CA FINAL

SUBJECT-FR

Test Code – FNJ 7417

(Date :)

(Marks -100)

NOTES: **(1) QUESTION NO. 1 IS COMPULSORY. ANSWER ANY FOUR QUESTIONS OUT OF REMAINING FIVE QUESTIONS**

(2) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(3) NEW QUESTION SHOULD BE ON NEW PAGE

Question No. 1

You are provided with the Balance Sheet for P Co. and S. Co.
Balance Sheet as on 31st December, 2018

	P Co.		**S. Co.**	
	'000	'000	'000	'000
Non – current assets				
Plant		325		70
Fixtures		200		50
		525		120
Investment				
Shares in S Co. at cost		200		
Current Assets				
Inventory at cost	220		70	
Receivables	145		105	
Bank	100		0	
		465		175
		1,190		295
Equity				
Rs. 1 Equity shares		700		170
Retained earnings		215		50
		915		220
Current Liabilities				
Payables	275		55	
Bank overdraft	0	275	20	75
		1,190		295

Additional Information :

(a) P co. purchased 70% of the issued ordinary share capital of S Co. four years ago, when the retained earnings of subsidiary were Rs. 20,000.

(b) For the purposes of the acquisition, plant in S Co. with a book – value of Rs. 50,000 was revalued to its fair value of Rs. 60,000. The revaluation was not recorded in the accounts of S Co. Depreciate is charged at 20% using the SLM.

(c) P Co. sells goods to S Co. at a mark – up of 25%. At 31st December, 2018, the inventories of S Co. included Rs. 45,000 of goods purchased from P Co.

(d) S Co. owes P Co. Rs. 35,000 for goods purchased and P Co. owes S Co. Rs. 15,000.

(e) The market price of the shares of the non – controlling shareholders just before the acquisition was Rs. 1.50.

Required :

Prepare the consolidated statement of financial position of P Co. as at 31st December 2018.

Note :
Non – controlling interest is to be measured at fair value.

(16 Marks)

(B)

Ashim company distributes 0.03% of its net profit to each of its workers who serve throughout the year. The payment is being made in the next year. The company had 104 workers at the end of the year. During the year 10 employees joined, out of which 6 employees left. Total number of employees left during the year is 11. The net profit of the company before charging the profit sharing bonus is Rs. 51.5 lakh. Show accounting entries to record profit sharing bonus plan.

(4 Marks)

<u>Question No. 2</u>

(A)

On 1st January,20X0, entity A issued a 10% convertible debenture with the face value of Rs.1000 maturing on 31st December , 20X9.The debenture is convertible into ordinary shares of entity A @ a conversion price of Rs.25 Per share. Interest is payable half yearly in cash. At the date of issue, entity A could have issued non convertible debt with a 10 year term bearing a coupon interest rate of 11%. On 1st January,20X5, the convertible debentures have a fair value of Rs.1600.entity A makes a tender offer to the holder of the debentures to repurchase the debentures for Rs.1600,which the holder accepts. At the date of repurchase, entity A could have issued non convertible debt with a 5 year term bearing a coupon interest rate of 8%.

(14 Marks)

(B)

On 31st March 20X1, the inventory of ABC includes spare parts which it had been supplying to a number of different customers for some years. The cost of the spare parts was Rs. 10 million and based on retail price at 31st March 20X1, the expected selling price of the spare parts is Rs. 12 million. On 15 April 20X1, due to market fluctuations, expected selling price of the spare parts in stock reduced to Rs. 8 million. The estimated selling expense required to make the sales would Rs. 0.5 million. Financial statement were authorized by Board of Directors on 20th April 20X1.

As at 31st March 20X2, Directors noted that such inventory is still unsold and lying in the warehouse of the company. Directors believe that inventory is in a saleable condition and active marketing would result in an immediate sale. Since the market conditions have improved, estimated selling price of inventory is Rs. 11 million and estimated selling expenses are same Rs. 0.5 million.

What will be the value inventory at the following dates :

(a) 31st March, 20X1
(b) 31st March 20X2

(6 Marks)

Question No. 3

(A)

In 2018 an entity has accounting profit in its own jurisdiction (country A) of Rs. 1,500 (in 2017 Rs. 2,000) and in Country B of Rs. 1500 (in 2017 Rs. 500)

The tax rate in country A is 30t and tax rate is 20% in country B.

In Country A, expenses of Rs. 100 (2017 Rs. 200) are not deductible for tax purposes. These are permanent disallowances. Calculate current tax and show reconciliation.

(4 Marks)

(B) A Limited has a policy of providing subsidized loans to its employees for the purpose of buying or building houses. Mr. X, who's executive assistant to the CEO of A Limited, took a loan from the Company on the following items :

- Principal amount is Rs. 10,00,000.
- Interest rate is 4% for the first Rs. 4,00,000 and 7% for the next Rs. 6,00,000.
- Start date is 1st January 2019.
- Tenure is 5 years.
- Pre – Payment option : Full or partial pre – payment at the option of he employee.
- The principal amount of loan shall be recovered in 5 equal annual instalments and will be first applied to 7% interest bearing principal.
- The accrued interest shall be paid on an annual basis.
- Mr. X must remain in service till the term of the loan ends.

The market rate of a comparable loan available to Mr. X, is 12% per annum.
Following table shows the contractually expected cash flows from the loan given to Mr. X.

(Amount in Rs.)

Date	Inflows				
	Outflows	**Principal**	**Interest income @ 7%**	**Interest income @ 4%**	**Principal outstanding**
1st January, 2019	(10,00,000)				10,00,000
31st December, 2019		2,00,000	42,000	16,000	8,00,000
31st December, 2020		2,00,000	28,000	16,000	6,00,000
31st December, 2021		2,00,000	14,000	16,000	4,00,000
31st December, 2022		2,00,000	-	16,000	2,00,000
31st December, 2023		2,00,000	-	8,000	-

Mr. X pre – pays Rs. 2,00,000 on 31st December 2020, reducing the outstanding principal as at that date to Rs. 4,00,000.
Following table shows the actual cash flows from the loan given to Mr. X, considering the pre – payment event on 31st December 2020 :

(Amount in Rs.)

Date	Inflows				
	Outflows	**Principal**	**Interest income @ 7%**	**Interest income @ 4%**	**Principal outstanding**
1st January, 2019	(10,00,000)				10,00,000
31st December, 2019		2,00,000	42,000	16,000	8,00,000
31st December, 2020		4,00,000	28,000	16,000	4,00,000
31st December, 2021		2,00,000	-	16,000	2,00,000
31st December, 2022		2,00,000	-	8,000	2,00,000
31st December, 2023		-	-	-	-

Record journal entries in the books of A Limited applying the requirements of Ind As 109.

(8 Marks)

(C) A's Ltd. Profit before tax according to Ind AS for Year 20X1 – 20X2 is Rs. 100 thousand and taxable profit for year 20X1 – 20X2 is Rs. 104 thousand. The difference between these amounts arose as follows :

On 1st February, 20X2, it acquired a machine for Rs. 120 thousand. Depreciation is charged on the machine on a monthly basis for accounting purpose. Under the tax law, the machine will be depreciated for 6 months. The machine's useful life is 10 years according to Ind AS as well as for tax purposes. In the year 20X1 – 20X2, expenses of Rs. 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

You are required to prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.

Also prepare the tax reconciliation in absolute number as well as the tax rate reconciliation.

(8 Marks)

Question No. 4

(A)

A Ltd. is in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows:

I. Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to Rs. 50 crore as on 31st December, 20X1. Under IGAAP, the Company has 'recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows:

1. Total expenses estimated to be incurred on the project – Rs. 100 crore
2. Fair value of the construction services is Rs. 110 crore

3. Total Cash Flow guaranteed by the Government under the concession agreement is Rs. 200 crore.
4. Finance revenue over the period of operation phase is Rs. 15 crore.
5. Other income relates to the services provided during the operation phase.

II. Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be Rs. 110 crore. The fair value of such construction cost is approximately Rs. 200 crore. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.

Required

(i) What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

(ii) What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

(iii) Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 projects

(12 Marks)

(B)

Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, Rs. 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:

	(Rs. 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 Rs. 4,779 crore (4,320 + 378 + 54 + 27).

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

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

(8 Marks)

Question No. 5

(A)

Following are the Financial Statements of Abraham Ltd.:

Balance Sheet

Particulars	**Note No.**	**As at 31st March, 2019 (Rs. in lakh)**
EQUITY AND LIABILITIES:		
Shareholders' funds		
Share capital (shares of Rs. 10 each)		1,000
Reserves and surplus	1	2,400
Non-current liabilities		
Long term borrowings	2	5,700
Deferred tax liabilities	3	400
Current liabilities		
Trade payables		300
Short-term provisions		300
Other current liabilities	4	200
Total		**10,300**
ASSETS		
Non-current assets		
Fixed assets		5,000
Deferred tax assets	3	700
Current assets		
Inventories		1,500
Trade receivables	5	1,100
Cash and bank balances		2,000
Total		**10,300**

Statement of Profit & Loss

Particular	Note No.	Year ended 31st March, 2019 (Rs. in lakh)
Revenue from operations		6,000
Expenses:		
Employee benefit expense		1,200
Operating costs		3,199
Depreciation		450
Total expenses		4,849
Profit before tax		1,151
Tax expense		201
Profit after tax		950

Notes to Accounts:

Note 1: Reserves and surplus (Rs. in lakh)

Capital reserve		500
Surplus from P & L		
Opening balance	550	
Additions	950	1,500
Reserve for foreseeable loss		400
Total		2,400

Note 2: Long-term borrowings

Term loan from bank	5,700
Total	5,700

Note 3: Deferred tax

Deferred tax asset	700
Deferred tax liability	400
Total	300

Note 4: Other current liabilities

Unclaimed dividends	10
Billing in advance	150

Note 5: Trade Receivables

Considered good (outstanding within 6 months)	1,065
Considered doubtful (due from past 1 year)	40
Provision for doubtful debts	(5)
Total	1,100

Additional information:

(i) Share capital comprises of 100 lakh shares of Rs. 10 each.

(ii) Term Loan from bank for Rs. 5,700 lakh also includes interest accrued and due of Rs. 700 lakh as on the reporting date.

(iii) Reserve for foreseeable loss is created against a service contract due within 6 months.

(iv) Inventory should be valued at cost Rs. 1,500 lakh, NRV as on date is Rs. 1,200 lakh.

(v) A dividend of 10 % was declared by the Board of directors of the company.

(vi) Accrued Interest income of Rs. 300 lakh is not booked in the books of the company.

(vii) Deferred taxes related to taxes on income are levied by the same governing tax laws.

Identify and report the errors and misstatements in the above extracts and prepare corrected Balance Sheet and Statement of Profit & Loss and where required the relevant notes to the accounts with explanations thereof.

(12 Marks)

(B)

On 1st April 2017, A Ltd. assumes a decommissioning liability in a business combination.

The entity is legally required to dismantle and remove an offshore oil platform at the end of its useful life. Which is estimated to be 10 years. A Ltd. uses the expected present value technique to measure the fair value of the decommissioning liability. If A Ltd. was contractually allowed to transfer its decommissioning liability to a market participant, it concludes that a market participant would use the following inputs, probability – weighted as appropriate, when estimating the price, it would expect to receive.

(i) Labour costs are developed on the basis of current market place wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. A Ltd. assigns probability assessments (based A Ltd.'s experience with fulfilling obligations of this type and its knowledge of the market) to a range of cash flow estimates as follows :

Cash flow estimate (Rs.)	Probability assessment
50,000	25%
62,500	50%
87,500	25%

(ii) A Ltd. estimates allocated overhead and equipment operating costs to be 80% of expected labour costs in consistent with the cost structure of market participants.

(iii) A Ltd. estimates the compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset as follows :

(a) A third – party contractor typically adds 20% mark – up labour and allocated internal costs to provide a profit margin on the job.

(b) A Ltd. estimates 5% premium of the expected cash flow, including the effect of inflation for uncertainty inherent in locking in today's price for a project that will not occur for 10 years.

(iv) Entity A assumes a rate of inflation of 4% over the 10 years period on the basis of available market data.

(v) The risk – free rate of interest for a 10 years maturity on 1st April, 2017 is 5%. A Ltd. adjusts that rate by 3.5 per cent to reflect its risk of non – performance (i.e. the risk that it will not fulfill the obligation), including its credit risk.

A Ltd. concludes that its assumptions would be used by market participants. In addition, A Ltd., does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability.

Measure the fair value of its decommissioning liability ?

(4 MARKS)

(C)

ABC Co. is a government company and is a first – time adopter of Ind AS. As per the previous GAAP, the contributions received by ABC Co. from the government (which holds 100% shareholding in ABC Co.) which is in the nature of promoters' contribution have been recognized in capital reserve and treated as part of shareholders' funds in accordance with the provision of AS 12, Accounting for Government Grants.

(1) Whether the accounting treatment of the grants in the nature of promoter's contribution as per AS 12 is also permitted under Ind AS 20 Accounting the Government Grants and Disclosure of Government Assistance. If not, then what will be the accounting treatment of such grants recognized in capital reserve as per previous GAAP on the date of transition to Ind As.

(2) What will be the accounting treatment of the grants in the nature of promoters' contribution which ABC Co. receives post transition to Ind AS ?

(4 MARKS)

Question No. 6

(A) A Ltd. has initiated a lease for three years in respect of an equipment costing Rs. 1,50,000 with expected useful life of 4 years. The asset would revert to A Limited under the lease agreement.

The other information available in respect of lease agreement is :

- The unguaranteed residual value of the equipment after the expiry of the lease term is estimated at Rs. 20,000.
- The implicit rate of interest is 10%.

Ascertain for A Ltd. :

(i) The annual lease payment

(ii) The unearned finance income.

(iii) The segregation of finance income.

(6 MARKS)

(B) Due to immense loss to Nepal in the recent earthquake, one FMCG Company undertakes various commercial activities with considerable discounts and concessions at the related affected areas of Nepal for a continuous period of 3 months after earthquake. In the Financial Statements for the year 2014 – 15, the Management has shown the expenditure incurred on such activity as expenditure incurred to discharge Corporate Social Responsibility. State whether the intention of management is correct. Explain with reasons.

(4 Marks)

(C)

A Ltd. was required to pay penalty for a breach in the performance of a contract. A Ltd. believed that the penalty was payable at a lower amount than the amount demanded by the other party. A Ltd. created provision for the penalty but also approached the arbitrator with a submission that the case may be dismissed with costs. A Ltd. prepared the financial statements for the year 2016 – 17, which were approved in July 2017. The arbitrator, in June 2017, awarded the case in favour of A Ltd. As a result of the award of the arbitrator, the provision earlier made by A Ltd. was required to be reduced. The arbitrator also decided the cost of the case should be borne by the other party. Now, whether A Ltd. is required to remeasure its provision and what would be the accounting treatment of the cost that will be recovered by A Ltd., which has already been charged to the Statement of Profit and Loss as an expense for the year 2016 – 17 ? **(5 Marks)**

(D) X Ltd. invested in 25% equity shares of A Ltd. in 1.4.2015 for Rs. 11,00,000.

Details of assets, liabilities, equity and loss are as follows :

(Amount in Rs.)

	1.4.2015	**31.3.2016**
Assets	50,00,000	35,00,000
Liabilities	10,00,000	5,00,000
Equity	40,00,000	30,00,000
Acquisition cost	11,00,000	
Goodwill (As per equity method accounting – Part of carrying amount of Investment)	1,00,000	

By virtue of 25% shareholding A Ltd. becomes an associate entity of X Ltd.

How would X Ltd. apply the indicators stated in Ind AS 36 ? Interpret the outcome of the test.

(5 MARKS)