FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

NOV 2017

Roll No. ....

Total No. of Questions – 7

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

ACT

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.

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of note.

Marks

1. (a) Rohtas Ltd. has a subsidiary company Bee Ltd. and it is preparing Consolidated Financial Statements as on 31st March, 2017. On 10th May, 2016, Rohtas Ltd. acquired 40% shares of Amit Ltd. for ₹ 45,00,000. By such an acquisition Rohtas Ltd. can exercise significant influence over Amit Ltd. During the financial year ending on 31st March, 2016, Amit Ltd. earned profits ₹ 11,54,000 and declared a dividend of ₹ 2,48,000 on 16th September, 2016. Amit Ltd. reported earnings of ₹ 26,26,000 for the financial year ending on 31st March, 2017 and declared dividends of ₹ 9,85,000 on 17th August, 2017. **4×5 =20**

Marks

You are required to calculate the carrying amount of investments in Separate Financial Statements of Rohtas Ltd. as on 31st March, 2017 and also in Consolidated Financial Statements of Rohtas Ltd. as on 31st March, 2017. What will be the carrying amount of Investments in Consolidated Financial Statements of Rohtas Ltd. if prepared on 31st August, 2017 ?

(b) Neelesh Ltd. has initiated a lease for 3 years in respect of a machinery costing ₹ 6,00,000 with expected useful life of 5 years. Machinery would revert to Neelesh Ltd. under the lease agreement. The unguaranteed residual value of the machinery after the expiry of the lease term is estimated at ₹ 80,000. The implicit rate of interest is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. Annual lease payments are made at the end of each accounting year. (PV of ₹ 1 @ 8% for 3 years is 0.9259, 0.8573, 0.7938 respectively).

You are asked to ascertain the annual lease payment, the unearned finance income and the segregation of finance income in the hands of Neelesh Ltd.

(c) Keeping in view the provisions of AS 10, analyse the following :

(i) Trozen Ltd. operates a major chain of supermarkets all over India. It acquires a new store in Pune which requires significant renovation expenditure. It is expected that the renovations will be done in 2 months during which the store will be closed. The budget for this period, including expenditure related to construction and remodelling costs (₹ 18 lakhs), salaries of staff (₹ 2 lakhs) who will be preparing the store before its opening and related utilities costs (₹ 1.5 lakhs), is prepared. What will the treatment of such expenditures in the books of accounts ?

Marks

(ii) Trozen Ltd. carried plant and machinery in its books at ₹ 5,50,000. These were destroyed in a fire. The assets were insured 'New for Old' and were replaced by the insurance company with new machines that cost ₹ 25 lakhs. The machines were acquired by the insurance company and the company did not receive ₹ 25 lakhs as cash compensation. State, how Trozen Ltd. should account for the same ?

(d) Himalaya Ltd., which is in a business of manufacturing and export of its product. Sometimes, back in 2014, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of ₹ 4,000 lakhs for ₹ 6,000 lakh at the end of the year 2010. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight-line basis. When Government put the restriction at the end of 2014, the company recognised the impairment loss by determining the recoverable amount of assets for ₹ 2,720 lakh. In 2016 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at ₹ 3,420 lakh.

Required :

(i) Calculation and allocation of impairment loss in 2014.

(ii) Reversal of impairment loss and its allocation as per AS-28 in 2016.

Marks

2. Following are the summarized Balance Sheets of Sheep Ltd and Bear Ltd as on 31st March, 2016 : 16

Liabilities	Sheep Ltd. ₹	Bear Ltd. ₹	Assets	Sheep Ltd. ₹	Bear Ltd. ₹
Equity Share Capital (₹ 10 each fully paid up)	10,50,000	5,00,000	Building	9,25,000	3,00,000
General Reserve	8,16,900	2,23,300	Machinery	2,25,000	75,000
Profit & Loss A/c.	1,00,000	1,00,000	Furniture	1,50,000	28,000
Trade Payables	3,81,000	1,60,000	Inventory	3,00,000	3,90,000
			Trade Receivables	4,10,000	1,05,000
			Cash at Bank	3,37,900	85,300
	23,47,900	9,83,300		23,47,900	9,83,300

Marks

On 1st October, 2016, Sheep Ltd. decided to take over Bear Ltd. No Balance Sheet was prepared on that date. For six months period from 1st April, 2016 to 30th September, 2016, Sheet Ltd. and Bear Ltd. earned a profit of ₹ 3,36,000 and ₹ 1,98,000 respectively after writing off depreciation @ 15% per annum on Building and @ 10% per annum on Machinery and Furniture for both the companies.

Sheep Ltd. and Bear Ltd. paid equity dividend @ 8% on 15th July, 2016. Tax @ 10% on such payments was also paid by each of them. Goodwill of Bear Ltd. was valued at ₹ 97,320 on the date of takeover.

For the purpose of takeover :

Inventory of both the companies would be appreciated by 12%, Trade Receivables of Sheep Ltd. and Bear Ltd. would be reduced by 5% and 6% respectively.

Sheep Ltd. issued fully paid equity shares of ₹ 10 each to the shareholders' of Bear Ltd., on the basis of comparative intrinsic values of shares on the take-over date.

You are required to draft the Balance Sheet of Sheep Ltd., after absorption of Bear Ltd. All the workings are to form part of your answer.

Marks

3. Bright Limited is a company carrying on the business of cotton product and having a subsidiary Dark Ltd. Their balance sheets as on 31st March, 2017 were as under : 16

Particulars	Bright Ltd. (₹)	Dark Ltd. (₹)
Equity and Liabilities		
Shareholder's Funds		
Share Capital	25,00,000	5,80,000
Reserve and Surplus		
General Reserves	2,00,000	1,20,000
Profit and Loss Account	3,12,500	2,05,000
Current Liabilities		
Trade Payables	4,55,000	2,35,500
Bills Payable	28,000	83,000
Total	**34,95,500**	**12,23,500**
Assets		
Non-current Assets		
Fixed Assets	21,70,000	6,25,000
Investments (4,640 shares in Dark Ltd.)	5,82,000	
Current Assets		
Inventories	4,08,000	3,19,200
Trade Receivables	1,80,000	1,64,000
Bills Receivables	68,000	1,00,000
Cash and cash equivalents	87,500	15,300
Total	**34,95,500**	**12,23,500**

Marks

Bright Limited has also given the following information :

(i) Bright Limited has acquired the shares in Dark Limited, on two lots on two different dates. The relevant information at the time of acquisition of shares was as under :

No. of shares acquired	Balance in General Reserve	Balance in Profit & Loss A/c.
1st acquisition, 4060 Shares	₹ 80,000	₹ 25,000
2nd acquisition, 580 Shares	₹ 85,000	₹ 1,02,000

(ii) Bills receivables of Bright Limited include ₹ 15,000 being acceptance from Dark Limited.

(iii) Both the companies have declared dividends of 10% for the year ended 31st March, 2017, but it has not been provided in the books of account.

(iv) Dark Limited's inventory includes stock of ₹ 1,45,000 purchased from Bright Limited. Bright Limited sells goods at mark up of 25% on its cost.

Prepare the Consolidated Balance Sheet of Bright Limited along with 'Notes to Accounts'.

Marks

4. (a) Kishan Ltd. grants 250 stock options to each of its 800 employees on 1st April, 2015, conditional upon the employee remaining in the company for 2 years. The fair value of the option is ₹ 22 on the grant date and the exercise price is ₹ 70 per share. The number of employees expected to satisfy service condition are 720 in the first year and 670 in the second year. 30 employees left the company in the first year of service and 700 employees have actually completed second year vesting period. The profit of the enterprise before amortisation of the compensation cost on account of ESOP is ₹ 58,65,000 for 2015-16 and ₹ 76,45,000 for 2016-17. The fair value of shares for these years were ₹ 90 and ₹ 100 respectively. The company has 5 lakhs shares of ₹ 10 each, outstanding at the end of both years. 8

Ignoring taxation impacts, compute Basic and Diluted EPS for both the years.

Marks

(b) The following data is given in respect of Prosperous Ltd. for the year ended 31-3-2017 : 8

Abstract of Statement of Profit & Loss for the year ended 31-3-2017

	₹ in '000	₹ in '000
<u>Income</u>		
Sale	2380	
Other Income	370	2750
<u>Expenditure</u>		
Operating Cost	1855	
Administrative Expenses	150	
Interest Cost	215	
Depreciation	240	2460
Profit before tax		290
Provision for tax		87
Profit after tax		203
Credit balance as per last balance sheet		60
		263

Marks

Other Information :

	₹ in '000
1. Operating cost consists of :	
Material cost	1220
Wages, salaries & other benefits to employees	330
Local taxes including cess	70
Other manufacturing expenses	235
2. Administrative expenses consists of :	
Directors' Remuneration	55
Audit Fees	25
Provision for doubtful debts	8
Others	62
3. Interest cost consists of :	
Interest on 10% debentures	180
Interest on temporary bank overdraft	35
4. The capital structure of the company consists of :	
Equity Share Capital	1,500
9% preference share capital	600

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios :

(a) GVA to Material Cost Ratio (Industry average 0.80)

(b) GVA to Employee Cost Ratio (Industry average 3.82)

(c) GVA to Sales ratio (Industry average 0.70)

(d) GVA to Capital Employed Ratio (Industry average 0.30)

Also comment on the utility of the above ratios in comparison to the Industry average.

Marks

5. (a) Samay Ltd. is willing to commission a new project in December 2017 at a cost of ₹ 6,00,000. The funds for the new project are to be raised by issue of equity shares at a premium which will be based on the intrinsic value of the shares after taking into consideration the value of goodwill. **12**

The following is the extract of Balance Sheet of Samay Ltd. as on 31-03-2017 :

Liabilities	₹	Assets	₹
Equity share capital (₹ 10 each)	8,00,000	Goodwill	3,04,000
		Fixed Assets	10,40,000
9% Preference share capital (₹ 100 each)	2,10,000	Investments	2,95,000
		Inventories	3,15,000
Reserve & Surplus	9,80,000	Trade Receivables (Net)	5,22,000
8% Debentures	3,50,000	Cash & Bank Balance	1,80,000
Current Liabilities	3,16,000		
	26,56,000		**26,56,000**

The following further information is provided to you :

(i) The normal rate of return on net assets for equity share is 12%.

(ii) Goodwill is valued at four years purchase of the adjusted average super profit.

(iii) Profit after tax for the last four years before deducting preference share dividend is as follows :

	₹
31-03-2017	3,10,000
31-03-2016	2,85,000
31-03-2015	3,72,000
31-03-2014	2,07,000

Marks

(iv) In the year 2015, 15% of the profit (after tax) mentioned above was due to non-recurring transactions resulting in increase of profit. In 2014, profit (after tax) was understated by 10% due to wrong inventory valuation.

(v) The company is planning to redeem debentures at a discount of 20% in the beginning of the year (before commissioning new project). To finance the same, investments will be sold at its market value i.e. ₹ 2,53,550. Ignore tax effect on sale of investment.

(vi) On 31-03-2017, 10% of debts were written off as bad and charged to profit and loss account. 50% of the same are now recoverable. Tax rate applicable is 40%.

You are required to calculate how much premium should the company charge (fractions to be ignored) and also number of shares to be issued to finance the new project.

(b) Explain major changes in IND AS 20 vis-à-vis Notified Accounting Standard (AS-12) on the following grounds : 4

(i) Accounting for grant in respect of Non-Depreciating Asset.

(ii) Accounting for grant related to asset including Non-Monetary Grant.

(iii) Valuation of Non-Monetary Grant given free or at a concessional rate.

Marks

6. (a) On 1st April, 2014, Shelter Ltd. issued 5,000, 8% convertible debentures with a face value of ₹ 100 maturing on 31st March, 2019. The debentures are convertible into equity shares of Shelter Ltd. at a conversion price of ₹ 105 per share. Interest is payable annually in cash. At the date of issue, Shelter Ltd. could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 2017, the convertible debentures have a fair value of ₹ 5,25,000. Shelter Ltd. makes a tender offer to debenture holders to repurchase the debentures for ₹ 5,25,000, which the holders accepted. At the date of repurchase, Shelter Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%. 8

Show accounting entries in the books of Shelter Ltd. for recording of Equity and liability component :

(i) At the time of initial recognition and

(ii) At the time of repurchase of the convertible debentures.

The following present values of ₹ 1 at 8%, 9% & 12% are supplied to you :

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

Marks

(b) The summarised Balance Sheet of Peach Ltd. on 31st March, 2017 is as under : **8**

Liabilities	Amount ₹	Assets	Amount ₹
2,00,000 equity shares of ₹ 10 each, fully paid up	20,00,000	Goodwill	1,24,000
		Land & Building	16,53,000
General Reserve	5,20,000	Plant & Machinery	8,78,000
Profit & Loss A/c.	2,32,000	12% Non-Trading Investments	50,000
Trade Payables	1,13,000		
Bank Overdraft	58,000	Inventory	95,000
Provision for Taxation	68,000	Trade Receivables	1,65,000
		Cash in Hand	26,000
Total	**29,91,000**	**Total**	**29,91,000**

Additional Information :

(i) The profit, for the last three years, is as follows :

2013-14 – ₹ 1,98,600, 2014-15 – ₹ 2,07,000, 2015-16 – ₹ 2,85,000.

(ii) Income tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate. For the accounting year 2016-17, the income tax rate should be taken at 30%.

(iii) In the year 2013-14, the company earned an extraordinary income of ₹ 25,000 due to a special contract. In the year 2015-16, company suffered loss due to riots amounting to ₹ 74,000.

(iv) 12% Non-Trading investments were purchased on 1st October, 2014.

Marks

(v) The company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of ₹ 20,000 per annum with effect from 1st April, 2017.

(vi) The company has secured a contract from which it can earn additional ₹ 1,50,000 per annum for the next 4 years.

(vii) The normal rate of return for the industry is 15%.

On the basis of above information, you are required to calculate the value of goodwill of Peach Ltd. at 4 years purchase of super profits, if any, earned by the company in the previous three accounting years. For calculation of Future Maintainable Profits weighted average is to be taken.

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

(a) A Mutual Fund has shown its NAV at ₹ 98.5 and ₹ 102.8 at the beginning and end of the period respectively. It has given the following two options to its investors :

(i) Receive ₹ 8.5 per unit as dividend and ₹ 7.25 per unit as Capital gain, or

(ii) The said income can be reinvested at ₹ 105 per unit.

Mr. A, who has invested in 1000 units of the Fund, seeks your advice as to which option would yield maximum return on investment.

Marks

(b) C Ltd. received a specific grant of ₹ 360 lakh for acquiring the plant of ₹ 1,800 lakh during 2013-14 having useful life of 12 years. The grant received was credited to deferred income in the balance sheet during 2016-17 and due to non-compliance of conditions laid down for the grant of ₹ 360 lakh, the company had to refund the grant to the Government. Balance in the deferred income on that date was ₹ 330 lakh and written down value of plant was ₹ 1,650 lakh.

(i) What should be the treatment of the refund of the grant and the effect on cost of the PPE and depreciation (SLM basis) to be charged during the year 2016-17 in profit and loss account ?

(ii) What should be the treatment of the refund if grant was deducted from the cost of the plant during 2013-14 ?

(c) Differentiate the following items with reference to existing Accounting Standard and Ind AS.

(i) Extra ordinary items

(ii) Contingencies

(d) Indicates in each case whether revenue can be recognised and when it will be recognised.

(i) Insurance agency commission for rendering services.

(ii) Trade discount and volume rebates received.

(iii) Where goods are sold to distributors, dealers or others for resale.

(iv) Where seller concurrently agrees to re-purchase the same goods at a later date.

(e) Explain any two major changes in Ind AS 101 (First time Adoption of Indian Accounting Standards) vis-à-vis IFRS 1 resulting in carve outs. Reasons need not be given.