**COURSE: B.COM (H)**

**SEMESTER- VI**

**PAPER: FINANCIAL REPORTING AND ANALYSIS**

INTERNAL TEST

TIME LIMIT: 50 minutes

TOTAL MARKS- 30

Note: Attempt all Questions.

Q1. (a) Briefly indicate the items, which are included in the expression “borrowing cost” as explained in AS 16.

(b) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised. (c) Write short note on Effect of Uncertainties on Revenue Recognition.

Q2.Sagar Limited belongs to the engineering industry. The Chief Accountant has prepared the draft accounts for the year ended 31.03.09. You are required to advise the company on the following items from the viewpoint of finalisation of accounts, taking note of the mandatory accounting standards. (a) An audit stock verification during the year revealed that the opening stock of the year was understated by Rs. 3 lakhs due to wrong counting. (b) The company purchased on 01.04.08 a special purpose machinery for Rs. 25 lakhs. It received a Central Government Grant for 20% of the price. The machine has an effective life of 10 years. (c) The company undertook a contract for building a crane for Rs. 10 lakhs. As on 31.03.09 it incurred a cost of Rs. 1.5 lakhs and expects that there will be Rs. 9 lakhs more for completing the crane. It has received so far Rs. 1 lakh as progress payment.

Q3.A firm of contractors obtained a contract for construction of bridges across river Mahanadi. The following details are available in the records kept for the year ended 31st March, 2009. (Rs. in lakhs) Total Contract Price 1,000 Work Certified 500 Work not Certified 105 Estimated further Cost to Completion 495 Progress Payment Received 400 To be Received 140 The firm seeks your advice and assistance in the presentation of accounts keeping in view the requirements of AS 7 (Revised) issued by ICAI.

ASSIGNMENT

Q1. Write short notes on the Advantages and disadvantages of setting of Accounting Standards.

Q2. (a) Briefly indicate the items, which are included in the expression “borrowing cost” as explained in AS 16.

(b) Explain the difference between direct and indirect methods of reporting cash flows from operating activities with reference to Accounting Standard 3(AS 3) revised. (c) Write short note on Effect of Uncertainties on Revenue Recognition.

Q3. In preparing the financial statements of R Ltd. for the year ended 31st March, 2009, you come across the following information. State with reasons, how you would deal with them in the financial statements : (a) An unquoted long term investment is carried in the books at a cost of Rs. 2 lakhs. The published accounts of the unlisted company received in May, 2009 showed that the company was incurring cash losses with declining market share and the long term investment may not fetch more than Rs. 20,000. (b) The company invested 100 lakhs in April, 2009 in the acquisition of another company doing similar business, the negotiations for which had started during the financial year. (c) There was a major theft of stores valued at Rs. 10 lakhs in the preceding year which was detected only during current financial year (2008-09). As it is stated in the question that financial statements for the year ended 31st March, 2009 are under preparation, the views have been given on the basis that the financial statements are yet to be completed and approved by the Board of Directors.

**MULTIPLE CHOICE QUESTIONS**

**1. IFRS 1 requires an undertaking to do the following in the opening IFRS balance sheet that it prepares as a starting point for its accounting under IFRSs:**

i. recognise all assets and liabilities whose recognition is required by IFRSs;

ii. not recognise items as assets or liabilities if IFRSs do not permit such recognition;

iii. reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under IFRSs;

iv. apply IFRSs in measuring all recognised assets and liabilities;

v. deduct goodwill from equity.

1. i 2. i-ii 3. i-iii 4. i-iv 5. i-v

**2. The objective of IFRS 1 is to ensure that an undertaking's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that:**

1. is transparent for users and comparable over all periods presented;

2. provides a suitable starting point for accounting under IFRSs;

3. can be generated at a cost that does not exceed the benefits to users;

4. can be generated more quickly than under previous GAAP.

1. i 2. i-ii 3. i-iii 4. i-iv

**3. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. Your date of transition to IFRSs is**

1. 1st January 2XX3. 2. 1st January 2XX7. 3. 1st January 2XX8.

**4. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. In them you make an explicit and unreserved statement of compliance with IFRSs. Your first IFRS financial statements are for**

1. 2XX3. 2. 2XX7. 3. 2XX8.

**5. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. In them you make an explicit and unreserved statement of compliance with IFRSs. Your first IFRS reporting period is the year ending:**

1. 2XX3. 2. 2XX7. 3. 2XX8.

**6. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7.Your opening IFRS balance sheet is the balance sheet of 1st January:**

1. 2XX3. 2. 2XX7. 3. 2XX8.

**7. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. In them you make an explicit and unreserved statement of compliance with IFRSs. No interim financial reports are produced. Your first IFRS reporting date is the 31st December**:

1. 2XX3. 2. 2XX7. 3. 2XX8.

**8. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. You also produce an interim financial report for January to June 2XX8. In it you make an explicit and unreserved statement of compliance with IFRSs. Do you apply IFRS 1 to your interim financial report?**

1. Yes. 2. No. 3. You have an option to do so.

**9. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. In them you make an explicit and unreserved statement of compliance with IFRSs. No interim financial reports are produced.The 2XX3-2XX7 figures come from management accounts that had been seen only by your directors. Your first IFRS financial statements are for:**

1. 2XX3. 2. 2XX7. 3. 2XX8.

**10. If, for example, the undertaking presented its most recent previous financial statements:**

i. under national requirements that are not consistent with IFRSs in all respects;

ii. in conformity with IFRSs in all respects, except that the financial statements did not contain an explicit and unreserved statement that they complied with IFRSs;

iii. containing an explicit statement of compliance with some, but not all, IFRSs;

iv. under national requirements inconsistent with IFRSs, using some individual IFRSs to account for items for which national requirements did not exist; or

v. Under national requirements, with a reconciliation of some amounts to the amounts determined under IFRSs;

would those financial statements count as the first IFRS financial statements?

1. Yes. 2. No. 3. Maybe.

**11. When an undertaking:**

i. stops presenting financial statements under national requirements, having previously presented them as well as a second set of financial statements that contained an explicit and unreserved statement of compliance with IFRSs;

ii. presented financial statements in the previous year under national requirements and those financial statements contained an explicit and unreserved statement of compliance with IFRSs; or

iii. presented financial statements in the previous year that contained an explicit and unreserved statement of compliance with IFRSs, even if the auditors qualified their audit report on those financial statements.

1. IFRS 1 applies; 2. IFRS 1 does not apply; 3. IFRS 1 may apply.

**12. For changes in accounting policies made by an undertaking that already applies IFRSs:**

1. IFRS 1 applies; 2. IFRS 1 does not apply; 3. IFRS 1 may apply.

**13. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. In them you make an explicit and unreserved statement of compliance with IFRSs. Your accounting policies for all years should be those applicable to**

1. 2XX3 2. Each year presented. 3. 2XX8.

**14. Under your previous GAAP, you revalued your property using an independent valuation. You have been advised that the values have not materially changed at the date of transition to IFRSs.**

1. You may use these valuations as deemed cost under IFRS;

2. You must use these valuations as deemed cost under IFRS;

3. You may not use these valuations as deemed cost under IFRS.

**16. Under your previous GAAP, you revalued various assets using an independent valuation immediately prior to a listing on the stock exchange. You have been advised that the values have not materially changed at the date of transition to IFRSs.**

1. You may use these valuations as deemed cost under IFRS;

2. You must use these valuations as deemed cost under IFRS;

3. You may not use these valuations as deemed cost under IFRS.

**17. If a subsidiary may use as its accounting policy the cost model in IAS 16 Property, Plant and Equipment, the group**

1. must use the cost model;

2. must use the revaluation model;

3. may use either.

**18. Your date of transition to IFRSs is 1st January 2XX3. In 2XX2, you did not document any hedging relationships, but considered them to be hedges for operational purposes.**

1. You may use these hedges under IFRS;

2. You must use these hedges under IFRS;

3. You may not use these hedges.

**19. An undertaking's date of transition to IFRSs is 1 January 2XX4 and new information on 15 July 2XX4 requires the revision of a bad debt provision estimate made under previous GAAP at 31 December 2XX3.**

1. The undertaking shall reflect that new information in its opening IFRS balance sheet;

2. The undertaking shall reflect that new information in its income statement (or, if appropriate, other changes in equity) for the year ended 31 December 2XX4;

3. The undertaking shall ignore that information as it only applies to previous GAAP.

**20. Your date of transition to IFRSs is $1^{st}$ January 2XX3. You have assets classified as held for sale and discontinued operations that were recognised and valued under your previous GAAP.**

1. You may use these valuations as deemed cost under IFRS;

2. You must use these valuations as deemed cost under IFRS;

3. You may not use these valuations as deemed cost under IFRS.

**21. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. Your comparative information does not comply with IAS 32, IAS 39 and IFRS 4. Your date of transition to IFRSs is:**

1. $1^{st}$ January 2XX3;

2. 1st January 2XX3, but $1^{st}$ January 2XX8 for information provided under IAS 32, IAS 39 and IFRS 4;

3. $1^{st}$ January 2XX8.

**22. You decide to publish IFRS statements for 2XX8 with comparatives for the years 2XX3-2XX7. Your date of transition to IFRSs is $1^{st}$ January 2XX3. You will require reconciliations of its equity reported under previous GAAP to its equity under IFRSs for:**

1. 1st January 2XX3;

2. 31st December 2XX8;

3. Both 1st January 2XX3 and 31st December 2XX8.

**Answers to multiple choice questions**

| **Question** | **Answer** |
|---|---|
| 1. | 4 |
| 2. | 3 |
| 3. | 1 |
| 4. | 3 |
| 5. | 3 |
| 6. | 1 |
| 7. | 3 |
| 8. | 1 |
| 9. | 3 |
| 10. | 2 |
| 11. | 2 |
| 12. | 2 |
| 13. | 3 |
| 14. | 1 |
| 15. | 1 |
| 16. | 1 |
| 17. | 3 |
| 18. | 3 |
| 19. | 2 |
| 20. | 1 |
| 21. | 2 |
| 22. | 3 |