

MOCK TEST PAPER - 1
FINAL (OLD): GROUP – I
PAPER – 1: FINANCIAL REPORTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: 3 hours)

(Maximum Marks: 100)

1. (a) The directors of Whale Ltd. are considering the acquisition of an existing company Dolphin Ltd. engaged in a line of business suited to them. The financial data at the time of acquisition being:

	Whale Ltd.	Dolphin Ltd.
Net profit after tax	Rs. 36,00,000	Rs. 7,20,000
Number of shares	7,20,000	3,00,000
Market price per share	Rs. 150	Rs. 50
Earnings per share	Rs. 5	Rs. 2.40
Price earnings ratio	30	20

It is expected that the net profit after tax of the two companies would continue to be Rs. 43,20,000. Whale Ltd. would pay the amount in the form of shares of Whale Ltd.

Explain the effect on EPS of the merged company if Whale Ltd. offers to pay Rs. 60 per share to the shareholders of Dolphin Ltd.

- (b) From the given information, you are required to compute the deferred tax asset and deferred tax liability for Swamy Ltd. as on 31st March, 2021. The tax rate applicable is 40%.
- The company has charged depreciation of Rs. 3,71,450 in its books of accounts while as per income-tax computation, the depreciation available to the company is Rs. 4,32,700.
 - The company has made provision for doubtful debts for Rs. 27,150 during the year.
 - The company has debited share issue expenses of Rs. 3,11,750 which will be available for deduction under the Income-tax Act from the next year.
 - The expense of Rs. 3,92,250 has been charged to profit and loss account which are disallowed under the Income-tax Act.
 - The company has made donation of Rs. 1,00,000 which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.
- (c) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2021 on Weighted Average Basis.

Details of Purchases:

Date of purchase	Unit (Nos.)	Purchase cost per unit (Rs.)
01-03-2021	20	108
08-03-2021	15	107
17-03-2021	30	109
25-03-2021	15	107

Details of issue of Inventory:

Date of Issue	Unit (Nos.)
03-03-2021	10
12-03-2021	20
18-03-2021	10
24-03-2021	20

Net realizable value of inventory as on 31st March, 2021 is Rs. 107.75 per unit. What will be the value of Inventory as per AS 2?

- (d) The Chief Accountant of Shreyas Limited gives the following data regarding its six segments:

Rs. in lakhs

Particulars	A	B	C	D	E	F	Total
Segment Assets	20	40	15	10	10	5	100
Segment Results	25	(95)	5	5	(5)	15	(50)
Segment Revenue	150	310	40	30	40	30	600

The Chief accountant is of the opinion that segments "A" and "B" alone should be reported. Is he justified in his view? Discuss.
(4 x 5 = 20 Marks)

2. Golden Ltd. has the following capital structure as on 31.3.2021:

Particulars	(Rs. in crores)	
Equity share capital (shares of Rs. 10 each, fully paid)		660
Reserve and Surplus:		
General Reserve	480	
Profit and Loss Account	360	
Infrastructure Development Reserve	<u>360</u>	1200
Loan Funds		3,600

The shareholders of Golden Ltd. have on the recommendation of their Board of Directors approved on 12.9.2021, a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under, a situation where the loan funds of the company were either Rs. 2,400 crores or Rs. 3,000 crores.

Assuming that the entire buy-back is completed by 9.12.2021, show-the accounting entries with full narrations in the company's books in each situation.
(16 Marks)

3. Sparsh Ltd. is willing to sell its business. The purchaser has sought professional advice for the valuation of the goodwill of the company. He has the last audited financial statements together with some additional information. Help him to ascertain the correct price for the purpose of purchase:

The extract of the Balance Sheet as on 31-3-2021 is as under:

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (shares of Rs. 100 each)	9,50,000	Land & Building	5,45,000
8% Preference Share Capital (shares of Rs. 100 each)	2,25,000	Plant & Machinery	4,55,000
Reserves & Surplus	7,50,500	Investments in shares	4,85,000
9% Debentures	5,60,000	Inventories	3,80,000
Current Liabilities	3,25,640	Trade Receivables (net)	4,25,620
		Cash & Bank balance	5,20,520
	28,11,140		28,11,140

- (1) The purchaser wants to acquire all the equity shares of the company.
- (2) The Debentures will be redeemed at a discount of 25% of the value in Balance Sheet and investments in share will be sold at their present market value which is quoted as Rs. 4,95,200. The above will be prior to the purchase of the equity shares.

For the purpose of pricing of Goodwill:

- (3) The normal rate of return on net assets for equity shares is 10%.
- (4) Profits (after tax) for the past three years after debenture interest but before Preference Share Dividend have been as under:

31-3-2021	Rs. 2,95,000
31-3-2020	Rs. 4,99,000
31-3-2019	Rs. 3,25,000

- (5) Goodwill is valued at three years purchase of the adjusted average super profit.
 - (6) In the year 2020, 20% of the profit mentioned above was due to non-recurring transaction resulting in increase of profit.
 - (7) The Land & Building has a current rental value of Rs. 62,400 and 8% return is expected from the property.
 - (8) On 31-3-2021, 8% of debtors existing on the date had been written as bad and charged to Profit and Loss Account as Provision for Bad debts. The same are now recoverable. Tax is applicable at 35%.
 - (9) A claim of compensation long contingent of Rs. 25,000 has perspired and is to be accounted for.
 - (10) No Debenture interest shall be payable in future due to its redemption.
 - (11) Fair values of assets and liabilities are equal to their book values.
 - (12) Ignore depreciation of revalued amounts. **(16 Marks)**
4. The summarized consolidated balance sheets of Milli Ltd. and its subsidiary Neeta Ltd. and balance sheet of joint venture entity Chitra Ltd. as on 31.3.2021 are as follows:

Liabilities	Milli Ltd. (CBS) (Rs.)	Chitra Ltd. (Rs.)
Share capital : Shares of Rs. 100 each	6,00,000	2,00,000

General reserve	2,00,000	--
Profit and loss account	80,000	--
6% Debentures	-	1,50,000
Trade payables	<u>75,000</u>	<u>67,500</u>
	<u>9,55,000</u>	<u>4,17,500</u>
Assets		
Property, plant and equipment	4,50,000	1,50,000
Stock-in-trade	1,40,000	60,000
Trade Receivables	80,000	45,000
6% Debentures of Chitra Ltd. acquired at par	90,000	-
Shares of Chitra Ltd. (1,500 shares @ Rs. 80 each)	1,20,000	-
Cash at bank	75,000	12,500
Profit and loss A/c	<u>-</u>	<u>1,50,000</u>
	<u>9,55,000</u>	<u>4,17,500</u>

Milli Ltd., acquired the shares on 1st August, 2020. The Profit and Loss account of Chitra Ltd., showed a debit balance of Rs. 2,25,000 on 1.4.2020. During June 2020, goods costing Rs. 9,000 were destroyed against which the insurer paid only Rs. 3,000. Trade creditors of Chitra Ltd., include Rs. 30,000 for goods supplied by Milli Ltd., on which Milli Ltd., made a profit of Rs. 3,000. Half of the goods were still in stock on 31.3.2021.

Prepare a consolidated balance sheet incorporating the Joint Venture entity operations using proportionate consolidation method as per AS. **(16 Marks)**

5. (a) (i) A company borrowed ₹ 50 lacs @ 12% p.a. Tenure of the loan is 10 years. Interest is payable every year and the principal is repayable at the end of 10th year. The company defaulted in payment of interest for the year 4, 5 and 6.

A loan reschedule agreement took place at the end of 7th year. As per the agreement the company is required to pay ₹ 90 lacs at the end of 8th year. Calculate the additional amount to be paid on account of rescheduling and also the book value of loan at the end of 8th year when reschedule agreement took place. Assume interest is compounded in case of default.

- (ii) Entity A holds an option to purchase equity shares in a listed entity B for ₹ 100 per share at the end of a 90 day period. Evaluate the contract whether a financial asset or a financial liability? What if the entity A has written the option and the price of the share on the expiry date is ₹ 120?

- (b) A Mutual Fund raised funds on 01.04.2021 by issuing 5 lakhs units @ 17.50 per unit. Out of this Fund, Rs. 80 lakhs invested in several capital market instruments. The initial expenses amount to Rs. 4.5 lakhs. During June, 2021, the Fund sold certain securities worth Rs. 50 lakhs for Rs. 62.5 lakhs and it bought certain securities for Rs. 45 lakhs. The Fund Management's expenses amounting to Rs. 2.5 lakhs per month. The dividend earned was Rs. 1.5 lakhs. 80% of the realised earnings were distributed among the unitholders. The market value of the portfolio was Rs. 87.5 lakhs. Determine Net Asset value (NAV) per unit as on 30.06.2021. **(8 + 8 = 16 Marks)**

6. (a) S Ltd. granted 500 options to each of its 2,500 employees in 2016 at an exercise price of Rs. 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 per cent. The fair value per option is arrived at Rs. 15. Actual forfeitures in 2016 were 5 per cent. However, at the end of 2016 the management of S Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2017 the management revises its estimated

average forfeiture rate to 10 per cent per annum over the entire vesting period. Of the 2,500 employees 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2020 and 500 employees exercise their right at the end of 2021. The rights of the remaining employees expire unexercised at the end of 2021. The face value per share is Rs. 10. Show the necessary journal entries with suitable narrations. Workings should form part of the answer.

- (b) From the following Profit & Loss Account of Y Ltd. prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2021

Particulars		Notes	(Rs. in '000s)
Sales less return			<u>21,350</u>
Trading profit		1	1,920
Less: Depreciation	302		
Interest	<u>140</u>	2	(442)
Add: Other income			<u>80</u>
Profit before tax			1,558
Provision for tax		3	<u>(688)</u>
Profit after tax			870
Less: Extraordinary items		4	<u>(15)</u>
			855
Less: Dividend			<u>(340)</u>
Retained profit			<u>515</u>

Notes:

1.	Trading profit is arrived at after charging the following:		(Rs. in '000s)
	Salaries, wages etc. to employees		3685
	Director's remuneration		360
	Audit fees		220
	Hire of equipment		290
2.	Interest figure is ascertained as below		
	Interest paid on bank loans and overdrafts	160	
	Interest received	<u>(20)</u>	140
3.	Extraordinary items:		
	Surplus on sale of properties	20	
	Loss of Goods by fire	<u>(35)</u>	(15)
4.	The charge for taxation include a transfer of Rs. 1,48,000 to the credit of deferred tax account		

(8 + 8 = 16 Marks)

7. Answer any four of the following:

- (a) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2021, when the exchange rate was Rs. 63 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2021 when the exchange rate was Rs. 67 per US Dollar. However, on 31st March, 2021, the rate of exchange was Rs. 68 per US Dollar. The company passed an entry on 31st March, 2021 adjusting the cost of raw materials consumed for the difference between Rs. 67 and Rs. 63 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

- (b) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS 18 on related party disclosures?

- (c) Explain what do you mean by Carve outs and carve ins in Ind AS from IFRS.
(d) Following is the Profit and Loss Account and Balance Sheet for Priceless Ltd.

(All figures are in Rs. Crores)

	2019-2020	2020-2021
Turnover	652	760
Pre-tax accounting profit	134	168
Taxation	46	58
Profit after tax	88	110
Dividends	30	36
Retained earnings	58	74

Balance Sheet extracts are as follows:	2019-2020	2020-2021
Fixed Assets	240	312
Net current assets	260	320
Total	500	632
Equity Shareholders funds	390	472
Medium and long-term bank loan	110	160

The Companies performance in regard to turnover has increased by 17% alongwith increase in pre-tax profit by 25% but shareholders are not satisfied by the company's performance in the last 2 years.

You are required to calculate economic value added so that reasons of non-satisfaction can be evaluated. You are also given

	2019-2020	2020-2021
1. Pre-tax cost of debt	9%	10%
2. Cost of equity	15%	17%
3. Tax rate	35%	35%
4. Interest expense	Rs. 8	Rs. 12

- (e) Sarthak Ltd. sold goods worth Rs. 50,000 to Manas Ltd. Manas Ltd. asked for discount of Rs. 8,000 which was agreed by Sarthak Ltd. the sale was affected and goods were dispatched. After receiving goods worth Rs. 7,000 was found defective which they returned immediately. They made the payment of Rs. 35,000 to Sarthak Ltd. Accountant booked the sales for Rs. 35,000. Discuss. On the correctness of the treatment done by the accountant.

(4 x 4 =16 Marks)