Roll No. .... **Final New Syllabus** MAY 2019

Paper - 1

Total No. of Questions – **6** **Financial Reporting** Total No. of Printed Pages – **16**

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

ABF2

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 **four** questions from the remaining **five** questions.

Working notes should form part of the respective answers.

Marks

1. (a) Following are the financial statements of JSP Limited : **16**

Balance Sheet

Particulars	Note	As at March, 2018 (₹ In lakh)
EQUITY AND LIABILITIES		
Shareholders' Funds :		
Share Capital (Share of ₹ 10 each)		2,000
Reserves and Surplus	1	2,500
Non-Current Liabilities :		
Long-Term Borrowings	2	4,860
Deferred Tax Liabilities	3	100
Current Liabilities :		
Trade Payables		400
Short Term Provisions		310
Other Current Liabilities	4	250
TOTAL		**10,420**

Marks

ASSETS		
Non-Current Assets :		
Fixed Assets		5,600
Deferred Tax Assets	3	300
Current Assets :		
Inventories		1,520
Trade Receivables	5	1,800
Cash and Bank Balance		1,200
TOTAL		**10,420**

Statement of Profit & Loss

Particulars	**Note**	**Year ended March, 2018 (₹ In lakh)**
Revenue from Operations		**7,500**
Expenses :		
Employee benefit expenses		1,750
Operating Costs		2,860
Depreciation		800
Total Expenses		**5,410**
Profit before tax		2,090
Tax Expense		(510)
Profit after tax		1,580

Notes to Accounts:

Note 1 : Reserves and Surplus : (₹ In lakh)

Capital Reserve		400
Surplus from Profit & Loss		
Opening Balance	225	
Additions	1,580	1,805
Reserves for foreseeable Loss		295
Total		**2,500**

Note 2 : Long Term Borrowings : (₹ In lakh)

Term Loan from Bank	4,860
Total	**4,860**

Note 3 : Deferred Tax : (₹ In lakh)

Deferred Tax Asset	300
Deferred Tax Liability	(100)
Total	**200**

Note 4 : Other Current Liabilities : (₹ In lakh)

Unclaimed Dividends	10
Billing in Advance	240
Total	**250**

Note 5 : Trade Receivables : (₹ In lakh)

Considered Good (Outstanding within 6 months)	1,565
Considered doubtful (due from past 1 year)	253
Provision for doubtful debts	(18)
Total	**1,800**

 Marks

Additional Information :

1. Share capital comprises of 200 lakh shares of ₹ 10 each.
2. Term Loan from bank for ₹ 4,860 lakh also includes interest accrued and due of ₹ 860 lakh as on the reporting date.
3. Reserves for foreseeable loss is created against a service contract due within 3 months.

You are required to :

(i) Identify and report the errors and misstatements in the above extract, wherever applicable.

(ii) Prepare the corrected Balance Sheet and Statement of Profit and Loss.

(b) Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018 : 4

		(₹)
(a)	Remeasurement of defined benefit plans	1,54,200
(b)	Current service cost	1,05,000
(c)	Changes in revaluation surplus	75,000
(d)	Gains and losses arising from translating the monetary assets in foreign currency	45,000
(e)	Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f)	Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g)	Income tax expenses	21,000
(h)	Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1.

Marks

2. (a) Summarised Balance Sheets of PN Ltd. and SR Ltd. as on 31st March, 2018 were given as below: 15

(Amount in ₹)

Particulars	PN Ltd.	SR Ltd.
Assets		
Land & building	4,68,000	5,61,600
Plant & Machinery	7,48,800	4,21,200
Investment in SR ltd.	12,48,000	–
Inventories	3,74,400	1,13,600
Trade Receivables	1,86,500	1,24,800
Cash & Cash equivalents	45,200	24,900
Total Assets	**30,70,900**	**12,46,100**
Equity & Liabilities		
Equity Share Capital (Shares of ₹ 100 each fully paid)	15,60,000	6,24,000
Other Reserves	9,36,000	3,12,000
Retained Earnings	1,78,400	2,55,800
Trade Payables	1,46,900	34,300
Short term borrowings	2,49,600	20,000
Total Equity & Liabilities	**30,70,900**	**12,46,100**

(i) PN Ltd. acquired 70% equity shares of ₹ 100 each of SR Ltd. on 1st October, 2017.

(ii) The Retained Earnings of SR ltd. showed a credit balance of ₹ 93,600 on 1st April, 2017 out of which a dividend of 12% was paid on 15th December, 2017.

Marks

(iii) PN Ltd. has credited the dividend received to its Retained Earnings.

(iv) Fair value of Plant & Machinery of SR Ltd. as on 1st October, 2017 was ₹ 6,24,000. The rate of depreciation on Plant & Machinery was 10% p.a..

(v) Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1st October, 2017 of SR ltd. which are to be considered while consolidating the Balance Sheets :

(a) Land & Buildings ₹ 3,12,000

(b) Inventories ₹ 46,800

(c) Trade Payables ₹ 31,200.

(vi) The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.

(vii) Other Reserves as on 31st March, 2018 are the same as was on 1st April, 2017.

(viii) The business activities of both the company are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of the group of entities PN Ltd. and SR Ltd. as per Ind AS.

(b) Mr. Unique commenced business on 01/04/17 with ₹ 20,000 represented by 5,000 units of the product @ ₹ 4 per unit, During the year 2017-18, he sold 5,000 units @ ₹ 5 per unit. During 2017-18, he withdraw ₹ 4.000. **5**

- 31/03/18 : Price of the product @ ₹ 4.60 per unit
- Average price indices : 1/4/17 : 100 & 31/3/18 : 120

Find Out:

(i) Financial capital maintenance at Historical Cost

(ii) Financial capital maintenance at Current Purchasing Power

(iii) Physical Capital Maintenance

Marks

3. (a) Orange Ltd. contracts to renovate a five star hotel including the installation of new elevators on 01.10.2017. Orange Ltd. estimates the transaction price of ₹ 480 lakh. The expected cost of elevators is ₹ 144 lakh and expected other costs is ₹ 240 lakh. Orange Ltd. purchases elevators and they are delivered to the site six months before they will be installed. Orange Ltd. uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of ₹ 48 lakh by 31.03.2018. . 5

How much revenue will be recognised as per relevant Ind AS for the year ended 31st March, 2018, if performance obligation is met over a period of time ?

(b) CARP Ltd. is engaged in developing computer software. The expenditures incurred by CARP Ltd. in pursuance of its development of software is given below: 5

(i) Paid ₹ 1,50,000 towards salaries of the program designers.

(ii) Incurred ₹ 3,00,000 towards other cost of completion of program design.

(iii) Incurred ₹ 80,000 towards cost of coding and establishing technical feasibility.

(iv) Paid ₹ 3,00,000 for other direct cost after establishment of technical feasibility.

(v) Incurred ₹ 90,000 towards other testing costs.

Marks

(vi) A focus group of other software developers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to ₹ 60,000.

(vii) On March 15, 2018, the development phase was completed and a cash flow budget was prepared.

Net profit for the year 2017-18 was estimated to be equal ₹ 30,00,000.

How CARP Ltd. should account for the above mentioned cost as per relevant Ind A.S ?

(c) XYZ Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of XYZ Info. (Euro). 5

The following is the statement of financial position of XYZ Global Ltd. prior to translation :

	USD	Euro
Property, plant and equipment	60,000	
Receivables	9,00,000	
Total assets	**9,60,000**	
Issued capital	40,000	25,000
Opening retained earnings	25,000	15,000
Profit for the year	22,000	
Accounts payable	8,15,000	
Accrued liabilities	58,000	
Total equity and liabilities	**9,60,000**	

Marks

Additional information :

Relevant exchange rates are :

Rate at beginning of the year – Euro 1 = USD 1.25

Average rate for the year – Euro 1 = USD 1.20

Rate at end of the year – Euro 1 = USD 1.15

You are required to :

(i) Translate the statement of financial position of XYZ Global Ltd. into Euro ready for consolidation by XYZ Info. (Share capital and opening retained earnings have been pre- populated.)

(ii) Prepare a working of the cumulative balance of the foreign currency translation reserve as per relevant Ind A.S.

(d) In 2017-18, Diana Ltd. has around 3,000 employees in the company. As per the company policy, the employees are given 30 days of Privilege Leave (PL), 12 days of Sick Leave (SL) and 12 days of Casual Leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 1,000 employees will take 5 days of PL and 2 days of SL and 2,000 employees will avail 10 as PL and 5 as SL. Also the company has been incurring profits since incorporation. It has been decided in 2017-18 to distribute profits to its employees @ 8% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diana Ltd. is to be around 7%. The profits earned during 2017-18 is ₹ 12,000 lakh. 5

Marks

Diana Ltd. also has a post-employment benefit plan available which is in the nature of defined contribution plan where contribution to this fund amounts to ₹ 500 lakh which will fall due within 12 months from the end of accounting period.

The company has paid ₹ 120 lakh to its employees in 2017-18.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diana Ltd. as per the provisions of relevant Ind AS ?

4. (a) Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying ₹ 4,320 crore on 01.04.2017. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2018, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows: **8**

	(₹ in crore)
Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

The carrying amount of the investment in the associate on 31.03.2018 was therefore ₹ 4,779 crore (4,320+378+54+27).

On 01.04.2018, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash ₹ 13,500 crore. Fair value of the 25% interest already owned was ₹ 4,860 crore and fair value of Shaun Ltd.'s identifiable net assets was ₹ 16,200 crore as on 01.04.2018.

How should such business combination be accounted for in accordance with the applicable Ind AS ?

Marks

(b) The following information provided to you by JOHN Ltd. **8**

(i)	Equity Shares of ₹ 100 each of which ₹ 60 has been called up	12,00,000 shares
(ii)	Equity Shares in respect of which calls are in arrears @ 20 per share	₹ 14,00,000
(iii)	General Reserve	₹ 1,64,00,000
(iv)	Profit & Loss Account (balance at beginning of the year)	₹ (25,00,000)
(v)	Profit / (Loss) for the year	₹ (7,20,000)
(vi)	Industry Average Profitability	15%
(vii)	10% Debentures of ₹ 100 each	3,00,000

JOHN Ltd. is proposing to hire the services of Mr. Neil to turn the company around. Mr. Neil demanded minimum take home salary of ₹ 10,00,000 per month. Take home salary is that remaining after employee's contribution to Provident Fund @ ₹ 1,25,000 per month and after deduction of Income – tax on salary. Provident Fund contribution by JOHN Ltd per month will be ₹ 1,25,000. PF contributions are tax exempt. Average Income Tax rate on salaries after considering the impact of exemption amount of ₹ 3 lakh p.a. will be 25%. JOHN Ltd. expects 12% Profits over & above target by hiring Mr. Neil.

You are required to analyse the proposal and see whether it is worthwhile to employ Mr. Neil and also suggest the maximum emoluments that could be paid to him.

Marks

(c) (1) Vastra Ltd. has 3 lakh units of Certified Emission Reduction (CER) under validation stage and 1,20,000 units have been approved by UNFCCC. What is the treatment required for the above ? 4

(2) 2,00,000 units of carbon credit (CER) has been produced by ACL Ltd. Currently the value of CER under different situations are as follows :

(i) Cost @ ₹ 250 per unit i.e. CER

(ii) Market Value @ ₹ 210 per unit i.e. CER

(iii) Net Realization Value ₹ 200 per unit i.e. CER

(iv) Disposal Value ₹ 190 per unit i.e. CER

Explain how income recognition will be done as per relevant and applicable Accounting Standards.

5. (a) Perfect Ltd. issued 50,000 Compulsory Cumulative Convertible Preference Shares (CCCPS) as on 1st April, 2017 @ ₹ 180 each. The rate of dividend is 10% payable at the end of every year. The preference shares are convertible into 12,500 equity shares (Face value ₹ 10 each) of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion option is 15% per annum. Transaction cost on the date of issuance is 2% of the value of the proceeds. Effective Interest Rate is 15.86%. (Round off the figures to the nearest multiple of Rupee) 12

Discounting Factor @ 15%

Year	1	2	3	4	5
Discount Factor	0.8696	0.7561	0.6575	0.5718	0.4971

You are required to compute Liability and Equity Component and Pass Journal Entries for entire term of arrangement i.e. from the issue of Preference Shares till their conversion into Equity Shares. Keeping in view the provisions of relevant Ind AS.

Marks

(b) Beetel Holding Inc. grants 100 shares to each of its 300 employees on 1st January, 2015. The employees should remain in service during the vesting period. The shares will vest at the end of the **8**

First year	if the company's earnings increase by 13%
Second year	if the company's earnings increased by more than 21% over the two-year period.
Third year	if the entity's earning increased by more than 23% over the three-year period.

The fair value per share at the grant date is ₹ 125.

In 2015, earnings increased by 9% and 20 employees left the organization. The company expects that earnings will continue at a similar rate in 2016 and expects that the shares will vest at the end of the year 2016. The company also expects that additional 30 employees will leave the organization in the year 2016 and that 250 employees will receive their shares at the end of the year 2016.

At the end of 2016, company's earnings increased by 19%. Therefore, the shares did not vest. Only 20 employees left the organization during 2016. Company believes that additional 25 employees will leave in 2017 and earnings will further increase so that the performance target will be achieved in 2017.

At the end of the year 2017, only 22 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

Determine the expense for each year and pass appropriate journal entries.

Marks

6. (a) Shiv Ltd. purchased 70% stake in Shyam Ltd. for ₹ 21,22,400 on 01.04.2016. On the date of the acquisition, Shyam Ltd.'s assets & liabilities were ₹ 54,88,000 and ₹ 4,48,000 respectively. The net assets position of Shyam Ltd. as on 31.03.2017 & 30.09.2017 were ₹ 78,40,000 and ₹ 1,10,60,000 respectively, the increase resulting from profits earned during the period. On 01.10.2017, Shiv Ltd. retained 30% stake in Shyam Ltd. and sold balance for ₹ 50,00,000. **12**

Discuss the nature of the relationship between the two companies on the relevant dates and the accounting adjustments that are necessary as a result of any change in the relationship as per relevant Accounting Standard.

Also, calculate the profit arising on part sale of investment, carrying value of the portion unsold & Goodwill/Capital Reserve that arises on change in nature of the investment.

(b) Mediquick Ltd. has received the following grants from the central Government of for its newly started pharmaceutical business : **4**

- ₹ 50 lakhs received for immediate start - up of business without any condition.

- ₹ 70 lakhs received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions :

(i) That drugs should be available to the public at 20% cheaper from current market price : and

(ii) The drugs should be in accordance with quality prescribed by the Govt. Drug Control department.

- Three acres of land (fair Value : ₹ 20 Lakhs) received for set up plant.
- ₹ 4 Lakhs received for purchase of machinery of ₹ 10 lakhs. Useful life of machinery is 4 years. Depreciation on this machinery is to be charged on straight-line basis.

How should Mediquick Ltd. recognize the government grants in its book of accounts as per relevant Ind A.S. ?

(c) Narayan ltd. provides you the following information and asks you to calculate the tax expense for each quarter with reference to AS 25, assuming that there is no difference between the estimated taxable income and the estimated accounting income : 4

Estimated Gross Annual Income	₹ 33,00,000

(inclusive of Estimated Capital Gains of ₹ 8,00,000)

Estimated Income of Quarter I is ₹ 7,00,000, Quarter II is ₹ 8,00,000, Quarter III (including Estimated Capital Gains of ₹ 8,00,000) is ₹ 12,00,000 and Quarter IV is ₹ 6,00,000.

Tax Rates :	On Capital Gains		12%
	On Other Income :	First ₹ 5,00,000	30%
		Balance Income	40%

OR

Marks

KAPC Ltd. acquired a machine on 1st April, 2010 for 10 crore that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at ₹ 7.10 crore and surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2016 conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 1.09 crore. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of KAPC Ltd. KAPC Ltd, had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from revaluation as per AS-28. 4
