(1)

MAY 2019

Roll No. ....

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

JCS2

Answers to questions are to be given 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 respective answers.

Marks

1. (a) The following information is available for Zing Ltd. for the year 2018-19 : **5**

<u>Raw Material</u> :

Closing Stock	700 units
Cost price	₹ 35 per unit
Replacement cost	₹ 20 per unit

<u>Finished product</u> –	FP1	FP2
Production (units)	3,000	1,600
Closing stock (units)	500	300

Material consumed	₹ 3,20,000
Direct labour	₹ 1,60,000
Direct expenses	₹ 78,000

Marks

Fixed overhead for the year was ₹ 95,000, which includes godown rent of ₹ 15,000. Godown is used for storing finished products.

Besides 2 main products, 1000 units of a by-product (BY) also emerged in the production process which was sold @ ₹ 12 per unit after incurring an expense of ₹ 2,500. ₹ 4,800 was realized from sale of scrap. The average market price of FP1 is ₹ 160 per unit and FP2 is ₹ 100 per unit.

Calculate the value of closing stock of Zing Ltd. as per AS 2.

(b) The following information is furnished in respect of Slate Ltd. for the year ending 31-3-2019 : 5

(i) Depreciation as per books ₹ 2,80,000

Depreciation for tax purpose ₹ 1,90,000

The above depreciation does not include depreciation on new additions.

(ii) A new machinery purchased costing ₹ 1,20,000 during the year on which 100% depreciation is allowed in the 1st year for tax purpose whereas Straight Line Method is considered appropriate for accounting purpose with a life estimation of 4 years.

(iii) Payment of ₹ 60,000 on account of royalty to a non-resident has accrued in the books but payment will be made in the next year.

(iv) Expenses paid in connection with advertisement of a new product in the year 2017-18 amounts to ₹ 80,000, which the company has decided to defer to 5 years. However the entire expense was allowed in the same year for Income Tax purpose.

(v) The company has made a profit of ₹ 6,40,000 before depreciation and taxes.

(vi) Corporate tax rate of 40%.

Prepare a statement of Profit and Loss for the year ending 31-3-2019 and also show the effect of above items on deferred tax liability/asset as per AS 22.

(c) The Chief Accountant of Cotton Garments Limited gives the following data regarding its five segments : 5

(₹ in Crore)

Particulars	A	B	C	D	E	Total
Segment Assets	40	15	10	10	5	80
Segment Results	(95)	5	5	(5)	15	(75)
Segment Revenue	310	40	30	40	30	450

The Chief Accountant is of the opinion that segment "A" alone should be reported. Is he justified in his view ? Examine his opinion in the light of provisions of AS 17 'Segment Reporting'.

Marks

(d) A-One Limited supplied the following information. You are required to compute the basic earnings per share as per AS 20 'Earnings per Share' : **5**

Net Profit attributable to equity shareholders	Year 2017-18 : ₹ 1,00,00,000
	Year 2018-19 : ₹ 1,50,00,000
Number of shares outstanding prior to Right Issue	50,00,000 shares
Right Issue	One new share for each four outstanding shares i.e. 12,50,000 shares
	Right Issue Price - ₹ 96
	Last date of exercising rights – 30-06-2018
Fair Value of one Equity Share immediately prior to exercise of rights on 30-06-2018	₹ 101

Marks

2. Radha Limited and Shyam Limited decide to amalgamate and to form a new company Radhey Shyam Limited. The following are their summarized Balance Sheets as at March 31, 2019 : **16**

Balance Sheet of Radha Limited and Shyam Limited

as on March 31, 2019

Particulars	**Note No.**	**Radha Limited (₹)**	**Shyam Limited (₹)**
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital	1	40,00,000	24,00,000
(b) Reserves and Surplus	2	5,60,000	3,20,000
(2) Non-Current Liabilities			
– 12% Secured Debentures of ₹ 100 each		12,00,000	4,00,000
(3) Current Liabilities			
– Trade Payables		2,40,000	80,000
Total :		**60,00,000**	**32,00,000**
II. Assets			
(1) Non-Current Assets			
– Fixed Assets			
– Tangible Assets		30,00,000	8,00,000
(2) Current Assets			
(a) Current Assets		16,00,000	4,00,000
(b) Current Investments	3	14,00,000	20,00,000
Total :		**60,00,000**	**32,00,000**

Marks

Notes to Accounts :

Note No.		Radha Limited (₹)	Shyam Limited (₹)
1.	Share Capital :		
	Authorised, Issued, Subscribed and Paid up Share Capital :		
	40,000 Equity Share of ₹ 100 each	40,00,000	–
	24,000 Equity Share of ₹ 100 each	–	24,00,000
2.	Reserve and Surplus		
	General Reserve	4,00,000	2,00,000
	Investment Allowance Reserve	1,60,000	1,20,000
		5,60,000	3,20,000
3.	Current Investments :		
	6,000 Shares in Shyam Limited	14,00,000	–
	16,000 Shares in Radha Limited	–	20,00,000

Calculate the amount of purchase consideration for Radha Limited and Shyam Limited and draw up the Balance Sheet of Radhey Shyam Limited after considering the following :

(i) Assume that amalgamation is in the nature of purchase.

(ii) Tangible Fixed Assets of Radha Limited are to be reduced by ₹ 2,00,000 and that of Shyam Limited are to be taken at ₹ 11,96,800.

(iii) 12% Debenture holders of Radha Limited and Shyam Limited are discharged by Radhey Shyam Limited by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(iv) Purchase consideration will be settled by Radhey Shyam Limited by issuing its Equity Shares of ₹ 100 each at par.

Also, show how the Investment Allowance Reserve will be treated in the Financial Statements assuming that the Reserve will be maintained for 3 years.

3. Given below is the summarized balance sheet of Soy Ltd. and Joy Ltd. : 16

	Soy Ltd. as on 31-03-2019 ₹	Joy Ltd. as on 31-12-2018 ₹
Share Capital (Face value of ₹ 10 each)	12,00,000	5,00,000
General Reserve	3,22,500	2,80,000
Profit & Loss account	1,85,000	95,000
Trade payables	2,70,000	2,35,000
Other current liabilities	82,000	65,000
	20,59,500	**11,75,000**
Tangible assets	6,45,000	5,25,000
Investment in Joy Ltd.	6,37,500	–
Inventory	3,15,000	2,80,000
Trade receivables	3,94,000	3,05,000
Cash & Bank	68,000	65,000
	20,59,500	**11,75,000**

 Marks

Soy Ltd. acquired 37,500 ordinary shares of Joy Ltd. at a market price of ₹ 18 per share on 1-1-2019. Joy Ltd. declared and paid a dividend of 10% on the same date. During the month of January, Soy Ltd. sold goods costing ₹ 60,000 to Joy Ltd. at an invoice price of cost plus 25%. 60% of these goods were resold by Joy Ltd. to Soy Ltd. within 31st March 2019 (which were then sold to a third party by Soy Ltd). Joy Ltd. owes ₹ 15,000 (after payment in cash) to Soy Ltd. in respect of these goods as on 31-3-2019.

The fixed assets of Joy Ltd., which stood at ₹ 5,25,000 on 31-12-2018 was considered as worth ₹ 6,05,000 on 1-1-2019, this value is to be considered while consolidating the balance sheets. The cash profit earned by Joy Ltd. during 01-01-2019 to 31-03-2019 was ₹ 50,625 before charging depreciation. Joy Ltd. charges depreciation on tangible assets @ 10% per annum. Assume there are no other changes in the assets and liabilities of Joy Ltd.

You are required to prepare consolidated balance sheet as on 31-3-2019 after making necessary adjustments in the balance sheet items of Joy Ltd.

4. (a) Explain the differences between Ind AS-36 and AS 28 with respect to the following : **4**

(i) Annual impairment testing for an intangible asset with an indefinite useful life.

(ii) Reversal of impairment loss for goodwill

(b) Explain the procedure of calculating 'Diluted Earning Per Share' as per the provisions of Ind AS 33. **4**

(c) PQR Limited grants loan to its employee at 5% amounting to ₹ 6,00,000 on April 1, 2018. The principal amount is required to be repaid over a period of 3 years respectively on March 31, 2019; March 31, 2020 and March 31, 2021, whereas the accumulated interest computed on reducing balance at simple interest is collected in one instalment after collection of the principal amount on March 31, 2022. **8**

Assume the benchmark interest rate @ 9%.

Show the Journal Entries for initial recognition and at the year ending on March 31, 2019. Also calculate the interest to be recognised over the period of loan.

PVIF @ 9%.

At the end of year	1	2	3	4
PVIF	0.9174	0.8417	0.7722	0.7084

5. (a) Iron Fabricators Limited purchased a fabrication machinery on 31-12-2014. Quoted price was ₹ 1,75,00,000. VAT on quoted price is 12%. Transportation Charges and Engineer's Fee respectively are ₹ 1,70,000 and ₹ 30,000. Iron Fabricators Limited borrowed money from bank ₹ 1,50,00,000 for acquisition of the machinery @ 14% p.a. Also, they spent ₹ 1,20,000 for material in relation to trial run. Wages and Overheads incurred during trial run were ₹ 60,000 and ₹ 20,000 respectively. Company further allowed 1% cash discount on Quoted price for timely payment of amount due. The machinery was ready for use on 15-03-2015. It was put to use on 01-04-2015. Find out the original cost. **8**

Expected life of machinery is 10 year. The company decided to charge depreciation on straight line basis.

On April 1, 2017 Iron Fabricators Limited revalued machinery upward by 10%. However, on April 1, 2018, it appears that a 4% downward revaluation should be made to arrive at true value of the machinery in the changed economic and industry conditions.

The machinery was sold on April 1, 2019 for ₹ 1,20,00,000.

Show Machinery A/c and Revaluation Reserve A/c in the books of Iron Fabricators Limited from FY 2015-16 to FY 2019-20.

Marks

(b) Orange Limited hired a Marketing Consultancy Firm for doing market research and provide data relating to Mobile Industry for the next 10 years. The following were the observations and projections made by the consultancy firm : **8**

(1) The Mobile Industry in the target area i.e. whole of India, is expected to grow at 4% per annum for the next three years and thereafter at 8% per annum over the subsequent seven years.

(2) The market size in terms of unencumbered basic sales of mobile was estimated at ₹ 16,000 crores in the last year, dominated by medium and large players. This includes roughly 10% of fake brands and locally manufactured mobiles. Market share of this segment is expected to increase by 0.25% over the decade.

(3) Cheap Chinese Imports accounted for 40% of the business (but 60% of the volume) last year. This is expected to be increased by 0.50% over the next decade.

(4) The other large players accounted for roughly 34% of the business value last year, which is expected to go down by 0.50% over the next ten years, due to expansion of Orange Limited's product portfolio.

(5) The company is in the process of business process re-engineering, which will start yielding results in two years time and increase its profitability by 3% from its existing 8%.

Marks

What is the Brand Value of Orange Limited, under Market Oriented Approach, if the appropriate discount rate is 10% ? Also, give a brief note on Market Oriented Approach and its advantage.

For the purpose of calculation, the following discount factors at discount rate of 10% should be considered :

At the end of year	1	2	3	4	5
Discount factor	0.9091	0.8264	0.7513	0.6830	0.6209
At the end of year	6	7	8	9	10
Discount factor	0.5645	0.5132	0.4665	0.4241	0.3855

6. (a) The following particulars in respect of stock options granted by a company are available : **8**

Grant date	April 1, 2016
Number of employees covered	100
Number of options granted per employee	500
Fair value of option per share on grant date (₹)	12

The option will vest to employees serving continuously for 3 years from vesting date, provided the share price is ₹ 70 or above at the end of 2018-19.

The estimates of number of employees satisfying the condition of continuous employment were 96 on March 31, 2017 and 94 on March 31, 2018. The number of employees actually satisfying the condition of continuous employment was 90. The share price at the end of 2018-19 was ₹ 69.

Compute expenses to be recognised in each year and show Employees' Compensation A/c and ESOP Outstanding A/c in the books of the company.

Marks

(b) From the following Profit and Loss A/c of Diamond Limited, prepare a Value Added Statement for the year ended March 31, 2019. Show also the reconciliation between total value added and profit before taxation. 8

Profit and Loss A/c for the year ended March 31, 2019

	Notes	₹	₹
Income :			
Sales			62,40,000
Other Income			55,000
			62,95,000
Expenditure :			
Production and Operational Expenses	1	43,20,000	
Administrative Expenses	2	1,80,000	
Interest and other charges	3	6,24,000	
Depreciation		16,000	(51,40,000)
Profit before tax			11,55,000
Provision for tax			(55,000)
			11,00,000
Balance as per last Balance Sheet			60,000
			11,60,000
Transferred to Fixed Assets Replacement Reserve		4,00,000	
Dividend Paid		1,60,000	(5,60,000)
Surplus carried to Balance Sheet			6,00,000

Marks

Notes :

(1) Production and operational expenses

	₹
Consumption of Raw Materials	32,10,000
Consumption of stores	40,000
Local Tax	8,000
Salaries to Administrative Staff	6,20,000
Other manufacturing expenses	4,42,000
	43,20,000

(2) Administration expenses include Salaries to Directors ₹ 5,000

(3) Interest and other charges include :

Interest on Fixed loan from Bank	₹ 51,000
Interest on working capital loan from Bank	₹ 1,29,000
GST	??

GST amounts to one-tenth of total value added by manufacturing and Trading activities. Balance after above adjustments are other charges which are related to trading activities.

7. Attempt any **four** of the following :

(a) TZ Ltd. is a company having net worth of ₹ 550 crores. The net profit of the company for the last 3 financial years is ₹ 8.5 crores, ₹ 12 crores and ₹ 10.4 crores respectively. The Board report of the company shows an annual report on Corporate Social Responsibility (CSR) according to which, the amount spent on CSR activities amounts to ₹ 18 lakhs. **4**

Give your opinion whether the disclosure given by the company in its annual report is appropriate in the light of the Guidance Note on accounting for expenditure or CSR ?

Marks

(b) On the basis of provisions of AS 18 'Related Party Disclosures': 4

(i) Identify the related parties in the following cases :

X Limited holds 60% shares of Y Limited

Y Limited holds 55% shares of W Limited

Z Limited holds 35% shares of W Limited

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. The Managing Director of Himalaya Limited owns 80% of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. The chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per AS 18.

Is the contention of chief accountant of Himalaya Limited correct ? Examine.

(iii) Mr. Arnav a relative of key management personnel received remuneration of ₹ 3,00,000 for his services in the company for the period April 1, 2018 to June 30, 2018. On July 1, 2018 he left the job.

Should Mr. Arnav be identified as Related Party at the closing date i.e. March 31, 2019 for the purposes of AS 18 ?

(iv) A limited company sold goods to its associate company for the 1st quarter ending June 30, 2018.After that, the related party relationship ceased to exist. However, goods were supplied continuously even after June 30, 2018 as was supplied to an other ordinary customer.

Determine whether transactions of the entire year have to be disclosed as Related Party transaction as per AS 18.

Marks

(c) Calculate the year end NAV of the Mutual Fund scheme on the basis of the information given below : 4

(i) XYZ Investment Limited launched a new fund scheme for ₹ 5,000 Crore.

(ii) The Fund was launched on April 1, 2018 with a face value of ₹ 1,000 per unit and fully subscribed.

(iii) Underwriting Commission @ 1% of the Fund value was paid in full.

(iv) Management Expenses were allowed by SEBI @ 1% of the Fund raised. However, during the year management expenses were of ₹ 40 Crore only. The management decided to defer the payment of ₹ 5 Crore to the next financial year.

(v) On May 1, 2018, the total Fund received was invested after deduction of underwriting commission and ₹ 75 Crore to meet the day to day management expenses. The investment fund received yielded 12% interest per annum. The interest was received for 3 quarters and the interest of last quarter is yet to be received. The interest realized in cash has been distributed to the unit holders @ 80%. The financial year runs from April to March. The quarter starts from the date of investment i.e. May 1, 2018.

Marks

(d) While closing its books of account on March 31, 2019, a Non-Banking Finance Company has its advances classified as below : 4

	₹ in Lakhs
Standard Assets	84,000
Sub-standard Assets	6,700
Secured portions of Doubtful Debts :	
– up to one year	1,600
– one year to three years	450
– more than three years	150
Unsecured portions of Doubtful Debts	485
Loss Assets	240

Calculate the amount of provision, which must be made against the Advances as per Non-Banking Financial Company – Systematically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(e) Briefly explain scope and forms of Joint Venture as per AS 27. 4