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| Question 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.

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Q1 Can an integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports?

(4 Marks)

Q2 Chanu Ltd. is a company which is formed with charitable objects under Section 8 of the Companies Act, 2013. As a result, the management of the company believes that as all the activities of the company will be with the intent of charity, the CSR provisions are not applicable to Chanu Ltd. as these activities are activities in normal course of business. Whether the provisions of CSR are applicable to Chahu Ltd. provided it fulfills the criteria of Section 135 of the Act?

(4 Marks)

Q3 Rays Company has a 180,000 operating loss carry forward as of December 31, 2018, scheduled to expire at the end of the following year. Taxable temporary differences of 240,000 exist that are expected to reverse in approximately equal amounts of 80,000 in 2019, 2020 and 2021. Rays Company estimates that taxable income for 2019 (exclusive of the reversal of existing temporary differences and the operating loss carry forward) will be 20,000.

Rays Company expects to implement a qualifying tax planning strategy that will accelerate the total 240,000 of taxable temporary differences to 2019. Expenses to implement the strategy are estimated to approximate 30,000. The applicable expected tax rate is 40%.

In the absence of the tax planning strategy, 100,000 of the operating loss carry forward could be realized in 2019 based on estimated taxable income of 20,000 plus 80,000 of the reversal of taxable temporary differences. Thus, 80,000 would expire unused at the end of 2019 and the net amount of the deferred tax asset at 12/31/19 would be recognized at 40,000, computed as 72,000 ($= 180,000 \times 40\%$) minus the valuation allowance of 32,000 ($80,000 \times 40\%$).

You need to compute the deferred tax asset that Rays should recognise after implementing the tax planning strategy.

(5 Marks)

Q4 InfoTech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of InfoTech Inc. (L\$).

The following is the statement of financial position of InfoTech Global Ltd. prior to translation:

| Particulars | USD | L \$ |
|----------------------------|----------|--------|
| PPE | 50000 | |
| Receivables | 9,35,000 | |
| Total Assets | 9,85,000 | |
| Issued Capital | 50,000 | 30,055 |
| Opening Retained Earnings | 28,000 | 15,274 |
| Profit for the Year | 20,000 | |
| Accounts Payable | 8,40,000 | |
| Accrued Liabilities | 47,000 | |
| Total Equity & Liabilities | 9,85,000 | |

Required: Translate the statement of financial position of InfoTech Global Ltd. into L\$ ready for consolidation by InfoTech Inc. (Share capital and opening retained earnings have been pre-

populated.)

Prepare a working of the cumulative balance of the foreign currency translation reserve.

Additional information: Relevant exchange rates are:

Rate at beginning of the year L\$ 1 = USD 1.22

Average rate for the year L\$ 1 = USD 1.175

Rate at end of the year L\$ 1 = USD 1.13

(5 Marks)

Q5 Mars Fashions is a new luxury retail company located in Lajpat Nagar, New Delhi. Kindly advise the accountant of the company on the necessary accounting treatment for the following items

(a) One of Company's product lines is beauty products, particularly cosmetics such as lipsticks, moisturizers and compact make-up kits. The company sells hundreds of different brands of these products. Each product is quite similar, is purchased at similar prices and has a short lifecycle before a new similar product is introduced. The point of sale and inventory system is not yet fully functioning in this department. The sales manager of the cosmetic department is unsure of the cost of each product but is confident of the selling price and has reliably informed you that the Company, on average, makes a gross margin of 65% on each line.

(b) Mars Fashions also sells handbags. The Company manufactures their own handbags as they wish to be assured of the quality and craftsmanship which goes into each handbag. The handbags are manufactured in India in the head office factory which has made handbags for the last fifty years. Normally, Mars manufactures 100,000 handbags a year in their handbag division which uses 15% of the space and overheads of the head office factory. The division employs ten people and is seen as being an efficient division within the overall company.

In accordance with Ind AS 2, explain how the items referred to in a) and b) should be measured.

(5 Marks)

Q6 An asset was acquired January 1, 20XX-2, and it had a net carrying amount of 45,000 at December 31, 20XX-1, based on its original cost of 50,000, less accumulated depreciation representing the one-fifth, or two years, of its projected useful life of 10 years, which has already elapsed, plus a revaluation write-up of 5,000, net. The increase in carrying amount was recorded a year earlier, based on an appraisal showing the asset's then fair value was 56,250.

At December 31, 20XX, impairment is detected, and the recoverable amount at that date is determined to be 34,000. At December 31, 20XX+1, it is valued at €36,500 because of change market condition.

State specifically the accounting treatment of above accounting events.

(6 Marks)

Q7 On 1 October 2019, Inprop Limited entered into a finance lease (as lessee) over an office-block with a fair value of Rs.7000000, when the estimated remaining economic life of the office-block subject to the lease was 20 years. The lease provides for 120 arrear monthly lease payments of Rs.96000 each, payable by Inprop Limited to the lessor on the last day of each month.

On 2 October 2019, Inprop Limited entered into several ten-year sublease agreements with various tenants such that the entire office-block is sublet under operating subleases. Total sublease income per the sublease agreements is Rs.104000 per month payable in arrear by the

tenants to Inprop Limited on the last day of each month. The directors of Inprop Limited elected to account for its leasehold interest in this property as an investment property.

An appropriate discount rate at 1 October 2019 was a flat rate of 12% per annum. This rate had declined to 10% by 31 December 2019.

Required:

- 1) Compute the amount that will in accordance with Ind AS 40 will be capitalized to investment property;
- 2) Prepare the reconciliation of the carrying amount of Inprop Limited's investment property from 1 January 2019 to 31 December 2019 for inclusion in the notes to Inprop Limited's 31 December 2019 annual financial statements.
- 3) Compute the carrying amount of Inprop Limited's finance lease liability at 31 December 2019.

(6 Marks)

