JUL 2021

Roll No. ....

Total No. of Questions – 7

Total No. of Printed Pages – 15

Time Allowed – 3 Hours

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Maximum Marks – 100

HKD

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answers.

Marks

1. (a) (i) XYZ Limited has set-up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 75 Crore received ₹ 15 Crore as subsidy from the Government in January 2021. The company wants to treat this receipt as an item of revenue and thereby reduce the losses for the year ended on March 31, 2021. **2**

Keeping in view the relevant Accounting Standard, examine whether this action is justified or not ?

Marks

(ii) Caseworker Limited received a specific grant of ₹ 6 Crore for acquiring the plant of ₹ 30 Crore during FY 2015-16 having useful life of 10 years. The grant received was credited to deferred income in the Balance Sheet. During the FY 2020-21, due to non-compliance of conditions laid down for the grant of ₹ 6 Crore, the company had to refund the grant to the Government. The balance in the deferred income on that date was ₹ 3 Crore and written down value of plant was ₹ 15 Crore. Keeping in view the relevant Accounting Standard : 3

(1) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the FY 2020-21 in the Statement of Profit and Loss ?

(2) What should be the treatment of the refund if grant was deducted from the cost of the plant during FY 2015-16 ?

Assume depreciation is charged on fixed assets as per Straight Line Method.

(b) Sky Limited leased a machinery to Moon Limited on the following terms : 5

Particulars	(₹)
Fair value of the machinery	50,00,000
Lease term	5 years
Lease Rental per annum	12,50,000
Guaranteed Residual value	2,50,000
Expected Residual value	5,00,000
Internal Rate of Return	12%

Marks

Depreciation is provided on straight line method @ 10% per annum. You are required to calculate unearned finance income as per AS 19 "Leases".

For purpose of calculation, the following discount factors @ 12% should be adopted :

Year	1	2	3	4	5
Discount Factor	0.8929	0.7972	0.7118	0.6355	0.5674

(c) ABC Limited has started construction of an asset on 1st December, 2020, which continues till 31st March, 2021 (and is expected to go beyond a year). The entity has not taken any specific borrowings to finance the construction of the Asset but has incurred finance costs on its general borrowings during the construction period. **5**

The directly attributable expenditure at the beginning of the month on this asset was ₹ 10 lakhs in December 2020 and ₹ 4 lakhs in each of the months of January to March 2021.

At the beginning of the year, the entity had taken Inter Corporate Deposits of ₹ 20 lakhs at 9% rate of interest and had an overdraft of ₹ 4 lakhs, which increased to ₹ 8 lakh on 1st March, 2021. Interest was paid on the overdraft at 10% until 1st January, 2021 and then the rate was increased to 12%.

Calculate the capitalization rate for computation of borrowing cost in accordance with AS-16 'Borrowing Costs'.

(d) Lion Limited purchased a depreciable Asset at cost of ₹ 45,000 Million on 1st July, 2018. The Asset has a useful life till 31st March, 2026. The estimated residual value is ₹ 650 Million. The selling price of the Asset on 31st March, 2021 is expected to be ₹ 25,000 Million and the cost of disposal as on this date is expected to be ₹ 500 Million. **5**

Marks

The expected cash flows from the Asset are as under :

Financial year	Cash Flow (₹ In Millions)
2021-22	7,500
2022-23	7,000
2023-24	6,500
2024-25	6,000
2025-26	5,000

The company expects the discount rate of 9%. The company provides depreciation on straight line basis. You are required to determine the following as at 31st March, 2021 :

(i) Carrying Amount of Asset

(ii) The value in use of the Asset

(iii) The impairment loss, if any

(iv) The revised carrying amount for the financial year ending 31st March, 2021.

(Discount factor @9% for 1, 2, 3, 4 and 5 years are 0.917, 0.842, 0.772, 0.708 and 0.650 respectively.)

Marks

2. Following are the summarised Balance Sheets of Takeover Limited and Giveaway Limited as on 31st March, 2021 : **16**

Particulars	Note No.	Takeover Limited (₹)	Giveaway Limited (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	75,00,000	15,00,000
(b) Reserve and Surplus	2	1,05,00,000	52,50,000
(2) Non-Current Liabilities			
(a) Secured Loan		30,00,000	4,50,000
(3) Current Liabilities			
(a) Trade Payables		45,00,000	3,00,000
Total		**2,55,00,000**	**75,00,000**
II. Assets			
(1) Non-Current Assets			
(a) Property, Plant and Equipment			
(i) Tangible Assets		90,00,000	27,00,000
(b) Non-current Investment	3	9,00,000	–
(2) Current Assets			
(a) Inventories		45,00,000	37,50,000
(b) Trade Receivables		52,50,000	7,50,000
(c) Cash and Cash Equivalents	4	58,50,000	3,00,000
Total		**2,55,00,000**	**75,00,000**

 Marks

Notes to Accounts :

	Particulars	Takeover Limited (₹)	Giveaway Limited (₹)
1.	Share Capital		
	7,50,000 Equity Shares of ₹ 10 each	75,00,000	
	1,50,000 Equity Shares of ₹ 10 each		15,00,000
2.	Reserve and Surplus		
	General Reserve	75,00,000	30,00,000
	Profit & Loss A/c	30,00,000	22,50,000
		1,05,00,000	52,50,000
3.	Non-current Investment		
	Shares in Giveaway Limited (90,000 shares)	9,00,000	–
4.	Cash and Cash Equivalents		
	Cash at Bank	58,50,000	3,00,000

Takeover Limited holds 60% of the paid-up capital of Giveaway Limited and balance is held by a foreign company. The foreign company agreed with Takeover Limited as under :

(1) The shares held by the Foreign Company will be sold to Takeover Limited at ₹ 55 above the nominal value per share.

(2) The actual cost per share to the Foreign Company was ₹ 15. Gain accruing to Foreign Company is taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by Takeover Limited. 50% of the consideration (after payment of tax) will be remitted (through Bank A/c) to Foreign Company by Takeover Limited.

 Marks

(3) For the balance of consideration, Takeover Limited will issue its shares at their intrinsic value. Amount payable for fractional shares allotted will be remitted along with amount due in (2) above.

It was also decided that Takeover Limited would absorb Giveaway Limited simultaneously by writing down the Fixed Assets of Giveaway Limited by 10%. The Balance Sheet figures included (i) a sum of ₹ 1,50,000 due from Giveaway Limited to Takeover Limited (ii) inventory of ₹ 2,25,000 purchased from Giveaway Limited who sold them at cost plus 20%.

Pass Journal Entries in the books of Takeover Limited to record the above arrangement on 31st March, 2021. Also prepare Balance Sheet of Takeover Limited after absorption.

3. Bull Ltd. acquired 100% ordinary shares of ₹ 100 each of Cow Ltd. on 1st October, 2020. On 31st March, 2021 the summarized Balance Sheet of the two companies were given below : **16**

Balance Sheet as at 31st March, 2021	**Bull Ltd. (₹)**	**Cow Ltd. (₹)**
Equity & Liabilities :		
Shareholders' Fund		
Equity Share Capital		
(Shares of ₹ 100 each fully paid)	50,00,000	20,00,000
Reserve & Surplus :		
General Reserve	24,00,000	10,00,000
Profit & Loss Account	5,72,000	8,20,000
Current Liabilities :		
Short-term Borrowings :		
Bank Overdraft	7,80,000	–
Trade Payable	4,48,000	2,54,000
Total	**92,00,000**	**40,74,000**

Assets :		
Non-Current Assets		
Tangible Assets :		
Property, Plant & Equipment :		
Land & Buildings	17,00,000	20,00,000
Plant & Machinery	24,00,000	13,50,000
Long-term Investments		
Investment in Cow Ltd. (at Cost)	35,00,000	–
Current Assets :		
Inventory	12,00,000	3,64,000
Trade Receivables	3,00,000	3,00,000
Cash & Cash Equivalent	1,00,000	60,000
Total	**92,00,000**	**40,74,000**

The Profit & Loss Account of Cow Ltd. showed a credit balance of ₹ 3,00,000 on 1st April, 2020 out of which a dividend of 10% was paid on 1st November. Bull Ltd has recognized the dividend received in the profit or loss account. Value of Plant & Machinery as on 1st October, 2020 was revalued at ₹ 20,00,000 for the purpose of acquisition. The rate of depreciation on plant & machinery is 10% on WDV method.

Marks

Following increase in value of assets and liabilities is to be considered on the acquisition date as compared to respective Book value as on 1st October, 2020 for the purpose of acquisition while Consolidating the Balance Sheets.

Liabilities	Amount in (₹)	Assets	Amount in (₹)
Trade Payables	1,00,000	Land (No increase in the value of Building)	10,00,000
		Inventories	1,50,000

(i) It may be assumed that the inventory is still unsold on balance sheet date and the Trade payables are also not yet settled.

(ii) Also assume that the General Reserve of both the Companies as on 31st March, 2021 are the same as was on 1st April, 2020.

(iii) All adjustments are required to be taken while calculating post-acquisition profits.

You are required to prepare consolidated Balance Sheet as on 31st March, 2021.

4. (a) Max Limited has suffered huge financial losses during the FY 2020-21 due to the Covid pandemic and was internally discussing to implement restructuring of the company. Subsequent to the year end but before the financial statements are approved for issue on 30th April, 2021, the Company's management announces that it will restructure the operation of the company. The Management plans to make significant redundancies and to close a few divisions of company's business. However, there is no formal plan in place till the time of announcement. Should management recognize a provision in the books of accounts for FY 2020-21, if the company announced to restructure its operations on 20th April, 2021 ? 4

Marks

Discuss with reasons whether these events are in nature of adjusting or non-adjusting and the treatment required in light of Ind AS 10.

(b) What is the functional currency of an entity as per Ind AS ? Whether the Company may have a different functional currency which is other than the currency of the country in which the company has been incorporated ? What are the primary and secondary factors that influence determination of functional currency ? 4

(c) (i) What are the classification of financial assets and financial liabilities as per Ind AS 109 ? Give one example of financial asset and financial liability. Also suggest the criteria on the basis of which financial assets are classified. 3

(ii) On April 1, 2019, Sunshine Limited issued ₹ 60,00,000 7% Convertible debt instrument of face value of ₹ 100 at par. The debt instrument are redeemable at a premium of 10% on 31st March, 2023 or it may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debt instrument without conversion rights would have been 10%. 5

You are required to suggest if this is a compound instrument and if yes kindly separate the equity and debt portion with the necessary workings and journal entry at the inception date.

Marks

5. The following is the Balance Sheet of Amber Limited as at 31st March, 2021 : 16

Particulars	Note No.	(₹)
I. Equity and Liabilities :		
(1) Shareholders' Funds		
(a) Share Capital	1	92,00,000
(b) Reserve and Surplus	2	92,80,000
(2) Non-Current Liabilities		
(a) 9% Debentures		15,00,000
(b) 12% Term Loan		20,00,000
(3) Current Liabilities		
(a) 9% Debentures (Convertible at the beginning of next year)		15,00,000
(b) Trade Payables		10,00,000
(c) Dividend Payable		24,60,000
(d) Income Tax Provision		40,00,000
Total		**3,09,40,000**
II. Assets :		
(1) Non-Current Assets		
(a) Property, Plant and Equipment		
(i) Tangible Assets		1,40,10,000
(b) Non-current Investment	3	55,20,000
(2) Current Assets		
(a) Inventories		40,30,000
(b) Trade Receivables		40,20,000
(c) Advances		25,30,000
(d) Cash and Cash Equivalents		8,30,000
Total		**3,09,40,000**

Marks

Notes to Accounts :

	Particulars	(₹)
1.	Share Capital	
	2,50,000 Equity Shares of ₹ 10 each fully paid-up	25,00,000
	4,00,000 Equity Shares of ₹ 10 each ₹ 8 paid-up	32,00,000
	5,00,000 Equity Shares of ₹ 5 each fully paid-up	25,00,000
	Share Suspense	10,00,000
		92,00,000
2.	Reserve and Surplus	
	General Reserve	51,00,000
	Profit & Loss A/c	41,80,000
		92,80,000
3.	Non-Current Investments	
	Investment in Subsidiaries	30,20,000
	Non-Trade Investments	25,00,000
		55,20,000

Other Information :

(i) Profit before tax (and before deducting interest on convertible debentures) of Amber Limited for the last five years ended on 31st March were as follows 2017 – ₹ 66,00,000, 2018 – ₹ 1,22,00,000, 2019 – ₹ 1,37,00,000, 2020 – ₹ 1,57,50,000, 2021 – ₹ 1,66,00,000.

(ii) Non-Trade Investments earned @ 20% on an average.

(iii) Expected increase in expenditure without commensurate increase in selling price ₹ 30,000.

(iv) Annual Research and Development Expenses in future ₹ 50,000.

Marks

(v) Expected Foreign Currency Loss in future (annualised) ₹ 60,000.

(vi) Expected Tax Rate 25%. Tax Rate in 2020-21 – 30%.

(vii) Normal Return 15% (based on closing capital employed).

You are required to compute the following :

(A) Intrinsic value for different categories of Equity Shares. For this purpose, goodwill may be taken as 3 years' purchase of super profit (For calculation of Future Maintainable Profit, Weighted Average is required to be taken).

(B) Value of Shares as per dividend yield. Normal dividend in the industry is 18%.

(C) Value of Shares as per EPS. Average EPS is ₹ 3 for ₹ 10 share.

6. (a) Shreya Limited grants 200 stock options to each of its 2,000 employees on 1st April, 2018 for ₹ 30, depending upon the employees at the time of vesting options. The market price of the share is ₹ 75. These options will vest at the end of year 1 if the earnings of Shreya Limited is 18% or it will vest at the end of the year 2 if the average earning of two years is 15% or lastly it will vest at the end of the third year if the average earning of 3 years will be 12%. 10,000 unvested options lapsed on 31st March, 2019, 8,000 unvested options lapsed on 31st March, 2020 and finally 7,000 unvested options lapsed on 31st March, 2021. **8**

Following is the earnings of Shreya Limited at the end of every year :

For the year ended on 31st March, 2019 – 16%. The company expects to earn 15% in next year.

For the year ended on 31st March, 2020 – 12%. The company expects to earn 10% in next year.

Marks

For the year ended on 31st March, 2021 – 10%.

1,700 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. The face value of the share of the Company is ₹ 10. Pass necessary Journal entries to record the above transaction.

(b) A-One Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31st March, 2019. Few machines were sold on hire purchase basis. The hire purchase price was set at ₹ 200 Lakhs as against the cash price of ₹ 160 Lakhs. The amount was payable as ₹ 40 Lakhs down payment and balance in 5 equal annual instalments. The hire vendor collected first instalment as on 31st March, 2020 but could not collect the second instalment which was due on 31st March, 2021. The company was finalising accounts for the year ending 31st March, 2021. Till 15th May, 2021, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%. **8**

Determine :

(i) What should be the principal outstanding as on 1st April, 2020 ? Should the company recognise finance charges for the financial year 2020-21 as income ?

(ii) What should be the amount of provision to be made as per prudential norms for NBFCs laid down by RBI in respect of hire purchase assets ?

(iii) What should be the net book value of assets as on 31st March, 2021 so far A-One Limited is concerned as per NBFC prudential norms requirement for provisioning in respect of hire purchase assets ?

Marks

7. Answer any **four** of the following : **4×4 =16**

(a) Analyse and state whether Corporate Social Responsibility (CSR) provisions are applicable to the following companies with reasons thereof.

(₹ in Crores)

Particulars	X Ltd.	Y Ltd,	Z Ltd.
Net Worth	650	300	490
Turnover	850	1,500	900
Net Profit	4.8	3.70	3

(b) Whether Corporate Governance report is mandatory in the annual report of Listed Companies ? What are the disclosures required to be made in the corporate governance section of the annual report ?

(c) A Mutual Fund purchased 20,000 debentures of a company on 1st June, 2020 for ₹ 21,50,000 and further 10,000 debentures on 1st November, 2020 for ₹ 10,97,500. The debentures carry fixed annual coupon of 9%, payable on every 31st March and 30th September. On 28th February, 2021, the fund sold 12,000 of these debentures for ₹ 13,56,000. Nominal value per debenture is ₹ 100.

You are required to prepare Investment in Debenture A/c in books of the Mutual Fund.

(d) List any five major changes in Ind AS 7 "Cash Flow Statement" vis-à-vis notified AS 3 "Cash Flow Statement".

(e) Define Value Added (VA) concept in financial reporting and how Gross Value Added (GVA) is calculated ?