November-2019 NOV 2019

Roll No. ....

Total No. of Questions – **6**

Final New Syllabus
Paper - 1
Financial Reporting

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

PAR

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 part of the respective answer.

Marks

1. (a) The Balance sheet of David Ltd. and Parker Ltd. as of 31st March, 2019 is given below : **16**

(₹ in lakhs)

Assets	David Ltd.	Parker Ltd.
Non-Current Assets :		
Property, plant and equipment	400	600
Investment	300	200

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Current assets :		
Inventories	300	100
Financial assets		
Traders receivables	400	200
Cash and cash equivalents	150	200
Others	300	300
Total	**1850**	**1600**
Equity and Liabilities		
Equity		
Share capital-Equity shares of ₹ 100 each for Parker Ltd. & ₹ 10 each for David Limited	500	400
Other Equity	700	275
Non-Current liabilities :		
Long term borrowings	200	300
Long term provisions	100	80
Deferred Tax	20	55
Current Liabilities :		
Short term borrowings	130	170
Trade payables	200	320
Total	**1850**	**1600**

Other information :

(i) David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019 by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was ₹ 50 per share.

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(ii) The fair value exercise resulted in the following :

(1) Fair value of property, plant and equipment (PPE) on 1st April, 2019 was ₹ 450 lakhs.

(2) David Ltd. agreed to pay an additional payment as consideration that is higher of ₹ 30 lakh and 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker Ltd. This additional amount will be due after 3 years. Parker Ltd. has earned ₹ 20 lakh profit in the preceding year and expects to earn another ₹ 10 Lakh.

(3) In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of ₹ 25 lakhs provided he stays with the Company for two years after the acquisition.

(4) Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Parker Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows :

Original award – ₹ 6 lakhs

Replacement award – ₹ 9 lakhs

(5) Parker Ltd. had a lawsuit pending with a customer who had made a claim of ₹ 35 lakhs. Management reliably estimated the fair value of the liability to be ₹ 10 lakhs.

(6) The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%.

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(b) Arun Ltd. is an entity engaged in plantation and farming on a large scale and diversified across India. On 1st April, 2018, the company has received a government grant for ₹ 20 lakhs subject to a condition that it will continue to engage in plantation of eucalyptus tree for a coming period of five years. **4**

The management has a reasonable assurance that the entity will comply with condition of engaging in the plantation of eucalyptus tree for specified period of five years and accordingly it recognizes proportionate grant for ₹ 4 lakhs in Statement of Profit and Loss as income following the principles laid down under Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance.

Required :

Evaluate whether the above accounting treatment made by the management is in compliance with the applicable Ind AS. If not, advise the correct treatment.

2. (a) Vedika Ltd. issued 80,000 8% convertible debentures @ ₹ 100 each on 1st April, 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 20%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debenture without conversion right was 12%. The conversion to equity qualifies as fixed for fixed. **10**

You are required to separate the debt and equity components at the time of issue and show the accounting entries in Vedika Ltd.'s books at initial recognition only. The following present values of Rupee 1 at 8% and 12% are provided for a period of 5 years.

Interest rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.923	0.853	0.789	0.731	0.677
12%	0.887	0.788	0.701	0.625	0.557

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(b) On June 1, 2018, entity D Limited plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 2018, the Board of Directors approved and committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity G Limited. **10**

However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 2018 and the sale is expected to be completed by March 31, 2019. Entity D Limited follows December year end. The assets and liabilities attributable to this manufacturing unit are as under :

(₹ In lakhs)

Particulars	Carrying value as on December 31, 2017	Carrying value as on July 31, 2018
Goodwill	1,000	1,000
Plant and Machinery	2,000	1,800
Building	4,000	3,700
Debtors	1,700	2,100
Inventory	1,400	800
Creditors	(600)	(500)
Loans	(4,000)	(3,700)
Net	**5,500**	**5,200**

The fair value of the manufacturing unit as on December 31, 2017 is ₹ 4,000 and as on July 31, 2018 is ₹ 3,700. The cost to sell is 200 on both these dates. The disposal group is not sold at the period end i.e., December 31, 2018. The fair value as on December 31, 2018 is lower than the carrying value of the disposal group as on that date.

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Required :

(i) Assess whether the manufacturing unit can be classified as held for sale and reasons thereof. If yes, then at which date ?

(ii) The measurement of the manufacturing unit as on the date of classification as held for sale.

(iii) The measurement of the manufacturing unit as at the end of the year.

3. (a) ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 2017 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows. **8**

31st March, 2018 ₹ 110

31st March, 2019 ₹ 120

31st March, 2020 ₹ 115

31st March, 2021 ₹ 130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e at 31st March, 2019), ABC Limited modifies the terms of the award to require only three years of total service ? Please present with the revised journal entries. Answer on the basis of relevant Ind AS.

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(b) An entity constructs a new office building commencing on 1st September, 2018, which continues till 31st December, 2018 (and is expected to go beyond a year). Directly attributable expenditure at the beginning of the month on this asset are ₹ 2 Lakhs in September 2018 and ₹ 4 Lakhs in each of the months of October to December 2018. **8**

The entity has not taken any specific borrowings to finance the construction of the building but has incurred finance costs on its general borrowings during the construction period. During the year, the entity had issued 9% debentures with a face value of ₹ 30 Lakhs and had an overdraft of ₹ 4 Lakhs, which increased to ₹ 8 Lakhs in December 2018. Interest was paid on the overdraft at 12% until 1st October, 2018 and then the rate was increased to 15%.

Calculate the Capitalization rate for computation of borrowing cost in accordance with Ind AS 'Borrowing Cost'.

(c) What is the functional currency of an entity ? **4**

What are the primary and secondary factors that influence determination of functional currency ?

4. (a) Nivaan Limited commenced work on two long-term contracts during the financial year 31st March, 2019. **12**

The first contract with A & Co. commences on 1st June, 2018 and had a total sales value of ₹ 40 lakhs. It was envisaged that the contract would run two years and that the total expected costs would be ₹ 32 lakhs. On 31st March, 2019. Nivaan Limited revised its estimate of the total expected cost to ₹ 34 lakhs on the basis of the additional rectification cost of ₹ 2 Lakhs incurred on the contract during the current financial year. An independent surveyor has estimated at 31st March, 2019 that the contract is 30% complete. Nivaan Limited has incurred costs up to 31st March, 2019 of ₹ 16 lakhs and has received payments on account of ₹ 13 lakhs.

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The second contract with B & Co. commenced on 1st Sep., 2018 and was for 18 Months. The total sales value of contract was ₹ 30 lakhs and the total expected costs ₹ 24 lakhs. Payments on account already received were ₹ 9.50 lakhs and total costs incurred to date were ₹ 8 lakhs. Nivaan Limited had insisted on a large deposit from B & Co. because the companies had not traded together prior to the contract. The independent surveyor estimated that 31st March, 2019 the contract was 20% complete.

The two contracts meet the requirement of Ind AS-115 'Revenue from Contracts with Customers' to recognize revenue over time as the performance obligations are satisfied over time.

The company also has several other contracts of between twelve and eighteen months in duration. Some of these contracts fall into two accounting periods and were not completed as at 31st March, 2019. In absence of any financial data relating to the other contracts, you are advised to ignore these other contracts while preparing the financial statements of the company for the year ended 31st March, 2019.

Prepare financial statement extracts for Nivaan Limited in respect of the two construction contracts for the year ending 31st March, 2019.

(b) MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purchase consideration for the same was by way of a share exchange valued at ₹ 38 crores. The fair value of Akash Ltd.'s assets and liabilities were ₹ 68 crores and ₹ 50 crores respectively, but the same does not include the following : **8**

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(i) A patent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to be ₹ 8 crore. However, the outcome of clinical trials for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated ₹ 12 crores.

(ii) Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was ₹ 13 crores. Based on early assessment of its sales success, a reputed valuer has estimated its market value at ₹ 19 crores. However, there is no active market for the patent.

(iii) Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is a valueable asset which assures guaranteed sales and the cost to acquire the license is estimated at ₹ 7 crores for remaining period of life. It is expected to generate at least equivalent revenue.

Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in the books of MNC Ltd.

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5\. (a) Following are the Financial statements of Abraham Ltd. : 12

Balance Sheet

Particulars	Note	As at March 31, 2019 (₹ in lakhs)
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital (shares of ₹ 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long-term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
TOTAL		**10,300**
ASSETS		
Non-current assets		
Fixed Assets		5,000
Deferred tax Assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
TOTAL		**10,300**

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Statement of Profit & Loss :

Particular	Note	Year ended March 31, 2019 (₹ in lakhs)
Revenue from operations		**6,000**
Expenses :		
Employee Benefit Expense		1,200
Operating Costs		3,199
Depreciation		450
Total Expenses		**4,849**
Profit before tax		1,151
Tax Expense		201
Profit after tax		**950**

Notes to Account :

Note 1 : Reserve and surplus **(₹ in lakhs)**

Capital Reserve		500
Surplus from P & L		
Opening Balance	550	
Additions	950	1,500
Reserve for foreseeable loss		400
Total		**2,400**

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Note 2 : Long Term Borrowings

Term Loan from Bank	5,700
Total	**5,700**

Note 3 : Deferred Tax

Deferred Tax Asset	700
Deferred Tax Liability	400
Total	**300**

Note 4 : Other Current Liabilities

Unclaimed dividends	10
Billing in Advance	150
Other Current Liabilities	40
Total	**200**

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 :

(i) Share capital comprises of 100 Lakh shares of ₹ 10 each.

(ii) Term Loan from bank for ₹ 5,700 Lakhs also includes interest accrued and due of ₹ 700 Lakhs as on the reporting date.

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

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(iv) Inventory should be valued at cost ₹ 1,500 Lakhs, NRV as on date is ₹ 1,200 Lakhs.

(v) A dividend of 10 % was declared by the Board of directors of the company.

(vi) Accrued Interest income of ₹ 300 Lakhs in not booked in the books of the company.

(vii) Deferred taxes related to taxes on income levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.

(b) M Ltd. is setting up a new factory outside the Delhi city limits. In order to facilitate the construction of the factory and its operations, M Ltd. is required to incur expenditure on the construction/ development of electric-substation. Though M Ltd. incurs (or contributes to) the expenditure on the construction/development, it will not have ownership rights on these items and they are also available for use to other entities and public at large. Whether M Ltd. can capitalise expenditure incurred on these items as property, plant and equipment (PPE) ? If yes, how should these items be depreciated and presented in the financial statements of M Ltd. as per Ind AS ? **8**

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6. (a) Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment needed in light of accounting standard Ind AS 10. **8**

(i) Moon Ltd. won an arbitration award on 25th April, 2019 for ₹ 1 Crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements of year ending 31.03.2019 on 1st May'19. The management did not consider the effect of the above transaction in FY-2018-19, as it was favourable to the Company and the award came after the end of the financial year.

(ii) Zoom Ltd. have a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at ₹ 5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but not announced the price. Zoom Ltd. has valued inventory at cost of ₹ 5,000 each at the year ending 31st March, 2019.

Due to arrival of new advance version of Mobile Phone on 8th April, 2019, the selling prices of the mobile stocks remaining with Company was dropped at ₹ 4,000 each.

The financial statements of the company valued mobile phones @ ₹ 5,000 each and not at the value @ ₹ 4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

(iii) There was an old due from a debtor amounting to ₹ 15 Lakhs against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared in solvent on 15th April, 2019.

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(iv) Assume that subsequent to the year end and before the financial statements are approved, Company's management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company's business; however, there is no formal plan yet. Should management recognize a provision in the books if the company decides subsequent to end of the accounting year to restructure its operations ?

(b) An asset is sold in two different active markets at different prices. Manor Ltd. enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. **8**

In Mumbai market, the price that would be received is ₹ 290, transaction costs in that market are ₹ 40 and the costs to transport the asset to that market are ₹ 30. Thus the net amount that would be received is ₹ 220.

In Kolkata market the price that would be received is ₹ 280, transaction costs in that market are ₹ 20 and the costs to transport the asset to that market are ₹ 30. Thus the net amount that would be received in Kolkata market is ₹ 230.

(i) What should be the fair value of the asset if Mumbai Market is the principal market ? What should be fair value if none of the markets is principle market ?

(ii) If the net realisation after expenses is more in export market, say ₹ 280, but Government allows only 15% of the production to be exported out of India. Discuss what would be fair value in such case.

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(c) Make necessary journal entries for accounting of the security deposit made by Admire Ltd., whose details are described below. Assume market interest rate for a deposit for similar period to be 12% per annum. **4**

Particulars	Details
Date of Security Deposit (Starting Date)	1-Apr-2014
Date of Security Deposit (Finishing Date)	31-Mar-2019
Description	Lease
Total Lease Period	5 years
Discount rate	12.00%
Security deposit (A)	20,00,000
Present value factor at the 5th year	0.567427

OR

Parent A holds 100% in its subsidiary B. Parent A had acquired B 10 years back and had decided to account for the acquisition under the purchase method using fair values of the subsidiary B in its consolidated financial statements. **4**

During the current year, A decides to merge B with itself.

For the purpose of this proposed merger, what values of B should be used for accounting under the existing Ind AS ?

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