-transit invoiced at Rs. 300 million that were sent by Philips Company on 28th March 2023, but had not been received by Samsung Company until after the financial year end. Philips Company goods sold to Samsung Company at cost plus 50%.

4. The inventory of Philips Company includes goods at a transfer price of Rs. 500 million purchased from Samsung Company after the acquisition. Samsung Company goods sold to Philips Company at a markup of 25%.

5. The inventory of Apple Company includes goods at a transfer price of Rs. 600 million purchased from Philips Company. Philips Company goods sold to Apple Company at cost plus 50%.

6. The inventory of Philips Company includes goods at a transfer price of Rs. 400 million purchased from Apple Company after the acquisition. Apple Company goods sold to Philips Company at a margin of 25%.

7. Philips Company policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose Samsung Company's share price at the date of acquisition can be deemed to be representative of the fair value of the shares held by the non-controlling interest.

8. Impairment tests were carried out on 31st March 2023 which concluded that the value of the investment in Apple Company was impaired by Rs. 200 million.

9. Due to poor trading performance of Samsung Company, consolidated goodwill was impaired by Rs. 500 million.

10. Assume all profits accrue evenly through the year.

Required:

Prepare the Consolidated Statement of Financial Position as at 31st March 2023 in accordance with SLFRS 03, Business Combination.

(Total Marks 24)

Question No.02

Pepsi Company acquired 75% of the equity capital of Shell Company on 01st April 2022. The fair value of the net assets of Shell Company at the date of acquisition were equal to their carrying amounts with the exception of an item of plant which had a carrying amount of Rs. 02 million and fair value of Rs. 03 million. This plant had a remaining life of five years (Straight-line depreciation) at the date of acquisition of Shell Company. All depreciation is charged to cost of sales.

On the same date Pepsi Company acquired 40% of the equity shares of Amazon Company. The summarized profit or loss and other comprehensive income statements of the three companies for the year ended 31st March 2023 are given below.

	Pepsi (Rs. '000)	*Shell (Rs. '000)*	*Amazon (Rs. '000)*
Sales Revenue	120,000	60,000	50,000
Cost of Sales	(60,000)	(25,000)	(22,000)
Gross Profit	**60,000**	**35,000**	**28,000**
Other Income	12,000	5,000	3,000
	72,000	40,000	31,000
Distribution Expenses	(10,000)	(5,000)	(4,000)
Administration Expenses	(11,000)	(6,000)	(5,000)
Other Expenses	(2,000)	(1,000)	(1,000)
Profit from Operations	**49,000**	**28,000**	**21,000**
Investment Income	5,000	2,000	1,000
Finance Expenses	(3,000)	(2,000)	(1,000)
Profit before tax	**51,000**	**28,000**	**21,000**
Income Tax Expenses	(17,000)	(9,000)	(7,000)
Profit for the year	**34,000**	**19,000**	**14,000**
Other Comprehensive Income			
Gain on revaluation of land	5,000	3,000	1,000
Loss on fair value of equity financial assets	(3,000)	(2,000)	-
Total Comprehensive Income	**36,000**	**20,000**	**15,000**

The following adjustments are to be made in preparing the consolidated statement of profit or loss and other comprehensive income for the year ending 31st March 2023.

1. Before the acquisition, Shell Company used to hire a motor vehicle from Pepsi Company for a monthly rental of Rs. 300,000 and the same practice was continued until 30th June 2022. Shell Company purchased the above motor vehicle from Pepsi Company at a price of Rs. 5.4 million on 01st July 2022. This vehicle had been purchased by Pepsi company on 01st July 2019 at a cost of Rs. 09 million and vehicles are depreciated at the rate of 20% per annum by both companies.

2. Shell Company has written off the irrecoverable debtor balance of Rs. 600,000 for the year ended 31st March 2022 and it is included in the distribution expenses of the current financial year (pre-acquisition bad debts).

3. At the date of acquisition, Shell Company had an intangible asset of Rs. 400,000. This intangible asset has no recoverable value at the date of acquisition. Shell Company has written off the intangible asset and it is included in the other expenses of the current financial year.

4. Pepsi Company sells goods to Shell Company at a profit margin of 20% on the selling price. As per records of Pepsi Company, goods to the invoice value of Rs. 06 million were sent to Shell Company during the year. The last goods sent to by Pepsi Company were invoiced at Rs. 03 million and Shell Company has returned 1/3 of same goods on 30th March 2023 and appropriate entries have been made in its books. This was received by Pepsi Company on 02nd April 2023 and no entries have been passed yet. Other than the last goods received from Pepsi Company in all previous goods were sold by Shell Company before the year end.

5. During the year, Pepsi Company sold goods to Amazon Company for Rs. 06 million at a margin of 20%. At the year end, Amazon Company still held 50% of these goods in inventory.

6. The group accounting policy is to measure non-controlling interests using the fair value (full goodwill) method. The current year goodwill impairment loss was Rs. 02 million and this be charged to administration expenses.

7. Impairment tests were carried out on 31st March 2023 which concluded that the value of the investment in Amazon Company was impaired by Rs. 400,000.

8. Pepsi Company provided management services to Shell Company and charged Rs. 1.5 million as management fees for the year ended 31st March 2023 and both companies have been properly recorded management service charges in their books.

9. Shell Company and Amazon Company paid a total dividend of Rs. 04 million and Rs. 1.5 million during the year respectively. Pepsi Company has been properly recorded in its books both dividends received from Subsidiary and Associate.

10. Shell Company has been obtained a loan of Rs. 10 million from Pepsi Company at 12% interest on 01st October 2022 and the interest for the relevant period is included in finance cost and investment income.

Required:

Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31st March 2023 in accordance with SLFRS 03, Business Combination.

(Total Marks 16)

Question No. 03

A. De-recognition is the removal of a previously recognized financial instrument from an entity's statement of financial position. Briefly explain the accounting treatment of de-recognition for financial assets and financial liabilities.

(02 marks)

B. Sagechous (Pvt) Ltd purchased loan stock in a listed company for Rs. 40 million on 20th February 2022, classifying it as measured at fair value through other comprehensive income. At 31st December 2022 the loan stock was re-measured to a fair value of Rs. 55 million, with a Rs. 15 million gain recognized in other comprehensive income. Sagechous sold the entire loan stock to Tremendus PLC for 40 million in 2023.

Required:

State extracts from the statement of profit or loss and other comprehensive income for the year ended 31st December 2023 in respect of the disposal.

(02 marks)

C. Financial assets are classified according to the business model within which they are held and the contractual cash flow characteristics of the asset. Elaborate the classification of Financial Assets.

(03 marks)

D. Sigma (Pvt) Ltd, purchased a five-year bond on 1st January 2018 at a cost of Rs. 6 million with annual interest of 3%, which is also the effective rate, payable on 31st December annually. At the reporting date of 31st December 2022 interest has been received as expected and the market rate of interest is now 4% per annum.

Required:

Calculate the value of the financial asset at 31st December 2022 on the basis that it is classified as fair value through profit and loss.

(03 marks)

(Total Marks 10)

Question No 04

A. On 1st January 2022, the fair value of the assets of a defined benefit plan was valued at Rs. 5,600,000 and the present value of the defined benefit obligation were Rs.4,950,000. On 31st December 2022, the plan received contributions from the employer of Rs. 156,000 and paid out benefits of Rs. 209,000. The current service cost for the year was Rs. 74,000 and a discount rate of 5% is to be applied to the net liability/asset. After these transactions, the fair value of the plan's assets at 31st December 2022 was Rs. 5,500,000 and the present value of the defined benefit obligation was Rs. 4,463,600.

Required:

Calculate the gains or losses on re-measurement through other comprehensive income and the return on plan assets and illustrated how its pension plan will be treated in the statement of profit or loss and other comprehensive income for the years ended 31st December 2021 and 31st December 2022 and Statement of Financial Position as at 31st December 2021 and 31st December 2022.

(03 marks)

B. Tremendous (Pvt) Ltd granted 1,450 options on its Rs.2 ordinary shares to each of its 158 employees on 1st January 2020. Each grant is conditional upon the employee being employed by J and B until 31st December 2022. J and B estimated on 1st January 2020 that;

a. The fair value of each option was Rs.4 (before adjustment for the possibility of forfeiture).

b. Approximately 20 employees would leave during 2020, 30 in 2021, and 40 in 2022 thereby forfeiting their right to receive the options. The departures were expected to be eventually spread within each year.

The exercise price of the options was Rs.2.50 and the market value of the Tremendous (Pvt) Ltd share on 1st January 2020 was Rs.3.75.

In the event, only 15 employees left during 2020 (and the estimate of the total departures was revised down to 26 at 31st December 2020), 17 employees during 2021 (and the estimate of the total departures was revised down to 32 at 31st December 2021) and non during 2022, spread evenly during each year.

Required:

Illustrate how the scheme is accounted in accordance with under SLFRS 02 Share-Based Payments in financial Statements.

(02 marks)

C. Briefly explain two limitations of operating segments.

(02 marks)

D. Elegant (Pvt) Ltd acquired a thermal printing machine on 1st October 2018 under a lease with a five-year term for their new business premises. The lease term requires payments of Rs.2,800,000 annual installment at the end of each year, and the interest rate implicit in the lease is 11%. The lessee incurred Rs. 150,000 costs to set up the lease and the lessor agreed to reimburse half of these.

Required:

Calculate the right of use the asset and the amounts recognized in the statement of profit and loss and statement of financial position in respect of the lease in the years ended 30th September 2019 and 30th September 2020.

(03 marks)

(Total Marks 10)

Question No. 05

A. Differentiate the terms, Environment Accounting, Sustainability Reporting, Global Reporting Initiative, and Corporate Social Responsibility.

(04 marks)

B. Dramatic changes in the business environment leading stakeholders to require new types of information. As a result the Integrated Reporting concept was born with a revolutionary impact to the accounting information.

Discuss the term Integrated Reporting and the classification of the capitals in Integrated Reporting framework through a practical examples.

(06 marks)

(Total Marks 10)

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