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Question Paper	
Financial Reporting	**Duration**: 90
Details: Test – 5	**Marks**: 50

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.

Q-1 ABC limited manufactures automobile parts. ABC limited has shown a net profit of Rs. 20 lakhs for the third quarter of 2020.

Following adjustments are made while computing the net profit:

i. Bad debts of Rs. 1 lakh incurred during the quarter. 50% of bad debts have been deferred to the next quarter.

ii. Extra ordinary loss of Rs. 3 lakhs incurred during the quarter has been fully recognized in this quarter.

iii. Additional depreciation of Rs. 4.5 lakhs resulting from the change in the method of depreciation.

iv. Rs. 5 lakhs expenditure on account of administrative expenses pertaining to the third quarter is deferred on the argument that the fourth quarter will have more sales; therefore fourth quarter should be debited by higher expenditure. The expenditures are uniform throughout all quarters.

Ascertain the correct net profit to be shown in the Interim financial report of third quarter to be presented to the Board of Directors.

(5 Marks)

Q-2 Following is the balance sheet of Kuber Limited for the year ended 31st March, 20X2.

	20X2	**20X1**
ASSETS		
Non-Current Assets		

PPE	13000	12500
Intangible Assets	50	30
Other Financial Assets	145	170
DTA (Net)	855	750
Other Non Current Assets	800	770
Total non-current assets	**14,850**	**14,220**
Current Assets		
Financial Assets		
Investments	2300	2500
Cash & Cash Equivalents	200	460
Other Current Assets	195	85
Total current assets	**2,715**	**3,045**
Total Assets	**17,565**	**17,265**
EQUITY AND LIABILITIES		
Equity		
Equity Share Capital	300	300
Other Equity	12000	8000
Total equity	12,300	8,300

Liabilities		
Long Term Borrowings	2000	5000
Other Non-Current Liabilities	2740	3615
Total non-current liabilities	**4,740**	**8,615**
Current Liabilities		
Financial Liabilities		
Trade Payables	150	90
Bank Overdraft	75	60
Other Current Liabilities	300	200
Total current liabilities	**525**	**350**
Total liabilities	**5,265**	**8,965**
Total Equity and Liabilities	**17,565**	**17,265**

Additional Information:

(1) Profit after tax for the year ended 31stMarch, 20X2-Rs 4,450 lacs

(2) Interim Dividend paid during the year -Rs 450 lacs

(3) Depreciation and amortisation charged in the statement of profit and loss during the current year are as under

(a) Property, Plant and Equipment -Rs 500 lacs

(b) Intangible Assets -Rs 20 lacs

(4) During the year ended 31stMarch, 20X2two machineries were sold for Rs 70 lacs. The carrying amount of these machineries as on 31stMarch, 20X2 is Rs 60 lacs.

(5) Income taxes paid during the year Rs 105 lacs

Using the above information of Kuber Limited, construct a statement of cash flows under indirect method. Other non-current/current assets and liabilities are related to operations of Kuber Ltd. and do not contain any element of financing and investing activities

(6 Marks)

Q-3 Following is the financial statements of Arish Ltd. (Note all figures are in INR million)

Balance Sheet

Particulars	**Note**	**As at 31st March,2018**
EQUITY AND LIABILITIES		
Shareholders' funds		
Share Capital (shares of Rs.10 each)		1,000
Reserves and Surplus	1	2,000
Non –Current liabilities		
Long term borrowings	2	5,555
Deferred tax liabilities	3	200
Current liabilities		

Trade payables		300
Short term provisions		250
Other current liabilities	4	150
Total		**9,455**
ASSETS		
Non –current assets		
Fixed Assets		5,655
Deferred Tax Assets	3	500
Current assets		
Inventories		1,000
Trade receivables	5	1,100
Cash and bank balances		1,200
Total		**9,455**

Note 1: The Company has achieved a major breakthrough in its consultancy services in Middle East following which it has entered into a contract of rendering services with Finland Inc for INR 6 billion during the year. The termination clause of the contract is equivalent to INR 7 Million and is payable in case transition time schedule is missed from 15th December 2022. The management however is of the view that the liability cannot be treated as onerous.

Note 2: The Company is not able to assess the final liability for a particular tax assessment pertaining to assessment year 2018-2019 wherein it has received a demand notice of INR 6 Million. However, the company is contesting the same with CIT (Appeals) as on the reporting date.

Statement of Profit &Loss

Particulars	**Note**	**Year ended March 31,2018**
Revenue from operations		5,500
Expenses		
Employee Benefit Expense		1,200
Operating Costs		2,200
Depreciation		999
Total Expenses		**4,399**
Profit before tax		1,101
Tax Expense		(150)
Profit after tax		**951**

Notes to Accounts:

Note 1: Reserves & Surplus

(INR in millions)

Capital Reserve		500
Surplus from P& L		

Opening Balance	49	
Additions	951	1,000
Reserve for foreseeable loss		500
Total		**2,000**

Note 2: long Term Borrowings

Term Loan from bank	5,555
Total	**5,555**

Note 3: Deferred Tax

Deferred Tax Asset	500
Deferred Tax Liability	(200)
Total	**300**

Note 4: Other Current Liabilities

Unclaimed dividends	3
Billing in Advance	147
Total	**150**

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:

(a) Share capital comprises of 100 million shares of INR 10 each

(b) Term Loan from bank for INR 5555 million also includes interest accrued and due of INR 555 million as on the reporting date.

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

Required:

(i) Evaluate and report the errors and misstatements in the above extracts; and

(ii) Prepare the corrected Balance Sheet & Statement of Profit and Loss (As per Ind AS).

(16 Marks)

Q4 On 1 January 20X5, Sports Star Ltd. takes out a loan with Sony Ten Ltd. for CU1,000 for three years. The interest payments on the loan are 10% of Sports Star Ltd.'s EBITDA. On 1 January 20X5, Sports Star Ltd. expects the following EBITDA figures:

Year	EBITDA	10% of EBITDA
31/12/20X5	CU1,000	CU100

31/12/20X6	CU2,500	CU250
31/12/20X7	CU3,000	CU300

(a) What is Sports Star Ltd.'s initial journal entry on 1 January 20X5?

(b) What is the effective interest rate of the loan?

(c) What are Sports Star Ltd.'s journal entries at 31 December 20X5?

(5 Marks)

Q5 On 1.1.20X1 a financial asset is purchased at its face value of CU1,000. The contractual term is ten years with an annual coupon of 6%.

On 31.12.20X1 a coupon payment is reached. The fair value of the financial asset decreases to CU950. 12month expected credit losses as determined under the impairment model are CU30.

On 1.1.20X2 the financial asset is sold for CU950.

What are the journal entries on initial recognition, 31.12.20X1 and 1.1.20X2 under the FVOCI category?

(4 Marks)

Q6 Perfect Ltd. issued 50,000 Compulsory Cumulative Convertible Preference Shares (CCCPS) as on 1st April, 2017 @ Rs. 180 each. The rate of dividend is 10% payable at the end of every year. The preference shares are convertible into 12,500 equity shares (Face value Rs. 10 each) of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion option is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds. Effective Interest Rate is 15.86%. (Round off the figures to the nearest multiple of Rupee) Discounting Factor @ 15%

You are required to compute Liability and Equity Component and Pass Journal Entries for entire term of arrangement i.e. from the issue of Preference Shares till their conversion into Equity Shares. Keeping in view the provisions of relevant Ind AS.

(6 Marks)

Q7 (1) QA Ltd. issued 10,00,000 of 8% Long Term bond-A Series of Rs. 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. The investors expect an effective interest rate on the loan at 10%. QA Ltd. wants you to suggest the suitable accounting entries for the issue of these bonds as per applicable Ind AS. Consider the discounting factor 3 years, 10% discounting factor is 0.751315 and 3 years cumulative discounting factor is 2.48685.

(i) What is the principal value of the bond at the initial recognition at the time of issue of bond as per applicable Ind AS?

(ii) What is the present value of the interest payment to be recognised as part of the sale price of the bond as per applicable Ind AS?

(iii) What are the proceeds of the sale of the bond to be recognized at the time of initial recognition as per applicable Ind AS?

(iv) What is the accounting entry to be passed at the time of accounting for payment of interest for the first year?

(2) QA Ltd. has also issued 10,00,000 of 8% Long Term Bond-B Series of Rs. 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. However, the bond holders of this series are entitled to convert the bonds to shares of Rs. 1 each on the date of maturity, instead of receiving the principal repayment. Interest rate on the similar bond without conversion option is 10%. QA Ltd. has requested you to suggest the following for this type of instrument:

(a) What is entry to be passed at the date of issuance of the bond as per applicable Ind AS?

(b) What is entry to be passed at the date of conversion of the bond as per applicable Ind AS?

(5 + 3 Marks)