Test Series : April, 2021

MOCK TEST PAPER 2

FINAL (OLD) COURSE

PAPER 1: FINANCIAL REPORTING

Q. No. ***1*** *is compulsory.*

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

Working Notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidates.

Time Allowed – 3 Hours **Maximum Marks: 100**

1. (a) During the course of the last three years, a company owning, and operating Helicopters lost four Helicopters. The company's accountant felt that after the crash, the maintenance provision created in respect of the respective helicopters was no longer required and proposed to write back to the Profit and Loss account as a prior period item. Is the Company's proposed accounting treatment correct? Discuss.

(b) S Ltd. received a grant of Rs. 2,500 lakh during the last accounting year 2019-2020 from government for welfare activities to be carried on by the company for its employees. The grant prescribed conditions for its utilization. However, during the year 2020-2021, it was found that the conditions of grants were not complied with and the grant had to be refunded to the government in full. Elucidate the current accounting treatment, with reference to the provisions of AS 12.

(c) P Ltd. had the following borrowings during a year in respect of capital expansion:

Plant	Cost of Asset (Rs.)	Remarks
Plant P	100 lakh	No specific borrowings
Plant Q	125 lakh	Bank loan of Rs. 65 lakh at 10%
Plant R	175 lakh	9% Debentures of Rs. 125 lakh were issued

In addition to the specific borrowings stated above, the Company had obtained term loans from two banks:

(1) Rs. 100 lakh at 10% from Corporation Bank and

(2) Rs. 110 lakh at 11.50% from State Bank of India, to meet its capital expansion requirements.

Determine the amount of borrowing costs to be capitalized in each of the above Plants, as per AS 16.

(d) P Ltd. had 12,00,000 equity shares of Rs. 10 each fully paid up outstanding prior to rights issue. The details of rights issue are as follows:

(a) One new share for every two shares outstanding.

(b) Rights issue price – Rs. 18

(c) Last date to exercise rights is 31st December, 2020

(d) Fair value of each equity share prior to exercise of rights – Rs 24

The details of net profit earned by the company as follows:

Year ended 31.3,2020 Rs. 40,00,000

Year ended 31.3.2021 Rs. 54,00,000

Calculate EPS to be reported under AS 20. **(4 x 5 = 20 Marks)**

2. The following are the Balance sheets as at 31.3.2021 of A Ltd. and B Ltd.:

	A Ltd. Rs.	B. Ltd. Rs.
Equity and Liabilities		
Share Capital		
Equity Shares of Rs.10 each	36,00,000	18,00,000
10% Preference shares of Rs.100 each	12,00,000	-
12% Preference shares of Rs.100 each	-	6,00,000
Reserve and Surplus		
Statutory Reserve	1,00,000	1,00,000
General Reserve	25,00,000	17,00,000
Non-current liabilities		
15% Debentures	5,00,000	-
12% Debentures	-	5,00,000
Current Liabilities		
Trade payables	10,80,000	12,80,000
Bills payable	20,000	20,000
	90,00,000	60,00,000
Assets		
Non-current assets		
Property, plant and equipment	50,00,000	30,00,000
Investments	5,00,000	5,00,000
Current Assets		
Inventories	18,00,000	12,00,000
Trade Receivables	15,00,000	12,00,000
Bills receivable	50,000	10,000
Cash and cash equivalents	1,50,000	90,000
	90,00,000	60,00,000

Contingent liabilities for bills receivable discounted Rs. 20,000.

(A) The following additional information is provided to you:

	A Ltd. Rs.	B Ltd. Rs.
Profit before Interest and Tax	14,75,000	7,80,000
Rate of Income-tax	40%	40%
Preference dividend	1,20,000	72,000
Equity dividend	3,60,000	2,70,000
Balance profit transferred to Reserve account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb business of B Ltd. as on 31.3.2021. The agreed terms for absorption are:

(i) 12% Preference shareholders of B Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60% of price earnings ratio of A Ltd. based on the results of 2020-2021 of both the Companies.

(b) The market price of Equity shares of A Ltd. is Rs.40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2020-2021.

(iii) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) Rs. 16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Trade Payables of B Ltd. include Rs. 20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.

(v) Property, plant and equipment of both the companies are to be revalued at 20% above book value. Inventory is taken over at 10% less than their book value.

(vi) Statutory reserve has to be maintained for two more years.

(vii) For the next two years no increase in the rate of equity dividend is anticipated.

You are required to find out the purchase consideration and prepare the Balance Sheet of A Ltd. As at 31.3.2021 after absorption. **(16 Marks)**

3. The following are the Balance Sheets of Arun Ltd., Brown Ltd. And Crown Ltd. as at 31.3.2021:

	Arun Ltd.	**Brown Ltd.**	**Crown Ltd.**
	Rs.	**Rs.**	**Rs.**
Equity and Liabilities:			
Share Capital (Shares of Rs. 100 each)	6,00,000	4,00,000	2,40,000
Reserves and surplus			
General Reserves	80,000	40,000	30,000
Profit and Loss Account	2,00,000	1,20,000	1,00,000
Current liabilities			
Trade Payables	80,000	1,00,000	60,000
Arun Ltd.	-	40,000	32,000

Total	9,60,000	7,00,000	4,62,000
Assets:			
Non-current assets			
Property, plant and equipment	2,80,000	2,00,000	2,40,000
Intangible assets	80,000	60,000	40,000
Investment in shares of:			
Brown Ltd. (3,000 Shares)	3,60,000	--	--
Crown Ltd. (400 Shares)	60,000	--	--
Crown Ltd. (1,400 Shares)	--	2,08,000	--
Current assets			
Due from: Brown Ltd.	48,000	--	--
Crown Ltd.	32,000	--	--
Other current assets	1,00,000	2,32,000	1,82,000
Total	9,60,000	7,00,000	4,62,000

(i) All shares were acquired on 1.10.2020

(ii) On 1.4.2020 the balances to the various accounts were as under:

Particulars	**Arun Ltd.**	**Brown Ltd.**	**Crown Ltd.**
	Rs.	**Rs.**	**Rs.**
Reserves	40,000	40,000	20,000
Profit and Loss account	20,000	(Dr.) 20,000	12,000

(iii) During 2020-2021, profits accrued evenly.

(iv) In November, 2020, each company paid interim dividend of 10%. Arun Ltd. and Brown Ltd. have credited their profit and loss account with the dividends received.

(v) During 2020-2021, Crown Ltd. sold an equipment costing Rs. 40,000 to Brown Ltd. for Rs. 48,000 and Brown Ltd. in turn sold the same to Arun Ltd. for Rs. 52,000.

Prepare the consolidated Balance Sheet as at 31.3.2021, of Arun Ltd. and its subsidiaries.

(16 Marks)

4. (a) ABC Ltd. grants 1,000 employees stock options on 1.4.2018 at Rs. 40, when the market price is Rs. 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.2020. 600 options are exercised on 30.6.2021. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations.

(b) Define the concept of materiality, recently revised as per Ind AS 1

(c) S Limited issued redeemable preference shares to its Holding Company - H Limited. The terms of the instrument have been summarized below. Analyse the given situation, applying the guidance in Ind AS 109 'Financial Instruments', and account for this in the books of H Limited.

Nature	*Non-cumulative redeemable preference shares*
Repayment	Redeemable after 3 years
Date of Allotment	1st April 2018
Date of Repayment	31st March 2021
Total Period	3 Years
Value of Preference Shares issued	5,00,00,000
Dividend Rate	0.0001% per annum
Market rate of interest	12% per annum
Present value factor	0.7118

(6 +4 + 6= 16 Marks)

5. (a) Investors Mutual Fund is registered with SEBI and having its registered office at Pune. The fund is in the process of finalising the annual statement of accounts of one of its open ended mutual fund schemes. From the information furnished below you are required to prepare a statement showing the movement of unit holders' funds for the financial year ended 31st March, 2021.

	Rs.'000
Opening Balance of net assets	12,00,000
Net Income for the year (Audited)	85,000
8,50,200 units issued during 2020-2021	96,500
7,52,300 units redeemed during 2020-2021	71,320
The par value per unit is Rs. 100	

(b) Following is an extract of Profit & Loss Account of C Ltd. for the year ended 31st March, 2021.

Particulars	**Rs. 000s**
Sales	1,454
Other Income	26
Total	1,480
Materials	1,060
GST	124
Salaries, Wages & Employee Benefits	38
Other Expenses	94
Interest & Finance Charges	14
Depreciation	10
Provision for Taxation	62
Preliminary Expenses	10
Transfer to Debenture Redemption Reserve	10
Dividend paid	10
Transfer to General Reserve	48
Total	1,480

- Other expenses include fees & commissions to whole – time directors amounting to Rs. 18,000 and loss on sale of property, plant and equipment of Rs. 6,000.

- Interest and finance charges include interest on long term loans of Rs. 8,000; and the balance being on short-term borrowings.

Prepare a Value Added Statement for the year ended 31st March, 2021. Also show statement showing application of value added. **(8+8 =16 Marks)**

6. Timby Ltd. is in the business of making sports equipment. The Company operates from Thailand. To globalise its operations Timby has identified Fine Toys Ltd. an Indian Company, as a potential takeover candidate. After due diligence of Fine Toys Ltd. the following information is available:

(a) Cash Flow Forecasts (Rs. in crore):

Year	10	9	8	7	6	5	4	3	2	1
Fine Toys Ltd.	24	21	15	16	15	12	10	8	6	3
Timby Ltd.	108	70	55	60	52	44	32	30	20	16

(b) The net worth of Fine Toys Ltd. (in lakh Rs.) after considering certain adjustments suggested by the due diligence team reads as under:

Property, plant and equipment		750
Inventories		145
Trade receivables		75
		970
Less: Trade payables	165	
Bank loans	250	(415)
Represented by equity shares of Rs. 1,000 each		555

Talks for takeover have crystalized on the following:

1. Timby Ltd. will not be able to use machinery worth Rs. 75 lakh which will be disposed of by them subsequent to take over. The expected realization will be Rs. 50 lakh.
2. The inventories and trade receivables are agreed for takeover at values of Rs. 100 lakh and Rs. 50 lakh respectively which is the price they will realize on disposal.
3. The liabilities of Fine Toys Ltd. will be discharged in full on takeover alongwith an employee settlement of Rs. 90 lakh for the employees who are not interested in continuing under the new management.
4. Timby Ltd. will invest a sum of Rs. 150 lakh for upgrading the Plant of Fine Toys Ltd. on takeover. A further sum of Rs. 50 lakh will also be incurred in the second year to revamp the machine shop floor of Fine Toys Ltd.
5. The Anticipated Cash Flows (Rs. in crore) post takeover are as follows:

Year	1	2	3	4	5	6	7	8	9	10
Anticipated Cash Flows	18	24	36	44	60	80	96	100	140	200

You are required to advise the management the maximum price which they can pay per share of Fine Toys Ltd. if a discount factor of 20 per cent is considered appropriate. **(16 Marks)**

7. Answer any *four* of the following:

(a) SCL Ltd., sells agriculture products to dealers. One of the conditions of sale is that interest is payable at the rate of 2% p.m., for delayed payments. Percentage of interest recovery is only 10% on such overdue outstanding due to various reasons. During the year 2020-2021, the company wants to recognize the entire interest receivable. Do you agree?

(b) ABC Ltd. was making provision for non-moving stocks based on no issues for the last 12 months upto 31.3.2020. The company wants to provide during the year ending 31.3.2021 based on technical evaluation:

Total value of stock	Rs. 100 lakh
Provision required based on 12 months issue	Rs. 3.5 lakh
Provision required based on technical evaluation	Rs. 2.5 lakh

Does this amount to change in Accounting Policy? Can the company change the method of provision?

(c) Able Bank will give loans to companies that have an "Economic Value Added" greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals Rs. 25,00,000 per year for the last three years.

(ii) Average total assets over the last three years equals Rs. 75,00,000.

(iii) Weighted average cost of capital appropriate for the company is 10% which is applicable for all three years.

(iv) The company's average current liabilities over the last three years are Rs. 15,00,000.

Does the company meet the bank's criterion for a positive economic value added?

(d) In view of the provisions of AS 25 'Interim Financial Reporting', on what basis will you calculate, for an interim period, the provision in respect of defined benefit schemes like pension, gratuity etc. for the employees?

(e) What is the purpose of valuation of liabilities in financial accounting? Explain in brief.

(4 x 4 = 16 Marks)