**Faculty of Economics, Business and Management Sciences Annaba,20 January 2025**

**Department of Financial Sciences Final Exam in**

**Master 1 (S1) Corporate Finance International Financial**

**Accounting and Audit Reporting Standards**

**Time:one hour and a half**

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**Answer the following questions**

**Q1- Answer the following and explain**

**1-**Company (A) owns 90% of Company (B). Company (A) also owns 15% of Company (C). (B) owns 10% of Company (C). what relation exists between A and C ?

**2**-An entity purchased a 25% stake in another entity with the intention of selling that investment within 4 months. The investment was classified as held for sale under IFRS 5. How is the investment treated at the end of the financial year**?**

**3**-If the investor no longer has significant influence over the associate, how should the investment be accounted for**?**

**4-**How is goodwill arising from the acquisition of an associate treated in the financial statements?

**Q2**- Company C purchased a debt instrument - bonds - due after 3 years for a value of **52,575** dinars,including transaction costs. The nominal value of the bonds is **50,000** dinars, with a fixed interest rate of **10%** collected annually at the end of each year. The market interest rate when purchasing the bonds is **8**%. The bonds will be held to collect cash flows (interest) and the value of the bonds upon maturity**.**

**Required**:

**1-**How the bonds are classified according to IFRS9 and why  ?

2- How the bonds are inilially and subsequently recognized ?

3**-** Prepare a bond discount schedule

**4-** record the journal entries of the bonds purchase

**Q3**-Sam Ltd. issued **500,000** common shares of **$10** at par and paid **$1,000,000** for the net assets of Sun Ltd. on August 17, 2014. The market value of Sam Ltd.’s stocks was **$20** per share at the time.Sun Ltd. was dissolved immediately after the acquisition. The information related to Sun Ltd.’s net assets is as follows (in thousands):

|  |  |  |
| --- | --- | --- |
|  | **Book Value** | **Fair Value** |
| **Cash**  **Trade receivables**  **Inventories**  **Prepaid expenses**  **Land**  **Building-net**  **Equipment-net**  **Trade payable**  **Notes payable**  **Bonds payable**  **Common stock, $5 par**  **Retained Earnings** | **2000**  **800**  **3200**  **1000**  **6000**  **10000**  **3500**  **1300**  **4300**  **6600**  **5300**  **9000** | **2000**  **600**  **3000**  **1000**  **6800**  **10100**  **3000**  **1500**  **4600**  **7100**  **-**  **-** |

**Required**: Prepare the necessary journal entries for the acquisition in accordance with IFRS3( aquisitioncost,goodwill ..)

**Good luck**

**IFRS Final Exam correction**

**Ans1- Answer and explanation(4 MARKS )**

**1-** relation exists between A and C .C is an associate of A, because A owns 15 % in C and 9 %(90 %×10%) indirectly by B.

**2-**The investment is classified as held for sale and must be recognized in accordane with IFRS 5 in the financial statements.

3- the investor no longer has significant influence over an associate . It should be accounted for under IFRS 9.

4-The is goodwill arising from the acquisition of an associate is included in the investment, because it is a business combination achieved in stages.

**Ans2- 8 marks**

**1-The** bonds are classified at amortized costs according to IFRS9,because they are**(test of business model**) ;

\***Held till maturity**

**\*To collect cash flows (Interests+ Principal)**

**2-The**  bonds are inilially recognized **at fair value + transaction costs** and subsequently at

**amortized costs** .

3**- Preparation of a bond discount schedule**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **year** | **Amortised cost at beginning** | **Effective interest rate 8%** | **Nominal interest rate 10%** | **Discount liability** | **Amortised cost at the end** |
| **0** |  |  |  |  | **52575** |
| **1** | **52575** | **4206** | **5000** | **794** | **51781** |
| **2** | **51781** | **4142.48** | **5000** | **857.52** | **50923** |
| **3** | **50923.48** | **4073.8784** | **5000** | **926.1216** | **50000~** |

**4- Journal entries**

**Initally**

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investments at amortized cost**  **cash** | **52575** | **52575** |

**Sebsequently**

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Cash**  **Interest income**  **Investments at amortized cost** | **5000** | **4206**  **794** |

**Ans3- To record the journal entries for acquisition we need to : - 8 marks**

**1-Determine the goodwill (or Bargain purchase)**

**Goodwill (or Bargain purchase) = Acquisition cost –Net Fair value of Assets**

**= 11000 - (26500 - 13200)= -2300**

**2- journal entries**

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| **Investments in Sun LTD**  **Cash**  **Capital**  **Additional capital**  **--------------------- ----------------------**  **Cash**  **Trade receivables**  **Inventories**  **Prepaid expenses**  **Land**  **Building-net**  **Equipment-net**  **Investments**  **Trade payable**  **Notes payable**  **Bonds payable**  **Bargain purchase** | **11000**  **2000**  **600**  **3000**  **1000**  **6800**  **10100**  **3000** | **1000**  **5000**  **5000**  **11000**  **1500**  **4600**  **7100**  **2300** |