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.

Total Marks: 100 Marks **Time Allowed: 3 Hours**

1. (a) Following is the financial statements of Arish Ltd. prepared on the basis of Accounting Standards: (Note all figures are in INR million)

Balance Sheet

Particulars	Note	As at 31st March, 2018
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of Rs. 10 each)		1,000
Reserves and surplus	1	2,000
Non-current liabilities		
Long-term borrowings	2	5,555
Deferred tax liabilities	3	200
Current liabilities		
Trade payables		300
Short-term provisions		250
Other current liabilities	4	150
TOTAL		**9,455**
ASSETS		
Non - current assets		
Fixed Assets		5,655
Deferred Tax Assets	3	500
Current assets		
Inventories		1,000
Trade receivables	5	1,100
Cash and bank balances		1,200
TOTAL		9,455

Note 1: The Company has achieved a major breakthrough in its consultancy services in Middle East following which it has entered into a contract of rendering services with Finland Inc for INR 6 billion during the year. The termination clause of the contract is equivalent to INR 7 Million and is payable in case transition time schedule is missed from 15th December 2022. The management however is of the view that the liability cannot be treated as onerous.

Note 2: The Company is not able to assess the final liability for a particular tax assessment pertaining to assessment year 2018-2019 wherein it has received a demand notice of INR 6 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.

Statement of Profit & Loss

Particulars	Note	Year ended March 31, 2018
Revenue from operations		5,500
Expenses		
Employee Benefit Expense		1,200
Operating Costs		2,200
Depreciation		999
Total Expenses		4,399
Profit before tax		1,101
Tax Expense		(150)
Profit after tax		951

Notes to Accounts:

Note 1: Reserves and surplus **(INR in millions)**

Capital Reserve		500
Surplus from P & L		
Opening Balance	49	
Additions	951	1,000
Reserve for foreseeable loss		500
Total		2,000

Note 2: Long Term Borrowings

Term Loan from Bank	5,555
Total	5,555

Note 3: Deferred Tax

Deferred Tax Asset	500
Deferred Tax Liability	(200)
Total	300

Note 4: Other Current Liabilities

Unclaimed dividends	3
Billing in Advance	147
Total	150

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	1,100

Additional Information:

(a) Share capital comprises of 100 million shares of INR 10 each

(b) Term Loan from bank for INR 5555 million also includes interest accrued and due of INR 555 million as on the reporting date.

(c) Reserve for foreseeable loss is created against a service contract due within 6 months.

Required:

(i) Evaluate and report the errors and misstatements in the above extracts; and

(ii) Prepare the corrected Balance Sheet & Statement of Profit and Loss. **(16 Marks)**

(b) Mr. X has a 100% investment in A Ltd. He is also a member of the key management personnel (KMP) of B Ltd. B Ltd has a 100% investment in C Ltd.

Examine related party relationship of A Ltd., as per Ind AS 24, in the financial statements of C Ltd. **(4 Marks)**

2. (a) Preet Pvt. Ltd. has a number of wholly-owned subsidiaries including Stuti Pvt. Ltd. at 31st March, 2018. Preet Pvt. Ltd.'s consolidated balance sheet and the carrying amount of assets and liabilities of Stuti Pvt. Ltd., included in the respective amount of respective grouped assets and liabilities of the consolidated balance sheet as at 31st March, 2018 are as follows:

Particulars	**Consolidated balance sheet (Rs. in million)**	**Carrying amount of asset and liabilities of Stuti Pvt. Ltd. included in the CFS (Rs. in million)**
Assets		
Non-current Assets		
Goodwill	380	180
Buildings	3,240	1,340
Current Assets		
Inventories	140	40
Trade Receivables	1,700	900
Cash and cash equivalents	3,100	1000
Total Assets	**8,560**	**3,460**
Equities & Liabilities		
Equity		
Share Capital	1600	
Other Equity		
Retained Earnings	4,260	
Current liabilities		
Trade Payables	2,700	900
Total Equity & Liabilities	**8,560**	**900**

Prepare Consolidated Balance Sheet after disposal as on 31st March, 2018 when Preet Pvt. Ltd. group sold 100% shares of Stuti Pvt. Ltd. to independent party for Rs. 3,000 millions. **(16 Marks)**

(b) What are the disclosures required in the Combined/Carved-out Financial Statements as described in the Guidance Note on Combined and Carved-out Financial Statements? **(4 Marks)**

3. (a) A Limited received from the government a loan of Rs.1,00,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized. Also state how the grant will be recognized in the statement of profit or loss assuming that the loan is to finance a depreciable asset. **(6 Marks)**

(b) **Either**

An asset is sold in 2 different active markets (a market in which transaction for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis) at different prices.

An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Market A:

The sale price of the asset is Rs. 26, transaction cost is Rs. 3 and the cost to transport the asset to Market A is Rs. 2 (i.e., the net amount that would be received is Rs. 21).

In Market B:

The sale price of the asset is Rs. 25, transaction cost is Re. 1 and the cost to transport the asset to Market B is Rs. 2 (i.e., the net amount that would be received is Rs. 22).

Determine the fair value of the asset by supporting your answer with proper reason. **(4 Marks)**

Or

QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS. QA Ltd. had acquired 40% shares in GK Ltd. for an aggregate amount of Rs. 45 crores. The shareholding gives QA Ltd. significant influence over GK Ltd. but not control and therefore the said interest in GK Ltd. is accounted using the equity method. Under the equity method, the carrying value of investment in GK Ltd. was Rs. 70 crores on 31st March, 2017 and Rs. 75 crores as on 31st March, 2018. As per the applicable tax laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of.

QA Ltd. wants you to compute the deferred tax liability as on 31st March, 2018 and the charge to the Statement of Profit for the same. Consider the tax rate at 20%. **(4 Marks)**

(c) UK Ltd. has purchased a new head office property for Rs. 10 crores. The new office building has 10 floors and the organisation structure of UK Ltd. is as follows:

Floor	**1st**	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**	**9th**	**10th**
Use	**Waiting Area**	**Admin**	**HR**	**Accounts**	**Inspection**	**MD Office**	**Canteen**	**Vacant**		

Since UK Ltd. did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows:

- Tenure of Lease Agreement - 5 Years
- Non-Cancellable Period - 3 years
- Lease Rental-annual lease rental receivable from these floors are Rs. 10,00,000 per floor with an escalation of 5% every year.

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately Rs. 3 crores. The remaining cost of Rs. 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st March, 2018, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of the property at Rs. 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise UK Ltd. on the accounting and disclosures for the above as per the applicable Ind AS.

(10 Marks)

4. (a) In March 2018, Pharma Ltd. acquires Dorman Ltd. in a business combination for a total cost of Rs. 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

Item	**Rs. in lakhs**
Assets	
Cash	780
Receivables (net)	5,200
Plant and equipment	7,000
Deferred tax asset	360
Liabilities	
Payables	1,050
Borrowings	4,900
Employee entitlement liabilities	900
Deferred tax liability	300

The plant and equipment has a fair value of Rs. 8,000 lakhs and a tax written down value of Rs. 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of Rs. 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of Rs. 4.300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to:

(i) Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)

(ii) Calculate the goodwill that should be accounted on consolidation. **(10 Marks)**

(b) Prepare a value added statement for the year ended on 31.3.2018 and reconciliation of total value added with profit before taxation, from the profit and loss account of P Ltd. for the year ended on 31.3.2018.

Income:	(Rs. in lakhs)
Sales	254.00
Other income	6.00
Total	260.00
Expenditure:	
Operating cost	222.00
GST	11.20
Interest on bank overdraft	1.00
Interest on 9% debentures	15.00
	249.20
Profit before depreciation	10.80
Depreciation	4.10
Profit before tax	6.70
Provision for tax	2.40
Profit after tax	4.30
Dividend	0.30
Retained profit	4.00

The following additional information are given:

(i) Sales represents net sales after adjusting discounts, returns and sales tax.

(ii) Operating cost includes Rs. 82.00 lakhs as wages, salaries and other benefits to employees.

(iii) Bank overdraft is temporary. **(10 Marks)**

5\. (a) (i) On 1st April, 2014, S Ltd. issued 5,000, 8% convertible debentures with a face value of Rs. 100 each maturing on 31st March, 2019. The debentures are convertible into equity shares of S Ltd. at a conversion price of Rs. 105 per share. Interest is payable annually in cash. At the date of issue, S Ltd. could have issued non-convertible debentures with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 2017, the convertible debentures have a fair value of Rs. 5,25,000. S Ltd. makes a tender offer to debenture holders to repurchase the debentures for Rs. 5,25,000, which the holders accepted. At the date of repurchase, S Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%.

Examine the accounting treatment in the books of S Ltd., by passing appropriate journal entries, for recording of equity and liability component:

(1) At the time of initial recognition and

(2) At the time of repurchase of the convertible debentures.

The following present values of Re. 1 at 8%, 9% & 12% are supplied to you:

Interest Rate	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

(10 Marks)

(ii) On 1 January 2018, Entity X writes a put option for 1,00,000 of its own equity shares for which it receives a premium of Rs. 5,00,000.

Under the terms of the option, Entity X may be obliged to take delivery of 1,00,000 of its own shares in one year's time and to pay the option exercise price of Rs. 22,000,000. The option can only be settled through physical delivery of the shares (gross physical settlement). Examine the nature of the financial instrument and how it will be accounted assuming that the present value of option exercise price is Rs. 2,00,000? **(5 Marks)**

(b) State whether any unspent amount of CSR expenditure (any shortfall in the amount that was expected to be spent as per the provisions of the Companies Act on CSR activities) at the reporting date shall be provided for? Also state in case the excess amount has been spent (ie more than what is required as per the provisions of the Companies Act on CSR activities), can it be carry forward to set-off against future CSR expenditure. **(5 Marks)**

6. (a) At 1 January 2017, Ambani Limited grants its CEO an option to take either cash amount equivalent to 990 shares or 800 shares. The minimum service requirement is 2 years. There is a condition to keep the shares for 3 years if shares are opted.

Fair values of the shares	INR
Share alternative fair value (with restrictions)	212
Grant date fair value on 1st January, 2016	213
Fair value on 31st December, 2016	220
Fair value on 31st December, 2017	232

The key management exercises his cash option at the end of 2018. Pass journal entries.

(10 Marks)

(b) Great Ltd., acquired a machine on 1st April, 2012 for Rs. 7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2016, the carrying value of the machine was reassessed at Rs. 5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 2018, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only Rs. 79 lakhs.

Calculate the loss on impairment of the machine and show how this loss is to be treated in the books of Great Ltd. Great Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation. **(10 Marks)**