Final New Syllabus
Paper - 1
Financial Reporting

JAN 2021

Roll No. ..............................

Total No. of Questions – **6**  Total No. of Printed Pages – **16**

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

# GPB

Answer 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 answer 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 answers.

**Marks**

1. (a) On 1st April 2017, 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 200,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share. **15**

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.

Marks

Below are the statements of financial position of A Limited and S Limited as at 31st March, 2019 :

| | 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** |

Marks

**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, 2019. (Notes to Accounts on Consolidated Balance Sheet is not required).

(b) Entity A had obtained a long term bank loan during January 2019, which is subject to certain financial covenants. One of such covenants states that during the tenure of the loan, debt equity ratio of 65:35 is to be maintained at all time. In case of breach of this covenant, the loan will be repayable immediately. The loan agreement also states that these covenants will be assessed at the end of each quarter and reported to the bank within a month from the end of each quarter. If the covenants are breached at this time, the loan will be repayable immediately. The entity closes its annual accounts as on March 31st every year. **5**

You are required to show how the loan will be classified as on March 31st, 2020, if :

(i) At the financial year end, Entity A determines that it is not in breach of any of the covenants;

Marks

(ii) At the quarter ending December 31, 2019, Entity A's debt equity ratio became 75:25 and thus breaches the covenant, however it obtains a waiver from the bank. The terms of the waiver specify that if Entity A rectifies the breach within a period of 12 months from the reporting date then the bank cannot demand repayment immediately on account of the breach during this period. Entity A expects to rectify the breach by raising additional equity capital by means of a rights issue to the existing shareholders and expects that the issue will be fully subscribed;

(iii) Considering the same facts as in (ii) above, except obtaining the waiver clause, what would be your answer ?

2. (a) H Ltd. constructed a warehouse at a cost of ₹ 10 Lakhs in 2015. It first became available for use by H Ltd. on January 01, 2016. On January 29, 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended January 27, 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at December 31, 2019. This estimate was ₹ 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life. 8

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

**You are required to :**

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;

(ii) Discuss disclosure requirement in above case as per relevant Ind AS; and

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st December, 2019 ?

(b) A Ltd. is a company which is in the business of manufacturing engineering machines and providing after sales services. The company entered into a contract with Mr. Anik to supply and install a machine, namely **'model pi'** on 1st April, 2018 and to service this machine on 30th September, 2018 and 1st April, 2019. The cost of manufacturing the machine to A Ltd. was ₹ 1,60,000. **12**

It is possible for a customer to purchase both the machine **'model pi'** and the maintenance services separately. Mr. Anik is contractually obliged to pay A Ltd ₹ 4,00,000 on 1st April, 2019.

The prevailing rate for one-year credit granted to trade customers in the industry is 5 per cent per six-month period.

As per the experience, the servicing of the machine **'model pi'** sold to Mr. Anik is expected to cost A Ltd. ₹ 30,000 to perform the first service and ₹ 50,000 to perform the second service. Assume actual costs equal expected costs. When A Ltd. provides machine services to customers in a separate transaction it earns a margin of 50 per cent on cost. On 1st April, 2018, the cash selling price of the machine **'model pi'** sold to Mr. Anik is ₹ 2,51,927.

The promised supply of machine 'model pi' and maintenance service obligations are satisfactorily carried out in time by the company.

**You are required to :**

(i) Segregate the components of the transaction that A Ltd. shall apply to the revenue recognition criteria separately as per Ind AS 115;

(ii) Calculate the amount of revenue which A Ltd. must allocate to each component of the transaction;

(iii) Prepare journal entries to record the information set out above in the books of accounts of A Ltd. for the years ended March 31st, 2019 and March 31st, 2020; and

(iv) Draft an extract showing how revenue could be presented and disclosed in the financial statements of A Ltd. for the year ended March 31st, 2019 and March 31st, 2020.

Marks

3. (a) Coups Limited availed a Machine on lease from Ferrari Limited. The terms and conditions of the Lease are as under : **6**

Lease Period is 3 years, Machine costing ₹ 8,00,000.

- Machine has expected useful life of 5 years.
- Machine reverts back to Ferrari Limited on termination of Lease.
- The Unguaranteed Residual value is estimated at ₹ 50,000 at the end of 3rd year.
- 3 equal annual installments are made at the end of each year.
- Implicit Interest Rate (IRR) = 10%.
- Present value of ₹ 1 due at the end of 3rd year at 10% rate of interest is 0.7513.
- Present value of Annuity of ₹ 1 due at the end of 3rd year at 10% IRR is 2.4868.

You are required to ascertain whether it is a Finance Lease or Operating Lease and also calculate Unearned Finance Income with the relevant context to relevant Ind AS.

(b) Super Sounds Limited had the following transactions during the Financial Year 2019-2020. **10**

(i) On 1st April, 2019, Super Sounds Limited purchased the Net Assets of Music Limited for ₹ 13,20,000. The Fair value of Music Limited's identifiable Net Assets was ₹ 10,00,000. Super Sounds Limited is of the view that due to popularity of Music Limited's product, the life of Goodwill is 10 years.

(ii) On 4th May, 2019, Super Sounds Limited purchased a Franchisee to organize Musical Shows from Armaan TV for ₹ 80,00,000 and at an Annual Fee of 2% of Musical Shows Revenue. The Franchisee expires after 5 years. Musical Shows Revenue were ₹ 10,00,000 for Financial Year 2019-2020. The Projected future revenues for F.Y. 2020-2021 is ₹ 25,00,000 and ₹ 30,00,000 p.a. for remaining 3 years thereafter.

(iii) On 4th July, 2019 Super Sounds Limited was granted a Copyright that had been applied for by Music Limited. During F.Y. 2019-2020 Super Sound Limited incurred ₹ 2,50,000 on Legal Cost to register the Patent and ₹ 7,00,000 additional cost to successfully prosecute a Copyright Infringement suit against a competitor. The life of the Copyright is for 10 years.

Super Sound Limited follows an Accounting Policy to amortize all Intangible on SLM (Straight Line Method) basis or any appropriate basis over a maximum period permitted by relevant Ind AS, taking a full year amortization in the year of acquisition.

**You are required to Prepare :**

(i) A Schedule showing the intangible section in Super Sound Limited Balance Sheet as on 31st March, 2020, and

(ii) A Schedule showing the related expenses that would appear in the Statement of Profit and Loss of Super Sound Limited for the year ended 2019-2020.

Marks

(c) Heavy Goods Ltd has 6 operating segments namely L-Q (below). The total revenues (internal and external), profits or losses and assets are set out below. 4

(In ₹)

| Segment | Inter Segment Sales | External Sales | Profit/loss | Total assets |
|---|---|---|---|---|
| L | 4,200 | 12,300 | 3,000 | 37,500 |
| M | 3,500 | 7,750 | 1,500 | 23,250 |
| N | 1,000 | 3,500 | (1,500) | 15,750 |
| O | 0 | 5,250 | (750) | 10,500 |
| P | 500 | 5,500 | 900 | 10,500 |
| Q | 1,200 | 1,050 | 600 | 5,250 |
| | **10,400** | **35,350** | **3,750** | **1,02,750** |

Heavy Goods Ltd. needs to determine how many reportable segments it has. You are required to advice Heavy Goods Ltd. as per the criteria defined in Ind AS 108.

4. (a) Lovely Limited has a policy of providing subsidized loans to its employees for the purpose of buying 2 Wheelers and 4 Wheelers vehicle. Simran who is a Sales Executive, took a loan for a Four-wheeler vehicle from the Company. The following were the terms of the loan: 14

- Principal Amount : ₹ 9,00,000
- Interest: 5% p.a. for the First ₹ 3,00,000 and 8% p.a. for the remaining amount.

- Loan disbursed date : 1st April, 2017
- Loan Tenure : 3 Years
- Pre-Payment : Full or Partial payment at the option of the employee.
- Simran shall remain in service till the term of the loan ends.
- The Principal amount should be recovered in 3 equal installments at the end of each year and will be first applied to 8% interest bearing principal.
- The accrued interest shall be paid on annual basis.

The market rate of a comparable loan available to Simran is 12% per annum.

Following table shows the expected contractual cash flows from the loan given to Simran.

**(In ₹)**

| | | Inflows | | | |
|---|---|---|---|---|---|
| **Date** | **Outflows** | **Principal** | **Interest Income 8%** | **Interest Income 5%** | **Principal Outstanding** |
| 01.04.2017 | (9,00,000) | | | | 9,00,000 |
| 31.03.2018 | | 3,00,000 | 48,000 | 15,000 | 6,00,000 |
| 31.03.2019 | | 3,00,000 | 24,000 | 15,000 | 3,00,000 |
| 31.03.2020 | | 3,00,000 | – | 15,000 | – |

Simran pre-pays ₹ 1, 00,000 on 31st March, 2019.

Following table shows the actual cash flows from the loan, considering the prepayment on 31st March, 2019.

(In ₹)

| Date | Outflows | Inflows | | | Principal Outstanding |
|---|---|---|---|---|---|
| | | Principal | Interest Income 8% | Interest Income 5% | |
| 01.04.2017 | (9,00,000) | | | | 9,00,000 |
| 31.03.2018 | | 3,00,000 | 48,000 | 15,000 | 6,00,000 |
| 31.03.2019 | | 4,00,000 | 24,000 | 15,000 | 2,00,000 |
| 31.03.2020 | | 2,00,000 | – | 10,000 | – |

You are required to Pass Journal entries in the books of Lovely Limited considering the requirements of Ind AS 109.

(b) Sun Shine Limited is a company which seems to be covered under the ambit of CSR rules. As part of its CSR contribution an amount of ₹ 40,000 p.m. was spent by way of adoption of 2 families of drought hit area. 6

The average net profits of immediately preceding financial year was ₹ 1,80,00,000. Please note that the company commenced its commercial activities only on the first day of the immediately preceding financial year. The Accountant of the company says that CSR provisions are not applicable to his company since it is one year old and in case if it is applicable he wants to carry forward the excess amount spent on account of CSR activities to future years.

You are required to comment with the figures, whether the contention of the Accountant is correct in context of CSR provisions ?

**OR**

With respect to **Integrated Reporting**, state whether following statements are true or false with reason for your answer :

(i) An integrated report is necessarily to be a stand-alone report;

(ii) The framework of Integrated reporting is written primarily for private companies;

(iii) A report prepared as required by local law containing a management commentary or other report that provides context for its financial statements can serve the purpose of Integrated reporting; and

(iv) An integrated report should include only positive material matters.

5. (a) On April 01, 2017, Kara Ltd. granted an award of 150 share options to each of its 1,000 employees, on condition of continuous employment with Kara Ltd. for three years and the benefits will then be settled in cash of an equivalent amount of share price. Fair value of each option on the grant date was ₹ 129. **12**

Towards the end of March 31, 2018, Kara Ltd.'s share price dropped; so on April 01, 2018 management chose to reduce the exercise price of the options.

At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 50 and the fair value of each re-priced option was ₹ 80. Thus, the incremental fair value of each modified option was ₹ 30.

Marks

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (i.e., 900 awards would vest). During F.Y. 2018-2019, it became apparent that fewer employees than expected were leaving, so management revised its estimate of the number of leavers to only 5% (i.e. 950 awards would vest). At the end of March 31, 2020, awards to 930 employees actually vested.

Determine the expense for each year and pass appropriate journal entries as per the relevant Ind AS.

(b) C Ltd. acquired the following assets and liabilities of D Ltd. in a business combination : 4

₹'000

| | Fair Value | Carrying Amount | Temporary Difference |
|---|---|---|---|
| Plant & equipment | 500 | 510 | (10) |
| Inventory | 130 | 150 | (20) |
| Trade receivables | 200 | 210 | (10) |
| Loans and advances | 80 | 85 | (5) |
| | **910** | **955** | **(45)** |
| 10% debentures | 200 | 200 | |
| | **710** | **755** | |
| Consideration Paid | 760 | 760 | |
| Goodwill | **50** | **5** | **45** |

Goodwill is deductible as permissible expenses under the existing tax law. Calculate Deferred Tax Asset/liability as per relevant Ind AS and also pass related journal entry in books of C Ltd. and assume tax rate at 25%.

Marks

(c) On November 1, 2019, Crattle Agro Limited purchased 100 goats of special breed from a market for ₹ 10,00,000 with a transaction cost of 2%. Goats fair value decreased from ₹ 10,00,000 to ₹ 9,00,000 as on March 31, 2020. Determine the fair value on the date of purchase and as on financial year ended March 31, 2020. Also pass relevant journal entries on November 1, 2019 and March 31, 2020. **4**

6. (a) On April 01, 2019, an entity purchased an office block (building) for ₹ 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹ 2,50,000 and ₹ 50,000 respectively while acquiring the building. **5**

During 2019, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- ₹ 1,00,000 Building plan approval;
- ₹ 10,00,000 construction costs (including ₹ 60,000 refundable purchase taxes); and
- ₹ 40,000 due to abnormal wastage of material and labour.

When the re-development of the building was completed on October 01, 2019, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How the entity will account for all the above mentioned expenses in the books of account ?

Also, discuss how the above building will be shown in Consolidated financial statement of the entity as a group and in its standalone financial statements as per relevant Ind AS.

Marks

(b) Jewels Ltd. entered into a transaction to purchase 1,000 gms of platinum on 15th January, 2020. The transaction provides for a price payable which is equal to market value of 1,000 gms of platinum on 15th April, 2020 and shall be settled by issue of such number of equity shares as is required to settle the afore mentioned transaction, at a price of ₹ 100 per share on 15th April, 2020. Whether this is to be classified as liability or equity as on 31st March, 2020 as per Ind AS 109 ? 5

You are required to explain with reasons.

(c) Z Ltd. (India) has an overseas branch in USA. It has a bank account having balance of USD 7,000 as on 1st April, 2019. During the financial year 2019-20, Z ltd. acquired computers for its USA office for USD 280 which was paid on same date. There is no other transaction reported in USA or India. 5

Exchange rates between INR and USD during the financial year 2019-20 were :

| Date | USD 1 to INR | |
|---|---|---|
| 01st April, 2019 | 70.00 | |
| 30th November, 2019 | 71.00 | (Date of purchase of computer) |
| 31st March, 2020 | 71.50 | |
| Average for 2019-20 | 70.50 | |

Please prepare the extract of Cash Flow Statement for the year ended 31st March, 2020 as per the relevant Ind AS and also show the foreign exchange profitability from these transactions for the financial year 2019-20 ?

Marks

(d) On 01st April, 2019, Big Limited acquired a 35% interest in Dig Limited and achieved a significant influence. The cost of the investment was ₹ 3,00,000. Dig Limited has net assets of ₹ 5,50,000 as on 01st April, 2019. The fair value of those net assets is ₹ 6,50,000, since the fair value of property, plant and equipment is ₹ 1,00,000 higher than its book value. This property, plant and equipment have a remaining useful life of 8 years. For the financial year 2019-20, Dig Limited earned a profit (after tax) of ₹ 1,00,000 and paid a dividend of ₹ 11,000 out of these profits. Dig Ltd. has also recognized the loss of ₹ 15,000, that arose from re-measurement of defined benefit directly in 'Other Comprehensive Income' 5

Calculate Big Ltd.'s Interest in Dig Ltd. as at the year ended 31st March, 2020 under the relevant method.

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