Roll No. ....

DEC 2021

Final New Syllabus
Paper - 1
Financial Reporting

Total No. of Questions – **6**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

8ms
05/12

FST

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.

Working notes should form part of the respective answer.

Marks

1. (a) KUPA Ltd borrowed ₹ 95 lakhs as loan from XYZ Bank on 1st April, 2018 at an interest rate of 10% p.a. KUPA Ltd spent ₹ 1,80,912 as loan processing charges. Principal amount of loan is to be repaid in 5 equal instalments and the interest to be paid annually on accrual basis. Effective interest rate on loan is 10.8%. **12**

On 31st March, 2020, KUPA Ltd faced challenges in business because of sudden change in the technology. It approached XYZ Bank and renegotiated the terms of the loan. Interest rate changed to 15% p.a. Principal amount of loan is to be repaid in 8 equal instalments payable annually starting 31st March, 2021 and the interest is to be paid annually on accrual basis. Before approaching bank, KUPA Ltd made the interest payment on 31st March, 2020.

 Marks

You are required to record Journal entries in the books of KUPA Ltd till 31st March, 2021, after giving effect of the changes in the terms of the loan on 31st March, 2020. Workings should form part of the answer.

PV of Re1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467
10.8%	0.903	0.815	0.735	0.664	0.599	0.540	0.488	0.440
15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327

(b) Rainy Pvt Ltd is a company registered under the Companies Act, 2013 following Accounting Standards notified under Companies (Accounting Standards) Rules, 2006. The company has decided to present its first financials under Ind AS for the year ended 31st March, 2021. The transition date is 1st April, 2019. **8**

The following adjustments were made upon transition to Ind AS:

(i) The company opted to fair value its land as on the date on transition. The fair value of the land as on 1st April, 2019 was ₹ 95 lakhs. The carrying amount as on 1st April, 2019 under the existing GAAP was ₹ 42.75 lakhs.

(ii) The company has recognised a provision for proposed dividend of ₹ 5.7 lakhs and related dividend distribution tax of ₹ 1.65 Lakhs during the year ended 31st March, 2019. It was written back as on opening balance sheet date.

(iii) The company had a non-integral foreign branch in accordance with AS 11 and had recognised a balance of ₹ 2 lakhs as part of reserves. On first time adoption of Ind AS, the company intends to avail Ind AS exemption of resetting the cumulative translation difference to zero.

Marks

(iv) The company had made an investment in subsidiary for ₹ 18.62 lakhs that carried a fair value of ₹ 25.75 lakhs as at the transition date. The company intends to recognise the investment at its fair value as at the date of transition.

(v) The company has an Equity Share Capital of ₹ 760 lakhs and Redeemable Preference Share Capital of ₹ 180 lakhs. The company identified that the preference shares were in nature of financial liabilities.

(vi) The Reserves and Surplus as on 1st April, 2019 before transition to Ind AS was ₹ 910 lakhs representing ₹ 380 lakhs of general reserve and ₹ 40 lakhs of Capital Reserve acquired out of business combination and balance is surplus in the Retained Earnings.

What is the balance of total equity (Equity and other equity) as on 1st April, 2019 after transition to Ind AS ? Show reconciliation between Total Equity as per AS (Accounting Standards) and as per Ind AS to be presented in the opening balance sheet as on 1st April, 2019.

Ignore deferred tax impact.

2. (a) Sun Limited and Moon Limited amalgamated from April 01, 2021. A new company Sunmoon Limited with shares of ₹ 10 each was formed to take over the businesses of the existing companies. 14

 Marks

Summarised Balance Sheet as on March 31, 2021

Particulars	Note No.	Sun Limited ₹	Moon Limited ₹
ASSETS			
Non-current Assets			
Property, Plant and Equipment		1,70,00,000	1,50,00,000
Financial Assets			
Investment		21,00,000	11,00,000
Current Assets			
Inventory		25,00,000	55,00,000
Trade Receivables		36,00,000	80,00,000
Cash and Cash Equivalent		9,00,000	8,00,000
Total		**2,61,00,000**	**3,04,00,000**
EQUITY AND LIABILITIES			
Equity			
Equity Share Capital (FV ₹ 10 each)		1,20,00,000	1,40,00,000
Other Equity	1	61,00,000	54,00,000
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Borrowings (12% Debentures)		60,00,000	80,00,000
Current Liabilities			
Trade Payables		20,00,000	30,00,000
Total		**2,61,00,000**	**3,04,00,000**

Notes to Accounts:

	Sun Limited ₹	Moon Limited ₹
Other Equity		
General Reserve	30,00,000	40,00,000
Profit & Loss	20,00,000	10,00,000
Investment Allowance Reserve	10,00,000	2,00,000
Export Profit Reserve	1,00,000	2,00,000
	61,00,000	54,00,000

Sunmoon Limited issued requisite number of shares to discharge the claims of the Equity Shareholders of the transferor companies. Also, the new Debentures were issued in exchange of the old series of both the companies.

Compute purchase consideration and advice discharge thereof by preparing a note and draft the Balance Sheet of Sunmoon Limited assuming that Sun Limited and Moon Limited are not under common control and management of larger entity out of Sun Limited and Moon Limited will take over the control of the entity Sunmoon Limited.

The fair value of net assets as at March 31, 2021 of Sun Limited and Moon Limited are as follows :

Assets	Sun Limited ₹	Moon Limited ₹
Property, Plant and Equipment	1,90,00,000	1,70,00,000
Inventory	26,00,000	58,00,000
Fair value of the Business	2,20,00,000	2,80,00,000

Marks

(b) In the year 2020-21, one land was sold for ₹ 5 Crore and another land purchased for ₹ 3 Crore by XYZ Limited. Company reported Cash Flow on a Net Basis in Cash Flow Statement i.e. ₹ 2 Crore in Investing Activity as Cash receipt from Sale of Land. Advise whether treatment given as above is correct or not as per the provisions of Ind AS 7. 6

Also, calculate the Cash from Operations by Indirect Method from the following information:

Operating Statement of XYZ Limited for the year ended March 31, 2021

Particulars		₹
Sales		20,00,000
Less :	Cost of Goods Sold	14,00,000
	Administration & Selling Overheads	2,20,000
	Depreciation	28,000
	Interest Paid	12,000
	Loss on Sale of Asset	8,000
Profit before Tax		3,32,000
Less :	Tax	1,20,000
Profit After Tax		2,12,000

Marks

Balance Sheet as on March 31, 2021

	2021 (₹)	2020 (₹)
Assets		
Non-current Assets		
Property, Plant and Equipment	3,00,000	2,60,000
Investment	48,000	40,000
Current Assets		
Inventories	48,000	52,000
Trade Receivables	40,000	28,000
Cash and Cash Equivalents	24,000	20,000
Total	**4,60,000**	**4,00,000**
Equity and Liabilities		
Shareholders Funds	2,40,000	2,00,000
Non-current Liabilities	1,32,000	1,40,000
Current Liabilities		
Trade Payables	48,000	32,000
Expenses Payables	40,000	28,000
Total	**4,60,000**	**4,00,000**

3. (a) Hari Ltd purchased an equipment for 10,200 CAD from Canada supplier on credit basis on 31st January, 2020. Hari Ltd's functional currency is INR. The fair value of the equipment determined on 31st March, 2020 is 12,100 CAD. The payment to overseas supplier done on 31st March 2021 and the fair value of the equipment remains unchanged for the year ended on 31st March, 2021. 5

Marks

The exchange rates are as follow :

on the date of transaction - 1 CAD = 57.68 INR

on 31st March, 2020 - 1 CAD = 62.12 INR

on 31st March 2021 -1 CAD = 69.24 INR

Prepare the Journal entries for the year ended on 31st March, 2020 and 31st March, 2021 according to Ind AS 21. Tax rate is 25%. Hari Ltd follows Revaluation model as per Ind AS 16 in respect of Property, Plant & Equipment.

(b) PC Ltd got incorporated on 1st April, 2020. As on 31.03.2021, the following temporary differences exist: **5**

(i) Taxable temporary differences relating to accelerated depreciation of ₹ 1,24,000. These are expected to reverse equally over next 4 years.

(ii) Deductible temporary difference relating to preliminary expenses of ₹ 80,000 expected to reverse equally over next 5 years.

It is expected that PC Ltd will continue to make losses for next 5 years. Tax rate is 20%. Losses can be carried forward but not backwards.

Discuss the treatment of deferred tax as on 31st March, 2021 as per relevant Ind AS.

(c) An entity has a fixed fee contract for ₹ 22,00,000 to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 20,00,000. The entity will transfer control of the product over five years and the entity uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria: **10**

Marks

Weight (Kg)	Award % of Fixed Fee	Incentive Fee (₹)
951 or greater	0%	Nil
701 – 950	10%	2,20,000
700 or less	25%	5,50,000

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10% incentive and two that will achieve the 25% incentive. In this case, the entity determined that it has 90% confidence that it will achieve the 10% incentive and 10% confidence that it will achieve 25% incentive.

Based on this analysis, the entity believes 10% to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10% award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolve due to its 90% confidence in achieving the 10% award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award. At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criteria. Therefore, the entity revises its estimate of variable consideration to include the entire 25% incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognised

Marks

will not occur when including the entire variable consideration in the transaction price.

Analyse the impact of changes in variable consideration when cost incurred is as follows:

Year	₹
1	1,20,000
2	3,70,000
3	8,20,000
4	5,70,000
5	1,20,000

Calculate yearly Revenue, Operating Profit and Margin (%). For simplification purposes, calculate revenue for the year independently based on costs incurred during the year divided by total expected costs, with the assumption that total expected costs do not change.

4. (a)
- Jakob Ltd entered into a contract for lease of machinery with Jason Ltd on 01.01.2018. The initial term of the lease is 6 years with a renewal option of further 2 years. 10
- The annual payments for initial term and renewal term are ₹ 2,80,000 and ₹ 3,50,000 respectively.
- The annual lease payment will increase based on the annual increase in the CPI at the end of the preceding year. For example, the payment due on 01.01.2019 will be based on the CPI available at 31.12.2018.
- Jakob Ltd's incremental borrowing rate at the lease inception date and as at 01.01.2021 is 8% and 10% respectively and the CPI at lease commencement date and as at 01.01.2021 is 250 and 260 respectively.

Marks

- At the lease commencement date, Jakob Ltd did not think that it will be a viable option to renew the lease but in the first quarter of 2021, Jakob Ltd made some major changes in the retail store which increases its economic life by five years.
- Jakob Ltd determined that it would only recover the cost of the improvements if it exercises the renewal option, creating a significant economic incentive to extend.

Jakob Ltd asked your opinion whether remeasurement of lease is required in the first quarter of 2021.

(b) GEORGY Ltd gave its key management an option to take either 810 equity shares or cash amount equivalent to 650 equity shares on 1st April, 2020. The minimum service requirement is 2 years. If shares are opted then they are to be kept for at least 4 years. 6

Fair Value of the shares	₹
Fair value for Share Alternative (with restrictions)	460
Grant date fair value on 1st April, 2020	480
Fair value on 31st March, 2021	530
Fair value on 31st March, 2022	560

Pass the necessary Journal Entries for the years ended 31st March, 2021 & 2022 if the key management exercises the cash option at the end of 2022.

(c) Pharma Ltd manufactures surgical items. Pharma Ltd has shown a net profit of ₹ 50,00,000 for the second quarter of 2020-21. 4

Following adjustments are made while computing the net profit:

(i) Bad debts of ₹ 2,60,000 incurred during the quarter. 40% of the bad debts have been deferred to the next quarter,

Marks

(ii) Additional depreciation of ₹ 5,20,000 resulting from the change in the method of depreciation,

(iii) Exceptional loss of ₹ 8,16,000 incurred during the second quarter. 60% of exceptional loss has been deferred to next quarter.

(iv) ₹ 4,70,000 expenditure on account of sales expenses pertaining to the second quarter is deferred on the argument that the third quarter will have more sales; therefore, third quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Analyse and ascertain the correct net profit to be shown in the interim Financial Results of the second quarter to be presented to the Board of Directors as per Ind AS 34.

OR

(c) Mr Q has determined the valuation of Rhythm Ltd by two approaches i.e., Market Approach and Income approach and selected the highest as the final value but the management of Rhythm Ltd is not satisfied and requests you to determine the fair value of shares of Rhythm Ltd by assigning the weights to Market Approach and Income approach in the ratio of 7:3.

Determine the Equity value on the basis of details given below:

Particulars	₹
Valuation as per Market Approach	35,82,380
Valuation as per Income Approach	21,99,930
Debt obligation as on Measurement date	9,96,812
Surplus cash & cash equivalent	2,10,388
Fair value of surplus Assets and Liabilities	3,12,449
Number of Shares of Rhythm Ltd.	1,06,680 shares

Marks

5. (a) Ram Limited is a company incorporated in India. It provides ₹ 25,00,000 interest free loan to its wholly owned Indian subsidiary Balram Limited. There are no transaction costs. 12

How should the loan be accounted for, in the light of provisions of related Ind AS, in the books of Ram Limited, Balram Limited and Consolidated Financial Statements of the group, considering the following scenarios:

(i) The loan is repayable on demand.

(ii) The loan is repayable after 3 years. The current market rate of interest for similar loan is 12% P.A. for both holding and subsidiary.

(iii) The loan is repayable when Balram Limited has funds to repay the loan.

Briefly, analyse the above scenarios. Also pass Journal Entires in the books of Ram Limited and Balram Limited in case of Scenario (a) and (b).

Present Value of ₹ 1 payable in 3 years' time at an annual discount rate of 12% is 0.7118.

(b) From the following information you are asked to calculate (a) Basic and Diluted EPS of Duck Ltd and (b) Diluted EPS of Swan Ltd : 8

	Duck Ltd	Swan Ltd
	Amount (₹)	**Amount (₹)**
Income/(Loss) from Continuing Operations	2,52,000	(1,80,000)
Income/(Loss) from Discontinued Operations	(4,20,000)	3,25,920
Net Income/(Loss)	(1,68,000)	1,45,920
Weighted Average Number of Shares outstanding	80,000	96,000
Incremental common shares outstanding relating to stock options	16,000	25,600

Marks

6. (a) PQR Limited acquired a building for its administrative purposes and presented the same as Property, Plant and Equipment (PPE) in the Financial Year 2019-20. During the financial year 2020-21, it relocated the office to a new building and leased the said building to a third party. Following the change in the usage of the building, PQR Limited reclassified it from PPE to Investment Property in the Financial Year 2020-21. Should PQR Limited account for the change as a change in accounting policy ? Examine. **5**

(b) M Limited has made a Security Deposit whose details are given below: **5**

Particulars	**Details**
Date of Security Deposit (Starting Date)	April 01, 2016
Date of Security Deposit (Finishing Date)	March 31, 2021
Description	Lease
Total Lease Period	5 Years
Security Deposit	₹ 20,00,000
Present Value Factor at the 5th year	0.6499

Determine, how above Financial Asset should be measured and briefly explain measurement determined as such. Make necessary Journal Entries for accounting of the Security Deposit in the First Year and Last Year. Assume market rate for a deposit for similar period to be 9% P.A.

Marks

(c) In a manufacturing process of Saturn Limited, one by-product BP emerges besides two main products MP1 and MP2 and scrap. Details of cost of production process for FY 2020-21 are here under: 5

Item	Amount (₹)	Output (Units)	Closing Stock 31.03.2021
Raw Material	6,00,000	MP1- 20,000	1,000
Wages	3,60,000	MP2- 16,000	400
Fixed Overhead	2,60,000	BP- 8,000	
Variable Overhead	2,00,000		

Average Market Price of MP1 and MP2 is ₹ 45.00 per unit and ₹ 37.50 per unit respectively. Average Market Price of by-product BP is ₹ 10 per unit. All the units of by-product BP sold after incurring separate processing charges of ₹ 32,000 and packing charges of ₹ 8,000. ₹ 20,000 was realised from sale of scrap.

Calculate the value of closing stock of MP1 and MP2 as on 31.03.2021. Allocate Joint Cost based on the relative sales value of each product.

(d) From the following data, determine in each case: 5

(i) Non-controlling Interest at the date of acquisition (using Proportionate Share Method) and at the date of consolidation.

(ii) Goodwill or Gain on Bargain Purchase.

(iii) Amount of Holding Company's share of profit in the Consolidated Balance Sheet assuming Holding Company's own retained earnings to be ₹ 4,00,000 in each basis.

Case	Subsidiary Company	% of Shares Owned	Cost	Date of Acquisition 01.04.2020		Consolidation Data 31.03.2021	
				Share Capital (A)	Retained Earnings (B)	Share Capital (C)	Retained Earnings (D)
Case 1	P	90%	2,80,000	2,00,000	1,00,000	2,00,000	1,40,000
Case 2	Q	85%	2,08,000	2,00,000	60,000	2,00,000	40,000
Case 3	R	80%	1,12,000	1,00,000	40,000	1,00,000	40,000
Case 4	S	100%	2,00,000	1,00,000	80,000	1,00,000	1,12,000

The Company has adopted an accounting policy to measure Non-controlling interest at NCI's proportionate share of the acquiree's Identifiable Net Assets. It may be assumed that the Fair Value of acquiree's Net Identifiable Assets is equal to their book values.