

# CA - FINAL



## FINANCIAL REPORTING (FR)

GROUP I - PAPER 1

SERIES - 1

NOV. - 2024

Date : 02.06.2024

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**CA - FINAL  
GROUP I – PAPER 2  
FINANCIAL REPORTING  
(Nov. 2024) SERIES - 1**

**Batch : ALL  
Maximum Marks: 100**

**Date : 02.06.2024  
Time: 3 Hours**

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**Question No. 1 is compulsory.**

**Attempt any Four questions out of the remaining Five questions.**

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**Section "A" is Compulsory**

- 1 – 5**
- ◆ Entity S enters into a ₹100 crores notional amount five-year **pay-variable, receive-fixed interest rate** swap with Counterparty C.
  - ◆ The variable leg of the swap is reset on a quarterly basis to three-month MIBOR.
  - ◆ The fixed interest payments under the swap are calculated as 10% of the swap's notional amount, i.e. ₹ 10 crores p.a.
  - ◆ **Entity S prepays its obligation under the variable leg of the swap at inception** at current market rates, that amount is ₹ 36 crores.
  - ◆ It retains the right to receive fixed interest payments of 10% on ₹ 100 crores every year.
- 1. This Contract create \_\_\_\_\_ for S Ltd. 2**
- (a) Financial Asset At amortised cost
  - (b) Financial Asset at Fair Value through Profit & Loss
  - (c) Derivative Asset
  - (d) Derivative liability
- 2. What is effective Interest Rate in this contract? 2**
- (a) 12.38% (b) 12.42%
  - (c) 12.56% (d) 12.05%
- 3. What is Interest income in third year? 2**
- (a) Rs 3.00 Cr (b) Rs. 3.05 Cr
  - (c) Rs 10 Cr (d) Rs. 2.89 Cr
- 4. What is carrying value of financial assets at the end of 2<sup>nd</sup> year. 2**
- (a) Rs 36 Cr (b) Rs 24 Cr
  - (c) Rs 18 Cr (d) Rs 12Cr
- 5. Which condition is not True in above Case Scenario. 2**
- (a) Its value changes due to change in underlying variable.
  - (b) No or little initial investment
  - (c) To be settled in future.
  - (d) All of the above

6 - 9

P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1<sup>st</sup> April 20X1 with a fair value ₹ 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31 <sup>st</sup> March 20X2	₹210
31 <sup>st</sup> March 20X3	₹220
31 <sup>st</sup> March 20X4	₹215
31 <sup>st</sup> March 20X5	₹218

What would be the difference if at the end of the second year of service (i.e. at 31<sup>st</sup> March 20X3), P Ltd. modifies the terms of the award to require only three years of service?

6. **Amount to be debited to Profit & Loss A/c at the end of 31<sup>st</sup> March 20X3** 2
- |                   |                   |
|-------------------|-------------------|
| (a) Rs 15.75 Lakh | (b) Rs 17.25 Lakh |
| (c) Rs 15.38 Lakh | (d) Rs 17.02 Lakh |
7. **Amount of Balance of Liability for SAR at the end of 31<sup>st</sup> March 20x4:** 2
- |                   |                   |
|-------------------|-------------------|
| (a) Rs 15.75 Lakh | (b) Rs 33.00 Lakh |
| (c) Rs 48.375Lakh | (d) Rs 64.40 Lakh |
8. **Amount to be debited to Profit & Loss A/c For of year ended 31<sup>st</sup> March 20X3, If P Modifies the term of award to require only 3 years of services:** 2
- |                   |                   |
|-------------------|-------------------|
| (a) Rs 15.75 Lakh | (b) Rs 20.50 Lakh |
| (c) Rs 28.25Lakh  | (d) Rs 17.02 Lakh |
9. **If situation of Question No. 8 prevail what is liability of SAR at the end of March 20X3:** 2
- |                   |                    |
|-------------------|--------------------|
| (a) Rs 44.00 Lakh | (b) Rs 64.50 Lakh  |
| (c) Rs 64.40 Lakh | (d) Rs 48.375 Lakh |

- 10 - 13 On 1 January Year 1, Entity Q purchased a machine costing ₹ 2,40,000 with an estimated useful life of 20 years and an estimated zero residual value. Depreciation is computed on straight-line basis. The asset had been re-valued on 1 January Year 3 to ₹ 2,50,000, but with no change in useful life at that date. On 1 January Year 4 an impairment review showed the machine's recoverable amount to be ₹ 1,00,000 and its estimated remaining useful life to be 10 years.

**Note:** During the course of utilization of machine, the company did not opt to transfer part of the revaluation surplus to retained earnings.

- 10 **Calculate the carrying amount of the machine on 31 December Year 2:** 2
- |                  |                  |
|------------------|------------------|
| (a) Rs. 2,40,000 | (b) Rs. 2,16,000 |
| (c) Rs. 2,50,000 | (d) Rs. 34,000   |

- 11. Calculate the carrying amount of the machine on 31 December Year 3 (immediately before the impairment):** **2**
- (a) Rs. 2,36,111 (b) Rs. 1,36,111  
(c) Rs. 2,36,000 (d) Rs. 2,16,000
- 12 Calculate the impairment loss recognised in the year 31 December Year 4:** **2**
- (a) Rs. 2,50,000 (b) Rs. 1,36,111  
(c) Rs. 2,36,000 (d) Rs. 2,16,000
- 13. Calculate the depreciation charge in the year to December Year 4:** **2**
- (a) Rs. 5,000 (b) Rs. 34,000  
(c) Rs. 13,889 (d) Rs. 10,000
- 14 - 15** X Ltd. is required to adopt Ind AS from April 1, 20X1, with comparatives for one year, i.e., for 20X0-20X1.
- 14. What will be its date of transition?** **2**
- (a) 1<sup>st</sup> April 20X0 (b) 1<sup>st</sup> April 20X1  
(c) 1<sup>st</sup> April 20X2 (d) 31<sup>st</sup> March 20X2
- 15. First Ind reporting period will be:** **2**
- (a) 01.04.20X0 to 31.03.20X1 (b) 01.04.20X1 to 31.03.20X2  
(c) 01.04.20 X1 to 31.03.20 X2 (d) 01.04.20X3 to 31.03.20X4

**Section "B"**

**Question No. 1 is compulsory.**

**Attempt any Four questions out of the remaining Five questions.**



1. The balance sheet of Professional Ltd. and Dynamic Ltd. as of 31st March, 20X2 is given below: 14

Assets	Professional Ltd	Dynamic Ltd
<b>Non-Current Assets:</b>		
Property, plant and equipment	300	500
Investment	400	100
<b>Current assets:</b>		
Inventories	250	150
Financial assets		
Trade receivables	450	300
Cash and cash equivalents	200	100
Others	400	230
<b>Total</b>	2,000	1,380
<b>Equity and Liabilities</b>		
<b>Equity</b>		
Share capital- Equity shares of ₹ 100 each Of dynamic Ltd. and ₹ 10 each of professional Ltd.	500	400
Other Equity	810	225
<b>Non-Current liabilities:</b>		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
<b>Current Liabilities:</b>		
Short term borrowings	100	150
Trade payables	250	300
<b>Total</b>	2,000	1,380

**Other information**

Professional Ltd. acquired 70% shares of Dynamic Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of Professional Ltd. for every 2 shares of Dynamic Ltd. The fair value of the shares of Professional Ltd was ₹ 40 per share.

The fair value exercise resulted in the following: (all nos in Lakh)

Fair value of PPE on 1st April, 20X2 was ₹ 350 lakhs.

Professional Ltd also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by Dynamic Ltd. This additional amount will be due after 2 years. Dynamic Ltd has earned ₹ 10 lakh profit in the preceding year and expects to earn another ₹ 20 Lakh.

In addition to above, Professional Ltd also had agreed to pay one of the founder shareholder a payment of ₹ 20 lakh provided he stays with the Company for two year after the acquisition. Dynamic Ltd had certain equity settled share based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of Dynamic Ltd have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

Original award- ₹ 5 lakh

Replacement award- ₹ 8 lakh.

Dynamic Ltd had a lawsuit pending with a customer who had made a claim of ₹ 50 lakh. Management reliably estimated the fair value of the liability to be ₹ 5 lakh.

The applicable tax rate for both entities is 30%.

You are required to prepare opening consolidated balance sheet of Professional Ltd as on 1st April, 20X2. Assume 10% discount rate.

- 2(a)** An entity has a fixed fee contract for ₹ 1 million to develop a product that meets specified performance criteria. Estimated cost to complete the contract is ₹ 950,000. The entity will transfer control of the product over five years, and the entity uses the cost-to-cost input method to measure progress on the contract. An incentive award is available if the product meets the following weight criteria: **10**

Weight (kg)	Award % of fixed fee	Incentive fee
951 or greater	0%	—
701-950	10%	₹ 100,000
700 or less	25%	₹ 250,000

The entity has extensive experience creating products that meet the specific performance criteria. Based on its experience, the entity has identified five engineering alternatives that will achieve the 10 percent incentive and two that will achieve the 25 percent incentive. In this case, the entity determined that it has 95 percent confidence that it will achieve the 10 percent incentive and 20 percent confidence that it will achieve the 25 percent incentive.

Based on this analysis, the entity believes 10 percent to be the most likely amount when estimating the transaction price. Therefore, the entity includes only the 10 percent award in the transaction price when calculating revenue because the entity has concluded it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved due to its 95 percent confidence in achieving the 10 percent award.

The entity reassesses its production status quarterly to determine whether it is on track to meet the criteria for the incentive award.

At the end of the year four, it becomes apparent that this contract will fully achieve the weight-based criterion. Therefore, the entity revises its estimate of variable consideration to include the entire 25 percent incentive fee in the year four because, at this point, it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when including the entire variable consideration in the transaction price.

Evaluate the impact of changes in variable consideration when cost incurred is as follows:

Year	₹
1	50,000
2	1,75,000
3	4,00,000
4	2,75,000
5	50,000

**(b)** X Ltd owned a land property whose future use was not determined as at 31 March 20X1. How should the property be classified in the books of X Ltd as at 31 March 20X1? **4**

During June 20X1, X Ltd commenced construction of office building on it for own use. Presuming that the construction of the office building will still be in progress as at 31 March 20X2

- (a) How should the land property be classified by X Ltd in its financial statements as at 31 March 20X2?
- (b) Will there be a change in the carrying amount of the property resulting from any change in use of the investment property?
- (c) Whether the change in classification to, or from, investment properties is a change in accounting policy to be accounted for in accordance with Ind AS 8, Accounting Policies, Changes in Accounting Estimates and Errors?
- (d) Would your answer to (a) above be different if there were to be a management intention to commence construction of an office building for own use; however, no construction activity was planned by 31 March 20X2?

**3(a)** On 1 January 20X0 ,XYZ Ltd. issues 10 year bonds for ₹10,00,000, bearing interest at 10%(payable annually On 31<sup>st</sup> December each year). The bonds are redeemable on 31 December 20X9 for ₹ 10,00,000. No costs or fees are incurred. The effective interest rate is therefore 10%. On 1 January 20X5 (i.e. after 5 years) XYZ Ltd. and the bondholders agree to a modification in accordance with which: **8**

- the term is extended to 31 December 20Y1;
- interest payments are reduced to 5% p.a.;
- the bonds are redeemable on 31 December 20Y1 for ₹ 15,00,000; and
- legal and other fees of ₹ 1,00,000 are incurred.

XYZ Ltd. determines that the market interest rate on 1 January 20X5 for borrowings on similar terms is 11%. How it will be accounted.

**(b)** An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both. **6**

Comment on how to identify whether the performance obligations under the contract is distinct by using an automated process?

- 4(a)** An entity is finalising its financial statements for the year ended 31<sup>st</sup> March, 20X2. Before 31<sup>st</sup> March, 20X2, the government announced that the tax rate was to be amended from 40 per cent to 45 per cent of taxable profit from 30<sup>th</sup> June, 20X2. **8**

The legislation to amend the tax rate has not yet been approved by the legislature. However, the government has a significant majority and it is usual, in the tax jurisdiction concerned, to regard an announcement of a change in the tax rate as having the substantive effect of actual enactment (i.e. it is substantively enacted).

After performing the income tax calculations at the rate of 40 per cent, the entity has the following deferred tax asset and deferred tax liability balances:

Deferred tax asset	₹ 80,000
Deferred tax liability	₹ 60,000

Of the deferred tax asset balance, ₹ 28,000 related to a temporary difference. This deferred tax asset had previously been recognised in OCI and accumulated in equity as a revaluation surplus.

The entity reviewed the carrying amount of the asset in accordance with para 56 of Ind AS 12 and determined that it was probable that sufficient taxable profit to allow utilisation of the deferred tax asset would be available in the future.

Show the revised amount of Deferred tax asset & Deferred tax liability and present the necessary journal entries.

- (b)** XY Ltd. is a farming entity where cows are milked on a daily basis. Milk is kept in cold storage immediately after milking and sold to retail distributors on a weekly basis. On 1 April 20X1, XY Ltd. had a herd of 500 cows which were all three years old. **6**

During the year, some of the cows became sick and on 30 September 20X1, 20 cows died. On 1 October 20X1, XY Ltd. purchased 20 replacement cows at the market for ₹ 21,000 each. These 20 cows were all one year old when they were purchased.

On 31 March 20X2, XY Ltd. had 1,000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk at 31 March 20X2 was ₹ 20 per litre. When selling the milk to distributors, XY Ltd. incurs selling costs of ₹ 1 per litre. These amounts did not change during March 20X2 and are not expected to change during April 20X2.

Information relating to fair value and costs to sell is given below:

Date	Fair value of a dairy cow (aged)				Costs to sell a cow
	1 year	1.5 years	3 years	4 years	
1 <sup>st</sup> April 20X1	20,000	22,000	27,000	25,000	1,000
1 <sup>st</sup> October 20X1	21,000	23,000	28,000	26,000	1,000
31 <sup>st</sup> March 20X2	21,500	23,500	29,000	26,500	1,100

You can assume that fair value of a 3.5 years old cow on 1<sup>st</sup> October 20X1 is ₹ 27,000.

Pass necessary journal entries of above transactions with respect to cows in the financial statements of XY Ltd. for the year ended 31<sup>st</sup> March, 20X2? Also show the amount lying in inventory if any.

- 5(a)** An asset is sold in 2 different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. **5**

**In Market A:**

The price that would be received is ₹ 26, transaction costs in that market are ₹3 and the costs to transport the asset to that market are ₹ 2.

**In Market B:**

The price that would be received is ₹25, transaction costs in that market are ₹1 and the costs to transport the asset to that market are ₹2.

You are required to calculate:

- (i) The fair value of the asset, if market A is the principal market, and
- (ii) The fair value of the asset, if none of the markets is principal market.

- (b)** Following information's are given **5**

Profit attributable to equity holders of the parent entity	₹ 100,000
Ordinary shares outstanding	10,000
Non-convertible preference shares	6,000
Non-cumulative annual dividend on preference shares (before any dividend is paid on ordinary shares)	₹ 5.50 per share
After ordinary shares have been paid a dividend of ₹ 2.10 per share, the preference shares participate in any <b>additional dividends</b> on a 20:80 ratio with ordinary shares.	

Compute the allocation of earnings for the purpose of calculation of Basic EPS when an entity has ordinary shares & participating equity instruments that are not convertible into ordinary shares.

- (c) Entity A has undertaken various transactions in the financial year ended March 31, 20X1. Identify and present the transactions in the financial statements as per Ind AS 1. 4

Remeasurement of defined benefit plans	75,000
Current service cost	2,57,000
Changes in revaluation surplus	1,75,000
Gains and losses arising from translating the monetary assets in foreign currency	1,25,000
Gains and losses arising from translating the financial statements of a foreign operation	65,000
Gains and losses from investments in equity instruments designated at fair value through other comprehensive income	1,00,000
Income tax expense	35,000
Share based payments cost	3,35,000

**OR**

- (c) An entity has taken a **loan facility** from a bank that is to be **repaid within a period of 9 months from the end of the reporting period**. Prior to the end of the reporting period, the entity and the bank enter into an arrangement, whereby the existing outstanding loan will, unconditionally, roll into the new facility which expires after a period of 5 years. 4

- (a) How should such loan be classified in the balance sheet of the entity?  
 (b) Will the answer be different if the new facility is agreed upon after the end of the reporting period?  
 (c) Will the answer to (a) be different if the existing facility is from one bank and the new facility is from another bank?

Will the answer to (a) be different if the new facility is not yet tied up with the existing bank, but the entity has the potential to refinance the obligation?

- 6(a) K Ltd. began construction of a new building at an estimated cost of ₹ 7 lakh on 1<sup>st</sup> April, 20X1. To finance construction of the building it obtained a specific loan of ₹ 2 lakh from a financial institution at an interest rate of 9% per annum. 5

The company's other outstanding loans were:

Amount	Rate of Interest per annum
₹ 7,00,000	12%
₹ 9,00,000	11%

The expenditure incurred on the construction was:

April, 20X1	₹ 1,50,000
August, 20X1	₹ 2,00,000
October, 20X1	₹ 3,50,000
January, 20X2	₹ 1,00,000

The construction of building was completed by 31<sup>st</sup> January, 20X2. Following the provisions of Ind AS 23 'Borrowing Costs', calculate the amount of interest to be capitalized and pass necessary journal entry for capitalizing the cost and borrowing cost in respect of the building as on 31<sup>st</sup> January, 20X2.

- (b) Alaap Ltd.'s directors feel that the company needs a significant injection of capital in order to modernize plant and equipment as the company has been promised firm orders if it can produce goods of international standards. The current lending policies of the banks require prospective borrowers to demonstrate strong projected cash flows, coupled with a Debt Service Coverage Ratio exceeding 10. However, the current projected statement of cash flows does not satisfy the bank's criteria for lending. The directors have told the bank that the company is in an excellent financial position, the financial results and cash flow projections will meet the criteria and the chartered accountant will submit a report to this effect shortly. The chartered accountant has recently joined Alaap Ltd. and has openly stated that he cannot afford to lose his job because of financial commitments. 5

**Required:**

Discuss the potential ethical conflicts which may arise in the above scenario and the ethical principles which would guide how the chartered accountant should respond to the situation.

- (c) Blue Ltd. acquired 25% of the equity share capital of Green Ltd. on the first day of the financial year for ₹ 1,25,000. As of that date, the carrying value of the net assets of Green Ltd. was ₹ 3,00,000 and the fair value was ₹ 4,00,000. The excess of fair value over the carrying value was attributable to one of the buildings owned by Green Ltd. having a remaining useful life of 20 years. Green Ltd. earned profit of ₹ 40,000 and other comprehensive income of ₹ 10,000 during the year. Calculate the goodwill / capital reserve on the date of acquisition, Blue Ltd.'s share in the profit and other comprehensive income for the year and closing balance of investment at the end of the year. 4

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D/S. Live Guidance for CA Final May 24  
Date [02 June 2024] at [6:00 PM],  
watch on <https://meet.google.com/wvh-vifh-cng>  
By CA R. C. Sharma Sir.  
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