C 0 NOV 2020

Roll No. .... **Final New Syllabus**

Paper - 1

Total No. of Questions – **6** **Financial Reporting** Total No. of Printed Pages – **20**

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

PGH

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) On April 1st, 2020, Star Limited has advanced a housing loan of ₹ 15 lakhs to one of its employee at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum. **12**

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakhs. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakhs).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS's. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 2020-21 along with workings and applicable Ind AS's.

Marks

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance sheet of Star Limited on March 31st, 2021.

(b) The following information is available relating to Space India Limited for the Financial Year 2019-20. **8**

Net profit attributable to equity shareholders	₹ 90,000
No. of equity shares outstanding	16,000
Average fair value of one equity share during the year	₹ 90

Potential Ordinary Shares :

Options	900 options with exercise price of ₹ 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of ₹ 9 per share. Each preference share is convertible into 2 equity shares.
Applicable corporate dividend tax	8%
10% Convertible Debentures of ₹ 100 each	₹ 10,00,000 and each debenture is convertible into 4 equity shares
Tax rate	25%

You are required to compute Basic and Diluted EPS of the company for the Financial Year 2019-20.

Marks

2. (a) ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited and a customer for the financial year 2019-20, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year. **14**

The price applicable for the entire sale will be based on sales volume bracket during the year.

Price per unit (INR)	Sales volume
90	0 – 10,000 units
80	10,001 – 35,000 units
70	35,001 units & above

All transactions are made in cash.

(i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 2019-20.

Marks

(ii) In case ABC Limited decides to measure revenue, based on most likely method instead of expected value method, how will be the revenue recognised in the books of accounts of ABC Limited based on above available information? For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under most likely value method for the financial year 2019-20.

(iii) You are required to pass Journal entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 2019-20.

(b) Lal Ltd. provides you the following information for financial year 2019 – 20 : **6**

Estimated Income for the year ended March 31st, 2020 :

Gross Annual Income (inclusive of Estimated Capital Gains of ₹ 4,00,000)	₹ 16,50,000
Quarter I	₹ 3,50,000
Quarter II	₹ 4,00,000
Quarter III (including Estimated Capital Gains of ₹ 4,00,000)	₹ 6,00,000
Quarter IV	₹ 3,00,000

Marks

<table>
<tr><td rowspan="3">Tax Rates</td><td rowspan="2">On Other Income</td><td>First ₹ 2,50,000</td><td>20%</td></tr>
<tr><td>Balance Income</td><td>30%</td></tr>
<tr><td>On Capital Gains</td><td></td><td>12%</td></tr>
</table>

Calculate the tax expense for each quarter, assuming that there is no difference between the estimated taxable income and the estimated accounting income.

3. (a) Venus Ltd (Seller-lessee) sells a building to Mars Ltd (Buyer-lessor) for cash of ₹ 28,00,000. Immediately before the transaction, the building is carried at a cost of ₹ 13,00,000. At the same time, Seller-lessee enters into a contract with Buyer-lessor for the right to use the building for 20 years, with an annual payments of ₹ 2,00,000 payable at the end of each year. **8**

The terms and conditions of the transaction are such that the transfer of the building by Seller-lessee satisfies the requirements for determining when a performance obligation is satisfied in accordance with Ind AS 115 "Revenue from Contracts with Customers".

The fair value of the building at the date of sale is ₹ 25,00,000. Initial direct costs, if any, are to be ignored. The interest rate implicit in the lease is 12% p.a., which is readily determinable by Seller-lessee. Present Value (PV) of annual payments (20 payments of ₹ 2,00,000 each discounted @ 12%) is ₹ 14,94,000.

Buyer-lessor classifies the lease of the building as an operating lease.

How should the said transaction be accounted by Venus Ltd. ?

Marks

(b) Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on March 31st, 2020 are as follows : **8**

Cash Generating units	Carrying amount (₹ in crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

		(₹ in crore)
Corporate Assets	**Carrying amount**	**Remarks**
Land	1,800	The carrying amount of Land can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash-generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units.

Marks

Recoverable amount as on March 31st, 2020 is as follows :

Cash Generating units	Recoverable amount (₹ in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals.

(c) Sophia Ltd. has fabricated special equipment (Inverter panel) during the financial year 2018-19 as per drawing and design supplied by the customer. However, due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished products and discontinue the production of balance items. 4

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on March 31st, 2020 are as follows :

Inverter panel (WIP)	₹ 255 lakhs
Inverter panel (finished goods)	₹ 165 lakhs
Sundry Debtor (Inverter panel)	₹ 195 lakhs

Marks

The petition for winding up against the customer has been filed during the financial year 2019 – 20 by Sophia Ltd.

You are required to Comment with explanation on provision to be made for ₹ 615 lakh included in Sundry Debtors, Finished goods and Work-in-Progress in the financial statement for the Financial year 2019 – 20.

4. (a) On April 1st, 2019, a 8% convertible loan with a nominal value of ₹ 12,00,000 was issued at par by Cargo Ltd. It is redeemable on March 31st, 2023 also at par. Alternatively, it may be converted into equity shares on the basis of 100 new shares for each ₹ 200 worth of loan. 6

An equivalent loan without the conversion option would have carried interest at 10%. Interest of ₹ 96,000 has already been paid and included as a finance cost.

Present Value (PV) rates are as follows :

Year End	@ 8%	@ 10%
1	0.93	0.91
2	0.86	0.83
3	0.79	0.75
4	0.73	0.68

How will the Company present the above loan notes in the financial statements for the year ended March 31st, 2020 ?

Marks

(b) John Limited has identified four segments for which revenue data is given as per below : 6

	External Sale (₹)	Internal Sale (₹)	Total (₹)
Segment A	4,00,000	Nil	4,00,000
Segment B	80,000	Nil	80,000
Segment C	90,000	20,000	1,10,000
Segment D	70,000	6,20,000	6,90,000
Total sales	6,40,000	6,40,000	12,80,000

The following additional information is available with respect to John Limited :

Segment C is a high growing business and management expects that this segment to make a significant contribution to external revenue in coming years.

Discuss, which of the segments would be reportable under the threshold criteria identified in Ind AS 108 and why ?

(c) P Limited and S Limited are in business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for last several years. P Limited obtains control of S Limited when it acquires further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on December 31st, 2019. The acquisition had the following features. 8

Marks

(i) P Limited transfers cash of ₹ 50,00,000 and issues 90,000 shares on December 31st, 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.

(ii) P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.

(iii) P Limited spent acquisition-related costs of ₹ 2,00,000.

(iv) The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on market price. P Limited decided to measure non-controlling interest at fair value for this transaction.

(v) P Limited has owned 30% of the shares in S Limited for several years. At December 31st, 2019, the investment is included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings, accounted for using the equity method is arrived at ₹ 18,00,000.

The fair value of S Limited's net identifiable assets at December 31st, 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyze the transaction and determine the accounting under acquisition method for the business combination by P Limited.

Marks

5. (a) Diamond Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in financial year 2019-20. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 days of casual leave. Out of the total PL and sick leave, 10 PL leave and 5 sick leave can be carried forward to next year. On the basis of past trends, it has been noted that 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL. 6

Also the company has been earning profits since 2010. It has decided in financial year 2019-20 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diamond Pvt. Ltd. is expected to be around 3.5%. The profits earned during the financial year 2019-20 are ₹ 4,000 crores.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 40 crores to this plan in financial year 2019-20.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd. ?

Marks

(b) Entity A acquired a subsidiary, Entity B, during the year ended March 31st, 2020. Summarised information from the Consolidated Statement of Profit and Loss and Balance Sheet is provided, together with some supplementary information. **8**

Consolidated Statement of Profit and Loss for the year ended March 31st, 2020.	**Amount (₹)**
Revenue	1,90,000
Cost of sales	(1,10,000)
Gross profit	**80,000**
Depreciation	(15,000)
Other operating expenses	(28,000)
Interest cost	(2,000)
Profit before taxation	**35,000**
Taxation	(7,500)
Profit after taxation	**27,500**

 Marks

Consolidated balance sheet	March 31st 2020	March 31st 2019
Assets	Amount (₹)	Amount (₹)
Cash and cash equivalents	4,000	2,500
Trade receivables	27,000	25,000
Inventories	15,000	17,500
Property, plant and equipment	80,000	40,000
Goodwill	9,000	–
Total assets	**1,35,000**	**85,000**
Liabilities		
Trade payables	34,000	30,000
Income tax payable	6,000	5,500
Long term debt	50,000	32,000
Total outside liabilities	**90,000**	**67,500**
Shareholders' equity	45,000	17,500
Total liabilities & shareholders' equity	**1,35,000**	**85,000**

Mark

Other information :

All of the shares of entity B were acquired for ₹ 37,000 in cash. The fair values of assets acquired and liabilities assumed were :

Particulars	Amount (₹)
Inventories	2,000
Trade receivables	4,000
Cash	1,000
Property, plant and equipment	55,000
Trade payables	(16,000)
Long term debt	(18,000)
Goodwill	9,000
Cash consideration paid	37,000

You are required to prepare the Consolidated Statement of Cash Flows for the financial year ended March 31st, 2020 in accordance with Ind AS 7.

(c) Entity H holds a 20% equity interest in Entity S (an associate) that in turn has a 100% equity interest in Entity T. Entity S recognised net assets relating to Entity T of ₹ 10,000 in its consolidated financial statements. Entity S sells 20% of its interest in Entity T to a third party (a non-controlling shareholder) for ₹ 3,000 and recognises this transaction as an equity transaction in accordance with the provisions of Ind AS 110, resulting in a credit in Entity S's equity of ₹ 1,000.

Marks

The financial statements of Entity H and Entity S are summarised as follows before and after the transaction :

Before				
H's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Investment in S	2,000	Equity	2,000	
Total	2,000	Total	2,000	
S's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Assets (from T)	10,000	Equity	10,000	
Total	10,000	Total	10,000	
The financial statements of S after the transaction are summarised below :				
After				
S's consolidated financial statements				
Assets	**(₹)**	**Liabilities**	**(₹)**	
Assets (from T)	10,000	Equity	10,000	
Cash	3,000	Equity transaction Impact with non-controlling interest	1,000	
		Equity attributable to owners		11,000
		Non-controlling interest		2,000
Total	**13,000**	**Total**		**13,000**

Marks

Although Entity H did not participate in the transaction, Entity H's share of net assets in Entity S increased as a result of the sale of S's 20% interest in T. Effectively, H's share in S's net assets is now ₹ 2,200 (20% of ₹ 11,000) i.e., ₹ 200 in addition to its previous share.

How this equity transaction that is recognised in the financial statements of Entity S reflected in the consolidated financial statements of Entity H that uses the equity method to account for its investment in Entity S ?

6. (a) Nest Ltd. issued 10,000 Share Appreciation Rights (SARs) that vest immediately to its employees on April 1st, 2017. The SARs will be settled in cash. Using an option pricing model, at that date it is estimated that the fair value of a SAR is ₹ 100. SAR can be exercised any time until March 31st 2020. It is expected that out of the total employees, 94% at the end of period on March 31st, 2018, 91% at the end of next year will exercise the option. **5**

Finally, when these were vested i.e. at the end of the 3rd year, only 85% of the total employees exercised the option.

Fair value of SAR	**₹**
March 31st, 2018	132
March 31st, 2019	139
March 31st, 2020	141

You are required to pass the Journal entries to show the effect of the above transaction.

Marks

(b) Parent Limited, prepares consolidated financial statements of the group on 31st March every year. During the year ended March 31st, 2020, the following events affected the tax position of the group : 6

(i) S Limited, a wholly owned subsidiary of Parent Limited, incurred a loss of ₹ 20,00,000 which is adjustable from future taxable profits of the company for tax purposes. S Limited is unable to utilize this loss against previous tax liabilities. Income-Tax Act does not allow S Limited to transfer the tax loss to other group companies. However, it allows S Limited to carry forward the loss and utilize it against company's future taxable profits. The directors of Parent Limited estimate that S Limited will not make any taxable profits in the foreseeable future.

(ii) On April 1st, 2019, Parent Limited borrowed ₹ 50,00,000. The cost incurred by Parent Limited for arranging the borrowing was ₹ 1,00,000 on the said date and this expenditure is qualified for deduction under the Income Tax Act for the accounting year 2019-20. The loan was given for a three-year period. As per agreement, no principal or interest was payable on the loan during the tenure of loan but the amount repayable on March 31st, 2022 will be by way of a bullet payment of ₹ 65,21,900. As per Parent Limited, this equates to an effective annual interest rate of 10% on loan. As per the Income-tax Act, a further expense of ₹ 15,21,900 will be claimable from taxable income till the loan is repaid on March 31st, 2022.

Marks

The rate of corporate income tax to be assumed @ 20%.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of Parent Limited as at March 31st, 2020 as per applicable Ind AS.

You are also required to examine whether the effective rate of interest arrived at by Parent Limited for the loan of ₹ 50,00,000 is in accordance with applicable Ind AS or not ?

(c) Royal Ltd. is a company which has a net worth of ₹ 200 crore engaged in the manufacturing of rubber products. The sales of the company are badly affected due to pandemic during the Financial year 2019-20. **5**

Relevant financial details of the following financial years are as follows :

(₹ in crore)

Particulars	**March 31st, 2020 (Current year) estimated**	**March 31st, 2019**	**March 31st, 2018**	**March 31st, 2017**
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

During the pandemic period (till March 31st, 2020) various commercial activities were undertaken with considerable concessions/discounts, along the related affected areas. The management intends to highlight the expenditure incurred on such activities as expenditure incurred, on activities undertaken to discharge corporate social responsibility, while publishing its financial statements for the year 2019-20.

Marks

You are requested to advise CFO of Royal Ltd on the below points along with reasons for your advise :

(i) Whether the Company has an obligation to form a CSR committee since the applicability criteria are not satisfied in the current financial year ?

(ii) The accounting of expenditure during the pandemic period is to be treated as expenditure on CSR in the financial statement according to the view of the accountant of the company.

(d) Entity K is owned by three institutional investors – M Limited, N Limited and C Limited – holding 40%, 40% and 20% equity interest respectively. A contractual arrangement between M Limited and N Limited gives them joint control over the relevant activities of Entity K. It is determined that Entity K is a joint operation (and not a joint venture). C Limited is not a party to the arrangement between M Limited and N Limited. However, like M Limited and N Limited, C Limited also has rights to the assets, and obligations for the liabilities, relating to the joint operation in proportion of its equity interest in Entity K. **4**

Would the manner of accounting to be followed by M Limited and N Limited on the one hand and C Limited on the other in respect of their respective interests in Entity K be the same or different ?

You are required to explain in light of the relevant provisions in the relevant standard in this regard.

OR

An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and will pay for those tickets even if it is not able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance. The entity determines the prices at which the airline tickets will be sold to its customers The entity sells the tickets and collects the consideration from customers when the tickets are sold; therefore, there is no credit risk to the entity.

The entity also assists the customers in resolving complaints with the service provided by airlines.

However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

Determine whether the entity is a principal or an agent with suitable explanation in light with the provisions given in the relevant standard.
