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Question Paper	
Financial Reporting	**Duration**: 180
Details: Full Test	**Marks**: 100

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.

Question No.1 is compulsory.

Candidates are required to answer any four questions from the remaining five questions.

Q-1 (A) H Ltd. constructed a warehouse at a cost of Rs. 10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was Rs. 6,00,000. Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight -line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about Rs. 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to:

(i) Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact.

(ii) Discuss disclosure requirement in above case as per relevant Ind AS; and

(iii) Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31st December, 2019?

(12 marks)

(B) On December 31, 2009, the Balance Sheets of the Dor and Dee Companies, prior to any business combination transaction, are as follows:

Balance Sheets As At December 31, 2009

	Dor Company	**Dee Company**
Cash	Rs. 1,200,000	Rs. 600,000
Accounts Receivable	2,400,000	800,000
Inventories	3,800,000	1,200,000
Plant And Equipment (Net)	4,600,000	2,400,000
Total Assets	Rs.12,000,000	Rs.5,000,000
Liabilities	Rs. 1,500,000	Rs. 700,000
Equity Share Capital (Rs. 10)	6,000,000	2,500,000
Retained Earnings	4,500,000	1,800,000
Total Equities	Rs.12,000,000	Rs.5,000,000

On December 31, 2009, the Dor Company issues 204,000 shares of its Equity shares to the Dee Company in return for 100 percent of its net assets. On this date the shares of the Dor Company are trading at Rs.25 per share. All of the identifiable assets and liabilities of the Dee

Company have fair values that are equal to their carrying values except for the Plant and Equipment which has a fair value of Rs.2,700,000 and a remaining useful life of ten years.

You are required to:

(i) Prepare Balance Sheet as at 31st Dec, 2009.

(ii) Compute goodwill.

(iii) Pass general entry in the books of Dor company.

(8 marks)

Q-2 (A) Ram Ltd. acquired 60% ordinary shares of Rs.100 each of Krishan Ltd. on 1st October 20X1. On March 31, 20X2 the summarised Balance Sheets of the two companies were as given below:

Particulars	**Ram Ltd.**	**Krishan Ltd.**
Assets		
Property, Plant Equipment		
Land & Buildings	3,00,000	3,60,000
Plant & Machinery	4,80,000	2,70,000
Investment in Krishan Ltd.	8,00,000	-
Inventory	2,40,000	72,800
Financial Assets		
Trade Receivable	1,19,600	80,000

Cash	29,000	16,000
Total	**19,68,600**	**7,98,800**
Equities & Liabilities		
Equity Capital (Shares of Rs. 100 each fully paid)	10,00,000	4,00,000
Other Equity		
Other Reserves	6,00,000	2,00,000
Retained earnings	1,14,400	1,64,000
Financial Liabilities		
Bank Overdraft	1,60,000	-
Trade Payable	94,200	34,800
Total	**19,68,600**	**7,98,800**

The Retained earnings of Krishan Ltd. showed a credit balance of Rs.60,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; Ram Ltd. has credited the dividend received to its Retained earnings; Fair Value of P& M as on 1st October 20X1 was Rs. 4,00,000; The rate of depreciation on plant & machinery is 10%.

Following are the changes in Fair value as per respective IND AS from book value as on 1st October 20X1 which is to be considered while consolidating the Balance Sheets.

Liabilities	Amount	Assets	Amount
Trade Payables	20,000	Land & Buildings	2,00,000
		Inventories	30,000

Note:

1. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.

2. Prepare consolidated Balance Sheet as on March 31, 20X2.

(14 marks)

(B) Arrange and redraft the following Cash Flow Statement in proper order keeping in mind the requirements of Ind AS:

	Rs. (in lacs)	**Rs. (in lacs)**
Net Profit		60,000
Add: Sale of Investments		70,000
Depreciation on Assets		11,000
Issue of Preference Shares		9,000
Loan raised		4,500
Decrease in Stock		12,000
		1,66,500
Less: Purchase of Fixed Assets	65,000	
Decrease in Creditors	6,000	
Increase in Debtors	8,000	

Exchange gain	8,000	
Profit on sale of investments	12,000	
Redemption of Debenture	5,700	
Dividend paid	1,400	
Interest paid	945	1,07,045
		59,455
Add: Opening cash and cash equivalent		12,341
Closing cash and cash equivalent		71,796

(6 marks)

Q-3 (A) Amna Ltd. contracted with a supplier to purchase a specific machinery to be installed in Department A in two months time. Special foundations were required for the plant, which wereto be prepared within this supply lead time. The cost of site preparation and laying foundations were Rs. 47,290. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 15,000 per month. The Technician's services were given to Department A by Department B, which billed the services at Rs. 16,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 52,78,000. Sales Tax was charged at 4% on the invoice Rs.18,590 transportation charges were incurred to bring the machine to the factory. An Architect was engaged at a fee of Rs. 10,000 to supervise machinery installation at the factory premises. Also, payment under the invoice was due in 3 months. However, the Company made the payment in 2ndmonth. The company operates on Bank Overdraft@ 11%.

Ascertain the amount at which the asset should be capitalized under IND AS 16.

(5 marks)

(B) (i) Kumar Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of Rs. 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to Rs. 2 lakhs instead of Rs. 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company.

(2 marks)

(ii) Durable Industries previously had a defined pension plan (a defined benefit plan) under which the employees who joined before April 1, 2012 were enrolled. With respect to employees who joined on or after April 1, 2012 were all enrolled in the industrial pension plan. The Company found that the industrial pension plan was more beneficial to the employees than the defined pension plan. Hence, during 2018-19 it decided to change all the employees from defined pension plan to the industrial pension plan. The entity paid Rs. 5 crore to the employees who in turn agreed to forfeit the pension entitlement from the defined pension plan. The liability recognised in the financials, for the year ended March 31, 2018, with respect to the pension liability was Rs.7 crores.

How should this be accounted in the financials for the year ended March 31, 2019?

(3 marks)

(C) 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 -2020, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year.

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 2019-2020.

(ii) In case ABC Limited decides to measure revenue, based on most likely method insteadof 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 2019-2020.

(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 2019-2020.

(10 marks)

Q-4 (A) On 1 April 2017, Jupiter ltd has taken a property on a 20-year lease from Moon Ltd. Jupiter Ltd paid a lease premium of Rs. 30,00,000 on 1 April 2017. The terms of the lease required Jupiter ltd to make annual payments of Rs. 500,000 in arrears, the first of which was made on 31 March 2018.

On 1 April 2017 the fair values of the leasehold interests in the leased property were as follows:

– Land Rs. 30,00,000.

– Buildings Rs. 45,00,000.

There is no opportunity to extend the lease term beyond 31 March 2037. On 1 April 2017, the estimated useful economic life of the buildings was 20 years.

The annual rate of interest implicit in finance leases can be taken to be 9·2%. The present value of 20 payments of Rs. 1 in arrears at a discount rate of 9·2% is Rs. 9.

Required: Explain the accounting treatment for the above property lease in the books of Jupiter Ltd and Moon Ltd. for the year ended 31 March 2018.

(10 marks)

(B) Mathur India Private Limited has to present its first financials under IND AS for the year ended March 31, 2019. The transition date is April 1, 2017.

The following adjustments were made upon transition to IND AS:

(a) The Company opted to fair value its land as on the date on transition.

The fair value of the land as on April 1, 2017 was Rs. 10 crores. The carrying amount as on April 1, 2017 under the existing GAAP was Rs. 4.5 crores.

(b) The Company has recognised a provision for proposed dividend of Rs. 60 lakhs and related dividend distribution tax of Rs. 18 lakhs during the year ended March 31, 2017. It was written back as on opening balance sheet date.

(c) The Company fair values its investments in equity shares on the date of transition. The increase on account of fair valuation of shares is Rs. 75 lakhs.

(d) The Company has an Equity Share Capital of Rs. 80 crores and Redeemable Preference Share Capital of Rs. 25 crores.

(e) The reserves and surplus as on April 1, 2017 before transition to IND AS was Rs. 95 crores representing Rs. 40 crores of general reserve and Rs. 5 crores of capital reserve acquired out of business combination and balance is surplus in the Retained Earnings.

(f) The company identified that the preference shares were in nature of financial liabilities.

What is the balance of total equity (Equity and other equity) as on April 1, 2017 after transition to IND AS? Show reconciliation between total equity as per existing GAAP and as per IND AS to be presented in the opening balance sheet as on April 1, 2017.Ignore deferred tax impact.

(6 marks)

(C) 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.

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

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

1. 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?
2. It the net realization after expenses is more in export market, say Rs. 280, but Government allows only 15% of the production to be exported out of India. Discuss what would be fair value in such case.

OR

On 1 April, 2008 A Ltd. issued Rs. 10,00,000, 8% convertible debentures of face value of Rs. 100 per debenture at a discount of 10%. The debentures are redeemable at a premium of 10% on 31.03.11 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 20%. Being compound financial instrument, you are required to separate equity and debt portion as on 01.04.08.

(4 marks)

Q-5 (A) Deepak started a new company Softbharti Pvt. Ltd. with Iktara Ltd. wherein investment of 55% is done by Iktara Ltd. and rest by Deepak. Voting powers are to be given as per the proportionate share of capital contribution. The new company formed was the subsidiary of Iktara Ltd. with two directors, and Deepak eventually becomes one of the directors of company. A consultant was hired and he charged Rs. 30,000 for the incorporation of company and to do other necessary statuary registrations. Rs. 30,000 is to be charged as an expense in the books after incorporation of company. The company, Softbharti Pvt. Ltd. was incorporated on 1st April 2019.

The financials of Iktara Ltd. are prepared as per Ind AS.

An accountant who was hired at the time of company's incorporation, has prepared the draft financials of Softbharti Pvt. Ltd. for the year ending 31st March, 2020 as follows:

Statement of Profit and Loss

Particulars	**Amount (Rs.)**
Revenue from operations	10,00,000
Other Income	1,00,000
Total Revenue (a)	**11,00,000**
Expenses:	
Purchase of stock in trade	5,00,000
(Increase)/Decrease in stock in trade	(50,000)
Employee benefits expense	1,75,000
Depreciation	30,000
Other expenses	90,000
Total Expenses (b)	**7,45,000**
Profit before tax (c) = (a)-(b)	3,55,000
Current tax	1,06,500
Deferred tax	6,000
Total tax expense (d)	1,12,500
Profit for the year (e) = (c) – (d)	**2,42,500**

Balance Sheet

Particulars	Amount (Rs.)
EQUITY AND LIABILITIES	
(1) Shareholders' Funds	
(a) Share Capital	1,00,000
(b) Reserves & Surplus	2,27,500
(2) Non-Current Liabilities	
(a) Long Term Provisions	25,000
(b) Deferred tax liabilities	6,000
(3) Current Liabilities	
(a) Trade Payables	11,000
(b) Other Current Liabilities	45,000
(c) Short Term Provisions	1,06,500
TOTAL	**5,21,000**
ASSETS	
(1) Non Current Assets	
(a) Property, plant and equipment (net)	1,00,000
(b) Long-term Loans and Advances	40,000
(c) Other Non Current Assets	50,000

(2) Current Assets	
(a) Current Investment	30,000
(b) Inventories	80,000
(c) Trade Receivables	55,000
(d) Cash and Bank Balances	1,15,000
(e) Other Current Assets	51,000
TOTAL	**5,21,000**

Additional information of SoftbhartiPvt Ltd.:

i) Deferred tax liability of Rs. 6,000 is created due to following temporary difference: Difference in depreciation amount as per Income tax and Accounting profit

ii) There is only one property, plant and equipment in the company, whose closing balance as at 31st March, 2020 is as follows:

Asset description	As per Books	As per Income tax
Property, plant and equipment	Rs.1,00,000	Rs.80,000

iii) Pre incorporation expenses are deductible on straight line basis over the period of five years as per Income tax. However, the same are immediately expensed off in the books.

iv) Current tax is calculated at 30% on PBT - Rs. 3,55,000 without doing any adjustments related to Income tax. The correct current tax after doing necessary adjustments of allowances / disallowances related to Income tax comes to Rs. 1,25,700.

v) After the reporting period, the directors have recommended dividend of Rs. 15,000 for the year ending 31st March, 2020 which has been deducted from reserves and surplus.

Dividend payable of Rs. 15,000 has been grouped under 'other current liabilities' along with other financial liabilities.

vi) There are 'Government statuary dues' amounting to Rs. 15,000 which are grouped under 'other current liabilities'.

vii) The capital advances amounting to Rs. 50,000 are grouped under 'Other non-current assets'.

viii) Other current assets of Rs. 51,000 comprise Interest receivable from trade receivables.

ix) Current investment of Rs. 30,000 is in shares of a company which was done with the purpose of trading; current investment has been carried at cost in the financial statements. The fair value of current investment in this case is Rs. 50,000 as at 31st March, 2020.

x) Actuarial gain on employee benefit measurements of Rs. 1,000 has been omitted in the financials of Softbharti private limited for the year ending 31 st March, 2020.

The financial statements for financial year 2019-2020 have not been yet approved.

You are required to ascertain that whether the financial statements of Softbharti Pvt. Ltd. are correctly presented as per the applicable financial reporting framework. If not, prepare the revised financial statements of Softbharti Pvt. Ltd. after the careful analysis of mentioned facts and information.

(12 marks)

(B) The following information is available relating to Space India Limited for the Financial Year 2019-2020.

Net profit attributable to equity shareholders	Rs. 90,000

Number of equity shares outstanding	16,000
Average fair value of one equity share during the year	Rs. 90

Potential Ordinary Shares:

Options	900 options with exercise price of Rs. 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of Rs. 9 per share. Each preference share is convertible into 2 equity shares.
Applicable corporate dividend tax	8%
10% Convertible Debentures of Rs. 100 each	Rs. 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 2019-2020.

(8 Marks)

Q-6 (A) In 20X3-20X4, after the entity's 31 March 20X3 annual financial statements were approved for issue, a latent defect in the composition of a new product manufactured by the entity was discovered (that is, a defect that could not be discovered by reasonable or customary inspection). As a result of the latent defect the entity incurred Rs.100,000 in unanticipated costs for fulfilling its warranty obligation in respect of sales made before 31 March 20X3. An additional Rs.20,000 was incurred to rectify the latent defect in products sold during 20X3-20X4 before the defect was detected and the production process rectified, Rs.5,000 of which relates to items of inventory at 31 March 20X3. The defective inventory was reported at cost Rs. 15,000 in the 20X2-20X3 financial statements when its selling price less costs to complete and sell was estimated at Rs.18,000. The accounting estimates made in preparing the 31 March 20X3 financial statements were appropriately made using all reliable information that the entity could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Analyse the above situation in accordance with relevant Ind AS.

(5 Marks)

(B) Sincere Corporation is dealing in seasonal product sales pattern of the product, quarter wise is as follows:

1st quarter	30^{th} June	10%
2nd quarter	30^{th} September	10%
3rd quarter	31^{st} December	60%
4th quarter	31^{st} March	20%

Information regarding the 1st quarter ending on 30th June, 2006 is as follows:

Sales	80 crores
Salary and other expenses	60 crores
Advertisement expenses (routine)	4 crores
Administrative and selling expenses	8 crores

While preparing interim financial report for first quarter Sincere Corporation wants to defer Rs. 10 crores expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per IND AS-34. Also give a comment on the company's view.

(5 Marks)

(C) Entity A has the INR as its functional currency. It expects to purchase a machine for $ 10,000 on October 31, 20X6. Accordingly, it is exposed to the risk of increases in the dollar rate. If the dollar rate increases before the purchase takes place, the entity will have to pay more INR to obtain the $10,000 that it will have to pay for the machine. To offset the risk of increases in the dollar rate, the entity enters into a forward contract on April 30, 20X6, to purchase $10,000 in six months for a fixed amount (Rs. 60,000). Entity A designates the forward contract as a hedging instrument in a cash flow hedge of its exposure to increases in the dollar rate.

On July 31 the dollar has appreciated, such that $10,000 for delivery on October 31, 20X6, costs Rs. 65,000 on the market. Therefore, the forward contract has increased in fair value to Rs. 5,000 (i.e., the difference between the committed price of Rs. 60,000 and the current price of Rs. 65,000. Entity A still expects to purchase the machine for $10,000, so it concludes that the hedge is 100% effective.

On October 31, 20X6, the dollar rate has further increased, such that $10,000 cost Rs. 66,000 in the spot market. Therefore, the fair value of the forward contract has increased to Rs. 6,000 (i.e., the difference between the committed price of Rs. 60,000 and the spot price of Rs. 66,000. It still expects to purchase the machine for $10,000. Give necessary journal entry.

(5 marks)

(D) Eagle Ltd. had acquired 51% in Sparrow Ltd. for Rs. 75.80 lakhs on April 1st, 2010. On date of the acquisition Sparrow's Assets stood at Rs. 196 lakhs and liabilities at Rs. 16 lakhs. The Net asset position of Sparrow Ltd. as on 31st March, 2011 & 30th September 2011 were Rs. 280 lakhs & Rs. 395 lakhs respectively, the increase resulting from profits earned during the period.

On 1st Oct, 2011, 25.5% holdings were sold for Rs. 125 lakhs. You are required to explain the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship. The profit arising on part sale of investment, carrying value of the portion unsold & goodwill/capital reserve that arises on change in nature of the investment may also be worked out by you.

(5 marks)