

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

Question No.1 is compulsory. Candidates are required to answer any five questions from the remaining five questions.

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

Working notes should form part of the answers.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Chance Ltd. purchased an equipment costing ₹ 24,00,000 lakhs on 1.4.2019 and the same was fully financed by foreign currency loan (US Dollars) payable in four annual equal installments. Exchange rates were 1 Dollar = ₹ 60.00 and ₹ 62.50 as on 1.4.2019 and 31.3.2020 respectively. First installment was paid on 31.3.2020. The entire difference in foreign exchange has been capitalized. You are required to state that how these transactions would be accounted for.
- (b) What is the tax effect of sale of property, plant and equipment, considering the block of assets approach followed in the Income-tax Act, 1961?

A company has a block of assets with a written down value of ₹ 1,00,000 on April 1, 2018 for tax purposes. The book value of the assets for accounting purposes is also ₹ 1,00,000. The assets are depreciated on written down value basis at 25 percent per annum for both accounting and tax purposes. Of the entire block, assets costing ₹ 5,000 on April 1, 2018, were sold for ₹ 10,000 on March 31, 2018. Compute the deferred tax asset/liability assuming tax rate of 40 per cent.

- (c) Following information are given for the financial year 1.4.2019 to 31.3.2020

Net profit for the year 2019-2020	₹ 12,00,000
Weighted average number of equity shares outstanding during the year 2019-2020	5,00,000 shares
Average fair value of one equity share during the year 2019-2020	₹ 20.00
Weighted average number of shares under option during the year 2019-2020	1,00,000 shares
Exercise price for shares under option during the year 2019-2020	₹ 15.00

Compute earnings per share.

- (d) Shilpa Ltd. has undertaken a project for expansion of capacity as per the following details:

	Plan (₹)	Actual (₹)
October, 2019	5,00,000	4,00,000
November, 2019	6,50,000	7,95,000
December, 2019	20,00,000	-
January, 2020	2,00,000	50,000
February, 2020	9,00,000	2,00,000
March, 2020	10,00,000	12,00,000

The company pays to its bank interest at a rate of 15% p.a., which is debited on a monthly basis. During the half year, company had ₹ 20 lakhs overdraft up to 31st December, surplus cash in January and again overdraft of ₹ 14 lakhs from 1.2.2020 and ₹ 30 lakhs from 1.3.2020. The company had a strike during December and hence could not continue the work during said period. However, the substantial administrative work related to the project was continued. Onsite work was again commenced on 1st January and all the work were completed on 31st March. Assume that expenditure was incurred on 1st day of each month.

Calculate interest to be capitalized giving reason wherever necessary. Assume overdraft will be less, if there is no capital expenditure. **(5 Marks each)**

2. The summarised Balance Sheets of the following three companies are given below:

	As on 31 st March, 2020 (₹ in lakhs)		
	Eagle Ltd.	Garuda Ltd.	Bird Ltd.
Liabilities			
Equity Shares (₹ 10 each, fully paid up)	60	48	40
7½% Cumulative Preference Shares (₹ 100 each fully paid up)	15	12	10
Capital Reserve on Revaluation of Land, Buildings and Machinery	120		
General Reserve	25	15	10
8% 2,500 Mortgage Debenture Bonds of ₹ 1,000 each	25		
Secured Loans and Advances from Banks	153	71	52
Unsecured Loans:			
(i) From Garuda Ltd.	—	—	12
(ii) From Bird Ltd.	15	—	—
(iii) Deposits from Public	18	12	3
Current Liabilities and Provisions:			
(i) Inter-Company Balances	9	—	—
(ii) Other liabilities and provisions	<u>314</u>	<u>125</u>	<u>72</u>
Total	<u>754</u>	<u>283</u>	<u>199</u>
Assets			
Property, plant and equipment (Net)	272	104	42
Investments (at Cost)			
2,50,000 Equity Shares of Garuda Ltd.	25		
80,000 Equity Shares of Bird Ltd.	8		
1,60,000 Equity Shares of Bird Ltd.		20	
10,000 Cumulative Preference Shares of Eagle Ltd.			10
1,500 Mortgage Debentures of Eagle Ltd.			14
Current Assets	353	123	112
Profit and Loss Account	<u>96</u>	<u>36</u>	<u>21</u>
Total	<u>754</u>	<u>283</u>	<u>199</u>

- (i) Eagle Ltd. subscribed for the shares of Garuda Ltd. and Bird Ltd. at par at the time of first issue of shares by the latter companies.
- (ii) Garuda Ltd., subscribed for 80,000 shares of Bird Ltd. at par at the time of first issue and later acquired by purchase in the market 80,000 shares of Bird Ltd. at ₹ 15 each when Reserves and Surplus of Bird Ltd. stood at ₹ 5 lakhs.
- (iii) Current Assets of Garuda Ltd. and Bird Ltd. included ₹ 4 lakhs and ₹ 6 lakhs respectively being the current accounts balance against Eagle Ltd. These accounts remained unreconciled.
- (iv) Preference dividends were in arrears for:
8 years in the case of Eagle Ltd. and 4 years in the case of other two companies.

Prepare the Consolidated Balance Sheet.

(16 Marks)

3. The following was the abridged Balance Sheet of Atharv Ltd, as at 31st March, 2020:

Liabilities	₹	Assets	₹
Capital:		Plant and machinery at depreciated value	8,60,000
Authorized:		Land	7,00,000
10,000 Equity shares of ₹ 100 each	10,00,000	Current assets	
<u>Issued and paid up:</u>		Trade receivables	8,00,000
8,000 Equity shares of ₹ 100 each, fully paid up	8,00,000	Patents, trademarks and copyrights	6,00,000
<u>Reserves and surplus:</u>			
General reserve 5,00,000			
Securities premium 4,00,000			
Profit and loss <u>3,60,000</u>	12,60,000		
11% Debentures secured against the assets of the Co.	5,00,000		
Trade payables	<u>4,00,000</u>		
	<u>29,60,000</u>		<u>29,60,000</u>

The company ran two distinct departments utilizing the trademarks and copyrights owned and generated by it. The assets and liabilities of one of the departments as on the date of Balance Sheet were:

	₹
Plant and machinery	4,00,000
Land (used for business)	2,00,000
Current assets	2,00,000
Trademarks and copyrights	<u>3,50,000</u>
	11,50,000
Trade payables	<u>2,50,000</u>
	<u>9,00,000</u>

Due to managerial constraints, Atharv is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 20,00,000 to the company for transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 2020, in the following manner:

- (i) Issue of equity shares of the buyer's company for ₹ 10,00,000 nominal value at a premium of 20% over the face value; and
- (ii) Payment of the balance consideration in £ Sterling. The exchange rate agreed upon is ₹ 80 per £ Sterling. This amount will be retained in London, till the actual takeover of the business is done by the buyer.
 - (a) expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by Atharv but to be shared equally by the parties.
 - (b) the balance value of trademarks, copyrights and patents left with Atharv does not enjoy any market value and has to be written off.
 - (c) the value of the balance of land in Atharv's possession will be taken at its market value in the books of account. Such a value, determined by an approved valuer, is 200 percent of the book value.
 - (d) the parties agree that the date of legal ownership of the transferred business shall be 31st March, 2020 though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be effected before 30th April, 2020.

Atharv Ltd to carry on the business in the normal course and account for the profits of the transferred department to the foreign buyer. Atharv made a net profit of ₹ 2,40,000 from the whole business for April, 2020; 40 percent of the net profit related to the business of the transferred department.

- (e) the shares of the overseas buyer's company were quoted on the London Stock Exchange and on 30th April, 2020 were quoted at 95 percent of their face value.
- (f) the cash received by Atharv at London was remitted by it to its Indian banking account on 30th April 2020 when the rupee sterling rate was ₹ 75 per UK sterling pound.

Draw the Balance Sheet of Atharv Ltd. as at 30th April, 2020, after the transfer of the business to the overseas buyer. **(16 Marks)**

4. The following is the summarized Balance Sheet of Authentic Ltd. as on 31st March, 2020:

Balance Sheet

Liabilities	₹	Assets	₹
4,00,000 Equity shares of ₹ 10 each fully paid	40,00,000	Goodwill	6,00,000
13.5% Redeemable preference shares of ₹ 100 each fully paid	20,00,000	Building	24,00,000
General Reserve	16,00,000	Machinery	22,00,000
Profit and Loss Account	3,20,000	Furniture	10,00,000
Bank Loan (Secured against fixed assets)	12,00,000	Vehicles	18,00,000
Trade Payables	37,00,000	Investments	16,00,000
		Inventory	11,00,000
		Trade Receivables	18,00,000
		Bank Balance	3,20,000
	<u>1,28,20,000</u>		<u>1,28,20,000</u>

Further information:

- (i) Return on capital employed is 20% in similar businesses.
- (ii) Tangible assets are worth 30% more than book value. Inventory is overvalued by ₹ 1,00,000, Trade Receivables are to be reduced by ₹ 20,000. Trade investments, which constitute 10% of the total investment are to be valued at 10% below cost.

- (iii) Trade investments were purchased on 1.4.2019. 50% of Non-trade Investments were purchased on 1.4.2017 and the rest on 1.4.2018. Non-trade Investments yielded 15% return on cost.
- (iv) In 2017-2018 new machinery costing ₹ 2,00,000 was purchased, but wrongly charged to revenue. This amount should be adjusted taking depreciation at 10% on reducing value method.
- (v) In 2018-2019, furniture with a book value of ₹ 1,00,000 was sold for ₹ 60,000.
- (vi) For calculating goodwill two years purchase of super profits based on simple average profits of last four years are to be considered. Profits of last four years are as under:
2016-2017 ₹ 16,00,000, 2017-2018 ₹ 18,00,000, 2018-2019 ₹ 21,00,000, 2019-2020 ₹ 22,00,000.
- (vii) Additional depreciation provision at the rate of 10% on the additional value of Plant and Machinery alone may be considered for arriving at average profit.

Find out the intrinsic value of the equity share. Income-tax is not to be considered. **(16 Marks)**

5. (a) As point of staff welfare measures, Y Co. Ltd. has contracted to lend to its employees sums of money at 5 percent per annum rate of interest. The amounts lent are to be repaid alongwith the interest in five equal annual instalments. The market rate of interest is 10 per cent per annum.

Y lent ₹ 16,00,000 to its employees on 1st January, 2020.

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for the year ended 31st December, 2020 for the transaction and also calculate the value of the loan initially to be recognized and the amortized cost for all the subsequent years.

For purposes of calculation, the following discount factors at interest rate of 10 percent may be adopted.

At the end of year

1	0.909
2	0.827
3	0.751
4	0.683
5	0.620

- (b) Lucky Limited grants 180 share options to each of its 690 employees. Each grant containing condition on the employees working for Lucky Ltd. over the next 4 years. Lucky Ltd. has estimated that the fair value of option is ₹ 15. Lucky Ltd. also estimated that 30% of employees will leave during four year period and hence forfeit their rights to the share option. If the above expectations are correct, what amount of expenses to be recognised during vesting period?

(8 Marks each)

6. (a) Kingship Fortunes is a SEBI Registered Mutual Fund which made its maiden N.F.O (New Fund Offer) on 10th April, 2019 ₹ 10 face value per unit. Subscription was received for 90 lakhs units. An underwriting arrangement was also entered into with Fellow feeling Capital Markets Ltd. that agreed to underwrite the entire NFO of 100 lakh units on a commission of 1.5%.

Out of the monies received ₹ 892.50 lakhs was invested in various capital market instruments. The marketing expenses for the N.F.O amounted to ₹ 11.25 lakhs. During the financial year ended March 2020 the Fund sold securities having cost of ₹127.25 lakh (FV ₹ 54.36 lakhs) for ₹ 141.25 lakhs. The fund in turn purchased securities for ₹ 130 lakhs. The management expenses of the fund are regulated by SEBI stipulations which state that the same shall not exceed 0.25% of the average funds invested during the year. The actual amount spent towards

management expenses was ₹ 2.47 lakhs of which ₹ 47,000 was in arrear. The dividends earned on the investments held amounted to ₹ 2.51 lakhs of which a sum of ₹ 25,000 is yet to be collected. The fund distributed 80% of realized earnings. The closing market value of the portfolio was ₹ 1120.23 lakhs

You are required to determine the closing per unit NAV of the fund.

- (b) Prepare a Gross Value Added Statement from the following summarised Profit and Loss Account of Strong Ltd. Show also the reconciliation between Gross Value Added and Profit before Taxation:

Profit & Loss Account for the year ended 31st March, 2020

Income	Notes	Amount	
		(₹ in lakhs)	(₹ in lakhs)
Sales		610	
Other Income		<u>25</u>	
			635
Expenditure			
Production & Operational Expenses	1	465	
Administration Expenses	2	19	
Interest and Other Charges	3	27	
Depreciation		<u>14</u>	<u>525</u>
Profit before Taxes			110
Provision for Taxes			<u>(16)</u>
			94
Balance as per Last Balance Sheet			<u>7</u>
			<u>101</u>
Transferred to:			
General Reserve		60	
Dividend		<u>11</u>	71
Surplus Carried to Balance Sheet			<u>30</u>
			<u>101</u>

Notes:

1. Production & Operational Expenses (₹ in lakhs)

Decrease in Stock	112
Purchases of Raw Materials	185
Purchases of Stores	22
Salaries, Wages, Bonus & Other Benefits	41
Cess and Local Taxes	11
Other Manufacturing Expenses	<u>94</u>
	<u>465</u>

2. Administration expenses include inter-alia audit fees of ₹ 4.80 lakhs, salaries & commission to directors ₹ 5 lakhs and provision for doubtful debts ₹ 5.20 lakhs.
3. Interest and Other Charges: (₹ in lakhs)

On Working Capital Loans from Bank	8
On Fixed Loans from IDBI	12
Debentures	<u>7</u>
	<u>27</u>

(8 Marks each)

7. Answer any 4 out of 5 questions

- (a) Templeton Finance Ltd. is a non-banking finance company. The extracts of its balance sheet are given below:

Liabilities	Amount	Assets	Amount
	₹ in 000		₹ in 000
Paid-up equity capital	100	Leased out assets	800
Free reserves	500	Investment:	
Loans	400	In shares of subsidiaries and	
Deposits	400	group companies	100
		In debentures of subsidiaries and	
		group Companies	100
		Cash and bank balances	200
		Deferred expenditure	<u>200</u>
	<u>1,400</u>		<u>1,400</u>

You are required to compute 'Net owned Fund' of Templeton Finance Ltd. as per Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

- (b) From the following information of Prahlad Ltd., compute the economic value added:

(i)	Share capital	₹ 2,000 lakhs
(ii)	Reserve and surplus	₹ 4,000 lakhs
(iii)	Long-term debt	₹ 400 lakhs
(iv)	Tax rate	30%
(v)	Risk free rate	9%
(vi)	Market rate of return	16%
(vii)	Interest	₹ 40 lakhs
(viii)	Beta factor	1.05
(ix)	Profit before interest and tax	₹ 2,000 lakhs

- (c) Rose Limited provides you the following information on 31st March, 2020:

Capital and Reserves	
Equity share capital of ₹ 10 each of which ₹ 8 has been called up	8,00,000 shares
Calls in arrears	₹ 1,00,000

General Reserve	₹ 7,50,000
50,000, 9% Debentures of ₹ 100 each	₹ 50,00,000
Profit/(loss) for the year	(₹ 2,50,000)
Industry Average Profitability rate	12.5%

The company is proposing to hire the service of Mr. Raman to turn around the company. You are required to determine the maximum salary that could be offered to him if it is expected that after his appointment, the profits of the company will increase by 10% over and above the target profit.

- (d) Explain what do you mean by Carve outs and carve ins in Ind AS from IFRS.
- (e) On 1st January, 2020, Allen Ltd. sold equipment for ₹ 6,14,460. The carrying amount of the equipment on that date was ₹ 1,00,000. The sale was a part of the package under which Solley Ltd. leased the asset to Allen Ltd. for ten years term. The economic life of the asset is estimated as 10 years. The minimum lease rents payable by the lessee has been fixed at ₹ 1,00,000 payable annually beginning from 31st December, 2020. The incremental borrowing interest rate of Allen Ltd. is estimated at 10% p.a. Calculate the net effect on the Statement of Profit and Loss in the books of Allen Ltd. **(4 Marks each)**