Test Series: March, 2018

MOCK TEST PAPER

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) A Ltd. owns three properties which are shown in its financial statements as 'Property, Plant and Equipment'. All three properties were purchased on April 1, 20X1. The details of purchase price and market values of the properties are given as follows: *₹ in lakhs*

Particulars	Property 1	Property 2	Property 3
	Factory Building	Factory Building	Let-out Building
Purchase price	500	200	300
Market value as on 31.03.20X2	550	220	330
Useful Life	10 Years	10 Years	10 Years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are used by A Ltd. as factory building whilst property 3 is let-out to a non-related party at a market rent.

A Ltd. does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by A Ltd. in relation to these properties, on various accounting aspects, are in accordance with Ind AS or not. If not, advise the correct treatment alongwith the workings for the same in all the cases. ***(16 Marks)***

(b) Entity A has undertaken various transactions in the financial year ended March 31, 20X1. Identify and present the transactions in the financial statements as per Ind AS 1. ₹

Remeasurement of defined benefit plans	2,57,000
Current service cost	1,75,000
Changes in revaluation surplus	1,25,000
Gains and losses arising from translating the monetary assets in foreign currency	75,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000
Income tax expense	35,000
Share based payments cost	3,35,000

(4 Marks)

2. (a) The following information relates to the results of the parent and subsidiary (jointly) and the investment in associate and joint venture: (All figures are in rupees)

Summarised Balance Sheet as at 31.3.20X1

	Holding and subsidiary	*Associate*	*Joint Venture*
Equity and Liabilities			
Called up equity shares of ₹ 1 each	1,00,000	40,000	10,000
General reserve	40,000		-
Profit and loss account	37,000	27,000	83,000
Minority Interest	20,000	-	-
Current Liabilities			
Trade payables -Creditors	20,000	32,000	6,000
Provision for tax	19,000	11,000	11,000
	2,36,000	1,10,000	1,10,000
Assets			
Non-current assets			
Fixed assets- Tangible assets	1,95,000	74,000	41,000
Investments:			
8,000 shares in Associate	15,000	-	-
5,000 shares in Joint Venture	5,000	-	-
Current assets	21,000	36,000	69,000
	2,36,000	1,10,000	1,10,000

Details of Profit and Loss account for the year ended 31.3.20X1

	Holding and subsidiary	*Associate*	*Joint Venture*
Retained profit for the year	15,000	11,000	23,000
Add: Retained profit brought forward	22,000	16,000	60,000
Retained profit carried forward	37,000	27,000	83,000

You are given the following additional information:

(a) The parent company purchased its investment in the associate two years ago when the balance on the profit and loss account was ₹ 17,000. There are no signs of impairment of the goodwill.

(b) The parent company entered into a joint venture to access a lucrative market in the former East Germany. It set up a company two years ago and has 50 per cent of the voting rights of the company set up for this joint venture.

Prepare the consolidated balance sheet for the Group as per relevant Accounting Standards for the year ended 31.3.20X1. ***(16 Marks)***

(b) Explain Financial capital maintenance and Physical capital maintenance as per the Framework and differentiate it. ***(4 Marks)***

3. (a) In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual installments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 20X2, failing which the loan becomes payable on demand. As on March 24, 20X2, the entity has not been able to get the promoter's contribution. On March 25, 20X2, the entity approached the bank and obtained a grace period up to June 30, 20X2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 20X2.

(i) As on March 31, 20X2, examine the classification of the loan to be done by the entity as per Ind AS?

(ii) Assume in anticipation that it may not be able to get the promoter's contribution by due date. In February 20X2, the entity approached the bank and got the compliance date extended up to June 30, 20X2 for getting promoter's contribution. In this case, examine whether the loan classification as on March 31, 20X2 be different from (a) above?

(6 Marks)

(b) **Either**

X Ltd. is engaged in manufacturing and selling of designer furniture. It sells goods on extended credit. X Ltd. sold furniture for ₹ 40,00,000 to a customer, the payment against which was receivable after 12 months with interest at the rate of 3% per annum. The market interest rate on the date of transaction was 8% per annum.

Calculate the revenue to be recognised by X Ltd. for the above transactions.

Or

A Limited recognises interest income in its books on accrual basis. However, for income tax purposes the method is 'cash basis'. On December 31, 20X1, it has interest receivable of ₹ 10,000 and the tax rate was 25%. On February 28, 20X2, the finance bill is introduced in the legislation that changes the tax rate to 30%. The finance bill is enacted as Act on May 21, 20X2. Determine the treatment of deferred tax, as per Ind AS, in case the reporting date of A Ltd.'s financial statement is December 31, 20X1 and these are approved for issued on May 31, 20X2. ***(6 Marks)***

(c) MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000.

Advise a per Ind AS whether the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used. Also calculate the revised carrying amount of the machinery? Consider the discount rate of 5% per annum. ***(8 Marks)***

4. (a) On September 30, 20X1, Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B.

The fair value of each ordinary share of Entity B at September 30, 20X1 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16.

The fair values of Entity A's identifiable assets and liabilities at September 30, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non- current assets at September 30, 20X1 is 1,500.

The draft statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	**Entity B** (legal subsidiary, accounting acquirer)
Current assets	500	700
Non-current assets	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

Entity B's earnings for the annual period ended December 31, 20X0 were 600 and that the consolidated earnings for the annual period ended December 31, 20X1 were 800. Also there was no change in the number of ordinary shares issued by Entity B during the annual period ended December 31, 20X0 and during the period from January 1, 20X1 to the date of the reverse acquisition on September 30, 20X1.

Required:

Calculate the fair value of the consideration transferred, measure goodwill and prepare the consolidated balance sheet as on September 30, 20X1 as per Ind AS. Also compute Earnings per share as on December 31, 20X1. ***(12 Marks)***

(b) Following information is provided in respect of A Ltd. as on 31st March, 20X1:

	(₹ in lakh)
Turnover (including discounts and returns worth ₹ 35 lakh)	2,500
Plant and machinery (net)	785
Depreciation on plant and machinery	132
Debtors	205
Dividend to ordinary shareholders	85
Creditors	180
Stock (net) of all raw materials, WIP, finished goods	
Opening stock	180
Closing stock	240

Raw material purchased	714
Cash at bank	98
Printing and stationery	24
Auditor's remuneration	15
Retained profit (opening balance)	998
Retained profit for the year	445
Transfer to reserve	120
Rent paid	172
Other expenses	88
Ordinary share capital (₹ 100 each)	1700
Interest on borrowings	40
Income tax for the year	280
Wages and salaries	352
Employees state insurance	32
Provident fund contribution	26

You are required to:

(i) Prepare Value Added Statement and its application for the period 31.3.20X1.

(ii) Compute Value Added per Employee (If 87 employees work in Pradeep Ltd.)

(iii) Compute Average Earnings per Employee (If 87 employees work in Pradeep Ltd.)

(8 Marks)

5. (a) On 1 January 20X0, Preet Ltd. issues 10 year bonds for ₹ 10,00,000, bearing interest at 10% (payable annually on 31st December each year). The bonds are redeemable on 31 December 20X9 for ₹ 10,00,000. No costs or fees are incurred. The effective interest rate is 10%. On 1 January 20X5 (i.e. after 5 years) Preet Ltd. and the bondholders agree to a modification in accordance with which:

- the term is extended to 31 December 20Y1;
- interest payments are reduced to 5% p.a.;
- the bonds are redeemable on 31 December 20Y1 for ₹ 15,00,000; and
- legal and other fees of ₹ 1,00,000 are incurred.

Preet Ltd. determines that the market interest rate on 1 January 20X5 for borrowings on similar terms is 11%.

Analyse whether the extinguishment accounting will apply or not as per Ind AS. If yes, determine the fair value of the modified liability and compute the gain or loss on modification.

(14 Marks)

(b) What are the guiding principles for preparation and presentation of Integrated Report?

(6 Marks)

6. (a) A Ltd. grants 100 shares to each of its 500 employees on 1st January 20X1. The employees should remain in service during the vesting period. The shares will vest at the end of the

First year if the company's earnings increase by 12%;

Second year if the company's earnings increase by more than 20% over the two-year period;

Third year if the entity's earnings increase by more than 22% over the three-year period.

The fair value per share at the grant date is INR 122. In 20X1, earnings increased by 10%, and 29 employees left the organisation. The company expects that earnings will continue at a similar rate in 20X2 and expects that the shares will vest at the end of the year 20X2. The company also expects that additional 31 employees will leave the organisation in the year 20X2 and that 440 employees will receive their shares at the end of the year 20X2. At the end of 20X2, company's earnings increased by 18%. Only 29 employees left the organization during 20X2. Company believes that additional 23 employees will leave in 20X3 and earnings will further increase so that the performance target will be achieved in 20X3. At the end of the year 20X3, only 21 employees have left the organization. The company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS? ***(12 Marks)***

(b) X Ltd. has identified 4 operating segments for which revenue data is given below:

	External Sale (₹)	*Internal Sale (₹)*	*Total (₹)*
Segment A	30,00,000	Nil	30,00,000
Segment B	6,50,000	Nil	6,50,000
Segment C	8,50,000	1,00,000	9,50,000
Segment D	5,00,000	49,00,000	54,00,000
Total Sales	50,00,000	50,00,000	1,00,00,000

Additional information:

Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years.

Which of the segments would be reportable under the criteria identified in Ind AS 108?

(8 Marks)