

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

Question No.1 is compulsory. Candidates are required to answer any four 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) H Limited having net worth of ₹ 250 crores is required to adopt Ind AS from 1st April, 20X2 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. R, the senior manager, of H Ltd. has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared:

Issue 1: As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The carrying value of land as on the date of transition was ₹ 5,00,000. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 8,00,000.

Issue 2: Under Ind AS, the Company has designated mutual funds as investments at fair value through profit or loss. The value of mutual funds as per previous GAAP was ₹ 4,00,000 (at cost). However, the fair value of mutual funds as on the date of transition was ₹ 5,00,000.

Issue 3: Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 1,80,000 as against the carrying amount of loan which at present equals ₹ 2,00,000.

Issue 4: The company has declared dividend of ₹ 30,000 for last financial year. On the date of transition, the declared dividend has already been deducted by the accountant from the company's 'Reserves & Surplus' and the dividend payable has been grouped under 'Provisions'. The dividend was only declared by board of directors at that time, and it was not approved in the annual general meeting of shareholders. However, subsequently when the meeting was held it was ratified by the shareholders.

Issue 5: The company had acquired intangible assets as trademarks amounting to ₹ 2,50,000. The company assumes to have indefinite life of these assets. The fair value of the intangible assets as on the date of transition was ₹ 3,00,000. However, the company wants to carry the intangible assets at ₹ 2,50,000 only.

Issue 6: After consideration of possible effects as per Ind AS, the deferred tax impact is computed as ₹ 25,000. This amount will further increase the portion of deferred tax liability. There is no requirement to carry out the separate calculation of deferred tax on account of Ind AS adjustments.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding.

Prepare Ind AS Impact Analysis Report (Extract) for H Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above.

(12 Marks)

- (b) The following information is available relating to Space India Limited for the Financial Year 20X1-20X2.

Net profit attributable to equity shareholders	₹ 90,000
Number of equity shares outstanding	16,000
Average fair value of one equity share during the year	₹ 90

Potential Ordinary Shares:

Options	900 options with exercise price of ₹ 75
Convertible Preference Shares	7,500 shares entitled to a cumulative dividend of ₹ 9 per share. Each preference share is convertible into 2 equity shares.
10% Convertible Debentures of ₹ 100 each	₹ 10,00,000 and each debenture is convertible into 4 equity shares
Tax rate	25%

You are required to compute Basic and Diluted EPS of the company for the financial year 20X1-20X2. **(8 Marks)**

2. (a) (i) B Ltd. produces aircrafts. The length of time between first purchasing raw materials to make the aircrafts and the date the company completes the production and delivery is 9 months. The company receives payment for the aircrafts 7 months after the delivery.
- (a) What is the length of operating cycle?
- (b) How should it treat its inventory and debtors? **(2 Marks)**
- (ii) On 1st April, 20X3, Charming Ltd issued 1,00,000 ₹ 10 bonds for ₹ 10,00,000. On 1st April, each year, interest at the fixed rate of 8% per year is payable on outstanding capital amount of the bonds (ie the first payment will be made on 1st April, 20X4). On 1st April each year (i.e from 1st April, 20X4), Charming Ltd has a contractual obligation to redeem 10,000 of the bonds at ₹ 10 per bond. In its statement of financial position at 31st March, 20X4. How should this be presented in the financial statements? **(2 Marks)**
- (b) In the plant of PQR Ltd., there was a fire on 10th May, 20X1 in which the entire plant was damaged and the loss of ₹ 40,00,000 is estimated. The claim with the insurance company has been filed and a recovery of ₹ 27,00,000 is expected.
- The financial statements for the year ending 31st March, 20X1 were approved by the Board of Directors on 12th June, 20X1. Show how should it be disclosed? **(4 Marks)**
- (c) G Ltd. operates oil exploration and production facilities. It is preparing its transition date opening balance sheet as per Ind AS.
- (i) There is a significant decommissioning obligation in connection with several oil wells, but it's previous GAAP did not require the obligation to be recognized.

Discuss the treatment of decommissioning obligation as per relevant Ind AS. **(4 Marks)**

(ii) G Ltd. has four assets, each in a different class under property, plant & equipment.

Assets 1 and 2 are revalued under previous GAAP (AS). Assets 3 and 4 are not. Under previous GAAP, at 31st March 20X1, immediately prior to the entity's date of transition to Ind AS, its Balance Sheet (extract) is as follows:

	Asset 1	Asset 2	Asset 3	Asset 4	Total
	Valuation	Valuation	Cost	Cost	
	₹	₹	₹	₹	₹
Cost or revaluation	5,000	2,000	4,000	4,500	15,500
Accumulated depreciation	(1,000)	(500)	(2,000)	(1,700)	(5,200)
Net book value	4,000	1,500	2,000	2,800	10,300
Revaluation surplus	2,500	500	-	-	3,000

On adoption of Ind AS, its management decides that, under Ind AS, it will:

- Continue to revalue asset 1. The fair value of asset 1 at the date of transition is not materially different from its carrying value under previous GAAP;
- Use the previous valuation of asset 2 as deemed cost, and adopt a policy of cost less depreciation under Ind AS;
- Adopt a policy of revaluation for asset 3. The fair value of asset 3 at the entity's date of transition is ₹ 5,000;
- Continue to use a policy of cost less depreciation for asset 4.

All depreciation methods are already in accordance with those required by Ind AS 16.

Discuss the treatment under Ind AS of valuation of assets 1, 2, 3 & 4, being part of property, plant & equipment? **(8 Marks)**

3. (a) Pacific Ocean Railway Ltd. has three Cash Generating units namely Train, Railway station and Railway tracks, the carrying amounts of which as on 31st March, 20X1 are as follows:

Cash Generating units	Carrying amount (₹ in crore)	Remaining useful life
Train	1,500	10
Railway station	2,250	20
Railway tracks	3,300	20

Pacific Ocean Railway Ltd. also has two Corporate Assets having a remaining useful life of 20 years.

	(₹ in crore)	
Corporate Assets	Carrying amount	Remarks
Land	1,800	The carrying amount of Land can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash generating units.
Buildings	600	The carrying amount of Buildings cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amount as on 31st March, 20X1 is as follows:

Cash Generating units	Recoverable Amount (₹ in crore)
Train	1,800
Railway station	2,700
Railway tracks	4,200
Company as a whole	9,600

Calculate the impairment loss, if any. Ignore decimals.

(10 Marks)

(b)

EITHER

As a part of its sales promotion activities, MIL distributes office utility articles along with its product catalogues to medical practitioners to familiarize & encourage them to prescribe medicines manufactured by it. No conditions are attached with the items distributed.

Whether the distribution of office utility articles to medical practitioners is covered by Ind AS 115 'Revenue from Contracts with Customers'? If not, how should the same be accounted by MIL? Give reasons.

(4 Marks)

OR

A Company invested in Equity shares of another entity on 15th March for ₹ 20,000. Transaction Cost = ₹ 400 (not included in ₹ 20,000)

Fair Value on Balance Sheet date i.e. 31st March, 20X1 = ₹ 24,000. Pass necessary Journal Entries when Financial Asset is accounted as FVTPL.

(4 Marks)

(c) On 1st April, 20X1, S Ltd. issued 30,000 6% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 20X5 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 20X3. Suggest how should S Ltd. account for this compound financial instrument on the date of transition. The present value of ₹ 1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

(6 Marks)

4. (a) The Company has taken a particular application software of a supplier namely, Crystal Systems Limited, which is available on a cloud infrastructure managed and controlled by the Crystal Systems Limited. The Company contracts to pay a fee of ₹ 5,00,000 per month in exchange for a right to receive access to the Crystal Systems Limited's application software for 2 years. The Company accesses the software on need basis over the internet. The contract does not convey any rights to New Age Technology Limited over the tangible assets of the Crystal Systems Limited.

The Chief Accountant of New Age Technology Limited has sought your advice, whether the IT should account for this transaction for use of software with Crystal Systems Limited in terms of Ind AS 116 leases or an intangible asset in terms of Ind AS 38 'Intangible Assets'. Help him to understand your assessment.

(6 Marks)

- (b) During 20X1-20X2, XYZ Ltd. completed a large contract to supply a customized equipment for one customer for a total consideration of ₹ 5,00,000 received fully in cash. As a special arrangement and in order to procure the customer's order, XYZ Ltd agreed to maintain the equipment for three years from the date of installation. Had there been no maintenance requirement, the sale would have been for an amount of ₹ 4,85,500. If maintenance alone was required, it would have cost the customer ₹ 12,500 per annum.

Explain the requirements of Ind AS in relation to the XYZ Ltd.'s supply of customized contract and the maintenance that has been agreed to be provided to the customer. Ignore discounting and calculate the amounts to be recognized in the financial statements as at 31st March, 20X2.

(4 Marks)

- (c) ABC Limited granted 500 stock appreciation rights (SAR) each to 80 employees on 1st April, 20X1 with a fair value ₹ 100 each. The terms of the award require the employee to provide service for four years to earn the award. The SARs are expected to be settled in cash and it is expected that 100% of the employees will exercise the option. The fair value of each SAR at each reporting date is as follows:

31 st March, 20X2	₹ 110
31 st March, 20X3	₹ 120
31 st March, 20X4	₹ 115
31 st March, 20X5	₹ 130

Please present the journal entries in the books of ABC Limited over the entire life of the grants.

What would be the difference if at the end of the second year of service (i.e. at 31st March, 20X3), ABC Limited modifies the terms of the award to require only three years of total service? Please present with the revised journal entries. Answer on the basis of relevant Ind AS. **(10 Marks)**

5. (a) On 1st April 20X1, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively. A Limited paid initial cash consideration of ₹ 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

It was also agreed that A Limited would pay a further sum of ₹ 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for ₹ 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares (issued in the year 20X2-20X3) and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Limited and S Limited as at 31st March, 20X3:

	A Limited (₹ 000)	S Limited (₹ 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Limited at cost	1,000	

Current assets:		
Inventory	550	100
Receivables	400	200
Cash	<u>200</u>	<u>50</u>
	<u>7,650</u>	<u>1,850</u>
Equity:		
Share capital	2,000	500
Retained earnings	<u>1,400</u>	<u>300</u>
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	<u>1,250</u>	<u>650</u>
	<u>7,650</u>	<u>1,850</u>

Further information:

- (i) On the date of acquisition the fair values of S Limited's plant exceeded its book value by ₹ 2,00,000. The plant had a remaining useful life of five years at this date;
- (ii) The consolidated goodwill has been impaired by ₹ 2,58,000; and
- (iii) The A Limited Group, values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 20% non-controlling interest was ₹ 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Limited as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required). **(14 Marks)**

- (b) M Limited had constructed another factory few years ago with the assistance of yet another government grant, 'Innovative Product'. The grant is non-repayable and, following the construction of the factory, cannot be clawed back by the government. There are no further conditions attached to the grant that the Company is required to satisfy. The grant received has been treated as deferred income and is being credited to the income statement over the same period as the factory is being depreciated. Following an adverse change in the demand of the product the factory manufactures, during the year at the reporting date, the directors have concluded that the factory's carrying value is no longer recoverable in full and that a write down for impairment is required. The write down is more than covered by the amortized deferred income balance related to the grant.

Discuss, in the context of Ind AS framework and Ind AS 20, the impairment of the factory for which 'Innovative Product' government grant, has been received. Would your answer be different, if there are further conditions attached to grant beyond construction of factory?

(6 Marks)

6. (a) Wheel Co. Limited borrowed ₹ 50,00,00,000 from a bank on 1st April, 20X1. The original terms of the loan were as follows:
 - Interest rate: 11%
 - Repayment of principal in 5 equal instalments
 - Payment of interest annually on accrual basis
 - Upfront processing fee: ₹ 58,70,096
 - Effective interest rate on loan: 11.50%

On 31st March, 20X3, Wheel Co. Limited approached the bank citing liquidity issues in meeting the cash flows required for immediate instalments and re-negotiated the terms of the loan with banks as follows:

- Interest rate 15%
- Repayment of outstanding principal in 10 equal instalments starting 31st March, 20X4
- Payment of interest on an annual basis

Record journal entries in the books of Wheel Co. Limited till 31st March, 20X4, after giving effect of the changes in the terms of the loan on 31st March, 20X3. **(14 Marks)**

- (b) Diamond Pvt. Ltd, has a headcount of around 1,000 employees in the organisation in financial year 2X19-2X20. As per the company's policy, the employees are given 35 days of privilege leave (PL), 15 days of sick leave (SL) and 10 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 200 employees will take 5 days of PL and 2 days of SL and 800 employees will avail 10 days of PL and 5 days of SL.

Diamond Pvt. Ltd. has a post-employment benefit plan which is in the nature of defined contribution plan where contribution to the fund amounts to ₹ 200 crores which will fall due within 12 months from the end of the accounting period.

The company has paid ₹ 40 crore to this plan in financial year 2X19-2X20.

What would be the treatment of the short-term compensating absences, profit-sharing plan and the defined contribution plan in the books of Diamond Pvt. Ltd.? **(6 Marks)**