

UNIT CODE: HBA 2401

UNIT TITLE: ADVANCED FINANCIAL REPORTING

TAKE AWAY CAT 2

ANSWER ALL THE QUESTIONS

### QUESTION 1

The consolidated financial statements effectively show the performance of a group of companies as if it were a single entity. Many commentators on accounting have argued that to aggregate financial information relating to several subsidiaries that operate in different industries and markets produces information that may conceal important data and has the potential to confuse those who wish to analyse it.

**Required:**

- (i). Identify the main items of information that require disclosure under IAS 14 (Segment Reporting) (2 marks)
- (ii). Bearing in mind the above comments, identify the benefits of segmental information (4 marks)
- (iii). Identify the main problems associated with the provision of segmental information. (4 marks)

### QUESTION 2

(a) Accounting regulators believe that undue emphasis is placed on Earnings per share (EPS) and that this leads to simplistic interpretation of financial performance. Many chief executives believe that their share price does not reflect the value of their company and yet are pre-occupied with earnings based ratios. It appears that if chief executives shared the views of the regulators then they may disclose more meaningful information than EPS to the market, which may then reduce the reporting gap and lead to higher share valuations. The reporting gap can be said to be the difference between the information required by the stock market in order to evaluate the performance of a company and the actual information disclosed.

**Required:**

- (i) Discuss the potential problems of placing undue emphasis on the Earnings per share figure. (5 marks)
- (ii) Explain the nature of the reporting gap and how the gap might be eliminated. (5 marks)