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Answer Paper	
Financial Reporting	**Duration**: 65
Details: Test – 4	**Marks**: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

Sol 1

An integrated report may be prepared in response to existing compliance requirements. For example, an organization may be required by local law to prepare a management commentary or other report that provides context for its financial statements. If that report is also prepared in accordance with this Framework it can be considered an integrated report. If the report is required to include specified information beyond that required by this Framework, the report can still be considered an integrated report if that other information does not obscure the concise information required by this Framework.

Sol 2

Section 135 of the Companies Act is applicable to every company meeting the specified criteria. As per section 2(20) of the Companies Act, 'company' means a company incorporated under the Companies Act or under any other previous company law. This would imply that companies set up for the purposes of CSR/public welfare are also required to comply with the provisions of CSR.

Sol 3

Taxable income for 20XX	
Expected amount without reversal of taxable temporary differences	20,000
Reversal of taxable temporary differences due to tax planning strategy, net of costs	210,000
	230,000

Operating loss to be carried forward	(180,000)
Operating loss expiring unused at 12/31/XX	0
The deferred tax asset to be recorded at 12/31/18 is 54,000. This is computed as follows:	
Full benefit of tax loss carry forward 180,000 × 40% =	72,000
Less: Net-of-tax effect of anticipated expenses related to implementation of the strategy 30,000 (30,000 × 40%) =	18,000
Net	54,000

Rays Company will also recognise a deferred tax liability of 96,000 at the end of 2019 (40% of the taxable temporary differences of 240,000).

<u>Sol 4</u>

Translation of the financial statements

	USD	RATE	L$
Property, plant and equipment	50000	1.13	44248
Receivables	935000	1.13	827434
Total Assets	985000	871682	
Issued Capital	50000	-	30055
Opening retained earnings	28000	-	15274

Profit for the year	20000	1.175	17021
Accounts payable	840000	1.13	743363
Accrued liabilities	47000	1.13	41593
Total Equity and Liabilities USD	985000	-	
Foreign Currency Translation Reserve	-	-	24376
Total Equity and Liability L$	871682		

Particulars	**Actual translated amount in L$**	**Amount**	**Difference translated at closing rate of 1.13**
Issued capital	30,055	44,274	14,192
Opening retained earnings	15,274	24,779	9,505
Profit for the year	17,021	17,699	678
[Difference of 1 is rounding]	62,350	86,725	24,375

Sol 5

(a) The retail method can be used for measuring inventories of the beauty products. The cost of the inventory is determined by taking the selling price of the cosmetics and reducing it by the gross margin of 65% to arrive at the cost.

(b) The handbags can be measured using standard cost especially if the results approximate cost. Given that The Company has the information reliably on hand in relation to direct materials, direct labour, direct expenses and overheads, it would be the best method to use to arrive at the cost of inventories.

<u>Sol 6</u>

At December 31, 20XX, impairment is detected, and the recoverable amount at that date is determined to be 34,000. Had this not occurred, depreciation for 20XX would have been (45,000 ÷ 8 years remaining life =) 5,625; carrying amount after recording 20XX depreciation would have been (45,000 5,625 =) 39,375. Thus the impairment loss recognised in 20XX net amount of the previously recognised valuation increase remaining (i.e., undepreciated) at the end of 20XX, as shown below.

Gross amount of revaluation at December 31, 20XX-2	6,250
Portion of the above allocable to accumulated depreciation	625
Net revaluation increase at December 31, 20XX-2	5,625
Depreciation taken on appreciation for 20XX-1	625
Net revaluation increase at December 31, 20XX-1	5,000
Depreciation taken on appreciation for 20XX	625
Net revaluation increase at December 31, 20XX, before recognition of impairment	4,375
Impairment recognized as reversal of earlier revaluation	4,375
Net revaluation increase at December 31, 20XX	0

The remaining 1,000 impairment loss is recognised at December 31, 20XX-1, in profit or loss, since it exceeds the available amount of revaluation surplus. In 20XX-1 there is a recovery of value that pertains to this asset; at December 31, 20XX-1, it is valued at 36,500. This represents a 2,500 increase in carrying amount from the earlier year's balance, net of accumulated depreciation. The first 1,000 of this recovery in value is credited to profit, since this is the amount of previously recognised impairment that was charged against profit; the remaining 1,500 of recovery is accounted for as other comprehensive income and accumulated in the revaluation surplus in shareholders'equity.

Sol 7

Requirement 1	**Explanation /Calculation:**	**Rs.**
Investment property	(W1)	6691250
Requirement 2		
Carrying amount at 1 January 2019		-
Additions	Rs. 6691250(W1) held under a finance lease	6691250
Fair value adjustment	Rs. 508293(W3) held under a finance lease	508293
Carrying amount at 31 December 2019		7199543
Requirement 3:		
Carrying amount of lease liability at 31 December 2019	(W2)	6603113

Workings:

(W1)

Calculation:

		Rs.
Cost of investment property	n = 120, PMT = 96000, I = 1,00*, COMP PV *(i.e. 12%/ 12 months)	6691250

(W2)

Finance lease liability 1 October 2019	(W1)	6691250
Interest accrual	12%/12 months x Rs. 6691250	66913
Payment 31 October 2019	Given	(96000)
		6662163
Interest accrual	12%/12 months x Rs.6662163	66622
Payment 30 November 2019	Given	(96000)
		6632785
Interest accrual	12%/12 months x Rs. 6632785	66328
Payment 31 December 2019	Given	(96000)
		6603113

(W3)

Fair value of leasehold interest	PMT = 8000, n =117, I = 0,8333’, COMP PV Computation of PMT = (Rs. 104000 inflow – Rs. 96000 outflow) = Rs. 8000,Computation of n: (120 months – 3 passed) =117 months, Computation of i: (10%/12 months x100) = 0,833333%	596430
Add: finance lease liability	Above	6603113
Reported carrying amount (fair value of investment property)		7199543
Fair value adjustment	Rs. 6691250 initial recognition – Rs. 7199543 subsequent	508293