Test Series: October, 2021

MOCK TEST PAPER 1

FINAL (NEW) COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. (a) A retailer (lessee) entered into 3-year lease of retail space beginning at 1st April 20X1 with three annual lease payments of ₹ 2,00,000 due on 31st March 20X2, 20X3 and 20X4, respectively. The lease is classified as an operating lease under the erstwhile, accounting standard. The retailer initially applies Ind AS 116 for the first time in the annual period beginning at 1st April 20X3. The incremental borrowing rate at the date of the initial application (i.e., 1st April 20X3) is 10% p.a. and at the commencement of the lease (i.e., 1st April 20X1) was 12% p.a. The ROU asset is subject to straight-line depreciation over the lease term. Assume that no practical expedients are elected, the lessee did not incur initial direct costs, there were no lease incentives and there were no requirements for the lessee to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to the condition under the terms and conditions of the lease.

What would be the impact for the lessee as per Ind AS 116 using the following transition approaches:

(i) Full Retrospective Approach

(ii) Modified Retrospective Approach (when ROU asset is not equal to lease liability)

Show the impact of adjustments through journal entries, consequent to transition for the year 20X2-20X3 and 20X3-20X4. **(16 Marks)**

(b) A holding company [being the entity under consideration] gives a loan / intercorporate deposit to a subsidiary that is recoverable on demand, at a rate of interest at 10%.

(a) Should such loan be disclosed as a current/non-current asset in the books of the holding company?

How relevant would the commercial reality of the transaction be in comparison to the legal terms of the transaction?

(b) How this loan / inter-corporate deposit that is repayable on demand would be classified in the books of the subsidiary? **(4 Marks)**

2. (a) Ryder, a public limited company is reviewing certain events which have occurred since its year-end 31st March, 20X4. The financial statements were authorized for issue on 12th May, 20X4. The following events are relevant to the financial statements for the year ended 31st March, 20X4.

The company granted share appreciation rights (SARs) to its employees on 1st April, 20X2 based on 10 million shares. At the date the rights are exercised, the SAR's provide employees with the right to receive cash equal to the appreciation in the company's share price since the grant date. The rights vested on 31st March, 20X4 and payment was made on schedule on 1st May, 20X4.

The FV of the SAR's per share at 31st March, 20X3 was ₹ 6, at 31st March, 20X4 was ₹ 8 and at 1st May, 20X4 was ₹ 9. The company has recognized a liability for the SAR's as at 31st March, 20X2 based upon Ind AS 102 'Share-based Payments' but the liability was stated at the same amount at 31st March, 20X4.

Discuss the accounting treatment of the above events in the financial statements of the Ryder Group for the year ending 31st March, 20X4 taking into account the implications of events occurring after the reporting period. **(6 Marks)**

(b) Which of the following would meet and not meet the definition of financial instruments and fall outside the scope of Ind AS 32?

(1) Cash deposited in banks

(2) Gold deposited in banks

(3) Trade receivables

(4) Investments in debt instruments

(5) Investments in equity instruments

(6) Prepaid expenses

(7) Inter-corporate loans and deposits

(8) Deferred revenue

(9) Tax liability

(10) Provision for estimated litigation losses. **(4 Marks)**

(c) Growth Ltd. enters into an arrangement with a customer for infrastructure outsourcing deal.

Based on its experience, Growth Ltd. determines that customising the infrastructure will take approximately 200 hours in total to complete the project and charges ₹ 150 per hour.

After incurring 100 hours of time, Growth Ltd. and the customer agree to change an aspect of the project and increases the estimate of labour hours by 50 hours at the rate of ₹ 100 per hour.

Determine how contract modification will be accounted as per Ind AS 115? **(5 Marks)**

(d) NKT Limited sells a product to a customer for ₹ 1,21,000 that is payable 24 months after delivery. The customer obtains control of the product at contract inception. The contract permits the customer to return the product within 90 days. The product is new and the entity has no relevant historical evidence of product returns or other available market evidence.

The cash selling price of the product is ₹ 1,00,000 which represents the amount that the customer would pay upon delivery for the same product sold under otherwise identical terms and conditions as at contract inception. The entity's cost of the product is ₹ 80,000. The contract includes an implicit interest rate of 10 per cent.

Analyse the above transaction with respect to its financing component and compute the amount to be charged in each year as financing component. **(5 Marks)**

3. (a) What is the organisational structure and role of IIRC in relation to integrated reporting. What considerations are kept in mind by IIRC while developing the framework. **(5 Marks)**

(b) On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively.

A Limited paid initial cash consideration of ₹ 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

It was also agreed that A Limited would pay a further sum of ₹ 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for ₹ 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 20X3:

	A Limited (₹ 000)	S Limited (₹ 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

(i) On the date of acquisition the fair values of S Limited's plant exceeded its book value by ₹ 2,00,000. The plant had a remaining useful life of five years at this date;

(ii) The consolidated goodwill has been impaired by ₹ 2,58,000; and

(iii) The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was ₹ 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required). **(15 Marks)**

4. (a) On 1st April, 20X1, ABC limited gives options to its key management personnel (employees) to take either cash equivalent to 1,000 shares or 1,500 shares. The minimum service requirement is 2 years and shares being taken must be kept for 3 years.

Fair values of the shares are as follows:	₹
Share alternative fair value (with restrictions)	102

Grant date fair value on 1st April, 20X1	113
Fair value on 31st March, 20X2	120
Fair Value on 31st March, 20X3	132
The employees exercise their cash option at the end of 20X2-20X3. Pass the journal entries.	

(8 Marks)

(b) On 1st April 20X1, A Ltd. acquired 12 Cr shares (representing 80% stake) in B Ltd. by means of a cash payment of ₹ 25 Cr. It is the group policy to value the non-controlling interest in subsidiaries at the date of acquisition at fair value. The market value of an equity share in B Ltd. at 1st April 20X1 can be used for this purpose. On 1st April 20X1, the market value of a B Ltd. share was ₹ 2.00

On 1st April 20X1, the individual financial statements of B Ltd. showed the net assets at ₹ 23 Cr.

The directors of A Ltd. carried out a fair value exercise to measure the identifiable assets and liabilities of B Ltd. at 1st April 20X1. The following matters emerged:

– Property having a carrying value of ₹ 15 Cr at 1st April 20X1 had an estimated market value of ₹ 18 Cr at that date.

– Plant and equipment having a carrying value of ₹ 11 Cr at 1st April 20X1 had an estimated market value of ₹ 13 Cr at that date.

– Inventory in the books of B Ltd. is shown at a cost of ₹ 2.50 Cr. The fair value of the inventory on the acquisition date is ₹ 3 Cr.

The fair value adjustments have not been reflected in the individual financial statements of B Ltd. In the consolidated financial statements, the fair value adjustments will be regarded as temporary differences for the purposes of computing deferred tax. The rate of deferred tax to apply to temporary differences is 20%.

Calculate the deferred tax impact on above and calculate the goodwill arising on acquisition of B Ltd. **(6 Marks)**

(c) Narayan Ltd. provides you the following information and asks you to calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income:

Estimated Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 8,00,000)	33,00,000

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates:	On Capital Gains		12%	
	On Other Income:	First ₹ 5,00,000	30%	
		Balance Income·	40%	**(6 Marks)**

5. (a) ABC Company issued 10,000 compulsory cumulative convertible preference shares (CCCPS) as on 1st April 20X1 @ ₹ 150 each. The rate of dividend is 10% payable every year. The preference shares are convertible into 5,000 equity shares of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion options is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds.

Key terms:

Face Value of Preference Shares	150
Face value of equity share after conversion	10
Effective interest rate	15.86%

You are required to compute the liability and equity component and pass journal entries for entire term of arrangement i.e. from the issue of preference shares till their conversion into equity shares keeping in view the provisions of relevant Ind AS. **(12 Marks)**

(b) A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹ 100 thousand and taxable profit for year 20X1-20X2 is ₹ 104 thousand. The difference between these amounts arose as follows:

1. On 1st February, 20X2, it acquired a machine for ₹ 120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes.

2. In the year 20X1-20X2, expenses of ₹ 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

Prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation. **(8 Marks)**

6. (a) WLL Ltd. was incorporated on 1st April, 20X1 and follows Ind AS in preparing its financial statements. In preparing its financial statements for financial year ending 31st March, 20X4, WLL Ltd. used these useful lives for its property, plant, and equipment:

Buildings : 15 years

Plant and machinery : 10 years

Furniture and fixtures : 7 years

On 1st April, 20X4, the entity decides to review the useful lives of the property, plant, and equipment. For this purpose it hired external valuation experts. These independent experts certified the remaining useful lives of the property, plant, and equipment of WLL Ltd. on 1st April, 20X4 as

Buildings : 10 years

Plant and machinery : 7 years

Furniture and fixtures : 5 years

WLL Ltd. uses the straight-line method of depreciation. The original cost of the various components of property, plant, and equipment were

Buildings : ₹ 1,50,00,000

Plant and machinery : ₹ 1,00,00,000

Furniture and fixtures : ₹ 35,00,000

Compute the impact on the statement of profit and loss for the year ending 31st March, 20X5, if WLL Ltd. decides to change the useful lives of the property, plant, and equipment in compliance with the recommendations of external valuation experts. Assume that there were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised. **(7 Marks)**

(b) Sohan has been recently hired in Zio Life Limited. Since he is facing difficulty in computation of EPS as per Ind AS 33, guide him by discussing the steps for the calculation of Basic EPS and Diluted EPS alongwith the necessary computations for EPS of Year 1.

The following basic facts relate to Company Zio Life Limited.

- Net profit for Year 1 is ₹ 46,00,000.
- The number of ordinary shares outstanding on 1st April Year 1 is 30,00,000.

The following facts are also relevant for Year 1.

- On 1st April, Zio Life Limited issues 20,00,000 three-year term convertible bonds for ₹ 1 each.
- Zio Life Limited has an option to settle the principal amount in ordinary shares (every 10 bonds are convertible into one ordinary share) or cash on settlement date.
- The principal amount of the bonds is classified as an equity instrument and the interest is classified as a financial liability.
- The interest expense relating to the liability component of the bonds is ₹ 1,800.
- The interest expense is tax-deductible. The applicable income tax rate is 40%. **(7 Marks)**

(c) **Either**

Royal Ltd. is a company which has a net worth of ₹ 200 crore engaged in the manufacturing of rubber products. The sales of the company are badly affected due to pandemic during the financial year 20X3-20X4.

Relevant financial details of the following financial years are as follows: (₹ in crore)

Particulars	31st March 20X4 (Current year) estimated	31st March 20X3	31st March 20X2	31st March 20X1
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

During the pandemic period (till 31st March 20X4) various commercial activities were undertaken with considerable concessions/discounts, along the related affected areas. The management intends to highlight the expenditure incurred on such activities as expenditure incurred, on activities undertaken to discharge corporate social responsibility, while publishing its financial statements for the year 20X3-20X4.

You are requested to advise CFO of Royal Ltd on the below points along with reasons for your advise:

(i) Whether the Company has an obligation to form a CSR committee since the applicability criteria are not satisfied in the current financial year?

(ii) Whether the accounting of expenditure during the pandemic period be treated as expenditure on CSR in the financial statements according to the view of the accountant of the company?

(6 Marks)

(c) **OR**

Telco T Ltd. enters into a two-year contract for internet services with Customer C. C also buys a modem and a router from T Ltd. and obtains title to the equipment. T Ltd. does not require customers to purchase its modems and routers and will provide internet services to customers using other equipment that is compatible with T Ltd.'s network. There is a secondary market in which modems and routers can be bought or sold for amounts greater than scrap value.

Determine how many performance obligations does the entity T Ltd. have? **(6 Marks)**