TestPaper Code : TestN23–FR–02

Course	Subject	TestPaper Topics	Law Applicable	Time	Marks
CA Final	Financial Reporting (Accounts)	Module 3 and 4 [Ch. 9 to 17 = IndAS 19, 37, 12, 21,24, 33, 108, 109, 32, 107 + Business Comb + CFS + Analysis of FS + Integrated Report + CSR]		3 hours	100
GIVE : (a) your name, (b) ICAI Reg. No., (c) WhatsApp No., (d) TestPaperCode & (e) date on AnswerBook.					
PLEASE : (a) specify question no. with sub-part legibly; (b) attempt in sequence; and (c) number pages.					

Question No. 1 is compulsory. Answer any FOUR from the remaining FIVE.

Marks

1. **[A]** RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of ₹ 11,000 crores and planning to get listed in the next year. **5**

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2. ₹ in lacs

Particulars	1st April, 20X1	31st March, 20X2
Present value of benefit obligation	1400	1580
Fair value of plan assets	1140	1275

For the financial year ended 31st March, 20X2, service cost was ₹ 55 lacs. The company made a contribution of an amount of ₹ 111 lacs to the plan. No benefits were paid during the year.
Consider a discount rate of 8%.
You are required to -

(a) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.

(b) Give the journal entries in respect of amount(s) to be recognized.

[B] (i) ABC Ltd. has an obligation to restore the seabed for the damage it has caused in the past. It has to pay ₹ 10,00,000 cash on 31st March 20X3 relating to this liability. ABC Ltd.'s management considers that 5% is an appropriate discount rate. Calculate the amount to be provided for at 31st March 20X1 for the costs of restoring the seabed. ***4**

(ii) Entity XYZ entered into a contract to supply 1000 television sets for ₹ 2 million. An increase in the cost of inputs has resulted into an increase in the cost of sales to ₹ 2.5 million. The penalty for non- performance of the contract is expected to be ₹ 0.25 million. Is the contract onerous and how much provision in this regard is required?

[C] ABC Ltd. is a company which has a net worth of ₹ 200 crore, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.Required financial details of the following financial years are as follows (₹ in crore) **4**

	March 31, 20X4 (Current year) projected	March 31, 20X3	March 31, 20X2	March 31, 20X1
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

Does ABC Ltd. has an obligation to form a CSR committee.

[D] On 1st April 20X1, S Ltd. leased a machine over a 5 year period. The present value of lease liability is ₹ 120 Cr (discount rate of 8%) and is recognized as lease liability and corresponding Right of Use (RoU) Asset on the same date. The RoU Asset is depreciated under straight line method over the 5 years. The annual lease rentals are ₹ 30 Cr payable starting 31st March 20X2. The tax law permits tax deduction on the basis of payment of rent. ***3**

Assuming tax rate of 30%, you are required to explain the deferred tax consequences for the above transaction for the year ended 31st March 20X2.

[E] M Ltd is engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd, which is engaged in the business of pharmaceuticals. G Ltd purchases the pharmaceutical bottles from its parent company. The demand of G Ltd is very high and the operations of M Ltd are very large and hence to cater to its shortfall, G Ltd also purchases the bottles from other companies. Purchases are made at the competitive prices. M Ltd sold pharmaceuticals bottles to G Ltd for Euro 12 lacs on 1st February, 20X1. The cost of these bottles was ₹ 830 lacs in the books of M Ltd at the time of sale. At the year-end i.e. 31st March, 20X1, all these bottles were lying as closing stock with G Ltd. What should be the accounting treatment for the above? *4

Following additional information is available: Exchange rate on 1st February, 20X1 1 Euro = ₹ 83
Exchange rate on 31st March, 20X1 1 Euro = ₹ 85

2. **[A]** DEF Ltd. acquired 100% ordinary shares of ₹ 100 each of XYZ Ltd. on 1st October 2018. On March 31, 2019 the summarised Balance Sheets of the two companies were as given below: 16

	DEF Ltd.	**XYZ Ltd.**
Assets		
Property Plant Equipment		
Land & Buildings	15,00,000	18,00,000
Plant & Machinery	24,00,000	13,50,000
Investment in XYZ Ltd.	34,00,000	0
Inventory	12,00,000	3,64,000
Financial Assets		
Trade Receivable	5,98,000	4,00,000
Cash	1,45,000	80,000
Total	**92,43,000**	**39,94,000**
Equities & Liabilities		
Equity Capital (Shares of ₹ 100 each fully paid)	50,00,000	20,00,000
Other Equity		
Other reserves	24,00,000	10,00,000
Retained Earnings	5,72,000	8,20,000
Financial Liabilities		
Bank Overdraft	8,00,000	0
Trade Payable	4,71,000	1,74,000
Total	**92,43,000**	**39,94,000**

The retained earnings of XYZ Ltd. showed a credit balance of ₹ 3,00,000 on 1st April 2018 out of which a dividend of 10% was paid on 1st November;

DEF Ltd. has credited the dividend received to retained earnings account;

Fair Value of P& M as on 1st October 2018 was ₹ 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1st October 2018 which are to be considered while consolidating the Balance Sheets.

1. Trade Payables 1,00,000
2. Land & Buildings 10,00,000
3. Inventories 1,50,000

Note: 1. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.

2. Also assume that the Other Reserves as on 31st March 2019 are the same as was on 1st April 2018.

Prepare consolidated Balance Sheet as on March 31, 2019.

[B] (i) Can an Integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports? 4

(ii) Does an integrated report need to be a stand-alone document?

3. **[A]** Company A and Company B are in power business. **8**

Company A holds 25% of equity shares of Company B.

On November 1, Company A obtains control of Company B when it acquires a further 65% of Company B's shares, thereby resulting in total holding of 90%.

The acquisition had following features:

1. **Consideration:** Company A transfers cash of ₹ 59,00,000 and issues 1,00,000 shares on November 1. The market price of Company A's shares on the date of issue is ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition equity capital of Company A.
2. **Contingent consideration:** Company A agrees to pay additional consideration of ₹ 7,00,000 if the cumulative profits of Company B exceed ₹ 70,00,000 over the next two years. At the acquisition date, it is not considered probable that the extra consideration will be paid. The fair value of the contingent consideration is determined to be ₹ 3,00,000 at the acquisition date.
3. **Transaction costs:** Company A pays acquisition-related costs of ₹ 1,00,000.
4. **Non-controlling interests (NCI):** The fair value of the NCI is determined to be ₹ 7,50,000 at the acquisition date based on market prices. Company A elects to measure non-controlling interest at fair value for this transaction.
5. **Previously held non-controlling equity interest:** Company A has owned 25% of the shares in Company B for several years. At November 1, the investment is included in Company A's consolidated statement of financial position at ₹ 6,00,000, accounted for using the equity method; the fair value is ₹ 20,00,000.

The fair value of Company B's net identifiable assets at November 1 is ₹ 60,00,000, determined in accordance with Ind AS 103.

Required :

Determine the accounting under acquisition method for the business combination by Company A.

[B] A Limited ceased to be in investment entity from 1st April 20X1 on which date it was holding 80% of B Limited. The carrying value of such investment in B Limited (which was measured at fair value through profit or loss) was ₹ 4,00,000. The fair value of non-controlling interest on the date of change in status was ₹ 1,00,000. The value of subsidiary's identifiable net assets as per Ind AS 103 was ₹ 4,50,000 on the date of change in status. **4**

Determine the value of goodwill and pass the journal entry on the date of change in status of investment entity.

(Assume that noncontrolling interest is measured at fair value method)

[C] On 1st January 2018, Sun Ltd. was notified that a customer was taking legal action against the company in respect of a financial losses incurred by the customer. Customer alleged that the financial losses were caused due to supply of faulty products on 30th September 2017 by the Company. Sun Ltd. defended the case but considered, based on the progress of the case up to 31st March 2018, that there was a 75% probability they would have to pay damages of ₹ 10 lakhs to the customer. However, the accountant of Sun Ltd. has not recorded this transaction in its financial statement as the case is not yet finally settled. The case was ultimately settled against the company resulting in to payment of damages of ₹ 12 lakhs to the customer on 15th May 2018. The financials have been authorized by the Board of Directors in its meeting held on 18th May 2018. **4**

Required: Analyse whether the above accounting treatment made by the accountant is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

[D] A's Ltd. profit before tax according to Ind AS for Year 20X1-20X2 is ₹ 100 thousand and taxable profit for year 20X1-20X2 is ₹ 104 thousand. The difference between these amounts arose as follows: **4**

1. On 1st February, 20X2, it acquired a machine for ₹ 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.

2. In the year 20X1-20X2, expenses of ₹ 8 thousand were incurred for charitable donations. These are not deductible for tax purposes.

Required :

1. Prepare necessary entries as at 31st March 20X2, taking current and deferred tax into account. The tax rate is 25%.

2. Also prepare the tax reconciliation in absolute numbers as well as the tax rate reconciliation.

4. **[A]** On 30th September, 2019 Entity A issues 2.5 shares in exchange for each ordinary share of Entity B. All of Entity B's shareholders exchange their shares in Entity B. Therefore, Entity A issues 150 ordinary shares in exchange for all 60 ordinary shares of Entity B. The fair value of each ordinary share of Entity B at 30th September, 2019 is ₹ 40. The quoted market price of Entity A's ordinary shares at that date is ₹ 16. 12

The fair values of Entity A's identifiable assets and liabilities at 30th September, 2019 are the same as their carrying amounts, except that the fair value of Entity A's non- current assets at 30th September, 2019 is 1,500.

The statements of financial position of Entity A and Entity B immediately before the business combination are:

	Entity A (legal parent, accounting acquiree)	**Entity B (legal subsidiary, accounting acquirer)**
Current assets	500	700
Non-current assets	1300	3000
Total assets	1800	3700
Current liabilities	300	600
Non-current liabilities	400	1100
Total liabilities	700	1700
Shareholders' equity		
Retained earnings	800	1400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1100	2000
Total liabilities and shareholders' equity	1800	3700

Assume that Entity B's earnings for the annual period ended 31st December, 2018 were 600 and that the consolidated earnings for the annual period ended 31st December, 2019 were 800. Assume also that there was no change in the number of ordinary shares issued by Entity B during the annual period ended 31st December, 2018 and during the period from 1st January, 2019 to the date of the reverse acquisition on 30th September, 2019.

Calculate the fair value of the consideration transferred measure goodwill and prepare consolidated balance sheet as on September 30, 2019. Also compute Earnings per share as on December 30, 2019.

[B] Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. *3

Acer Ltd. provides the following benefits to all its employees:

- Paid vacation - 10 days per year regardless of date of hiring.
- Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year.

As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average.

Salary increase in 20X1-20X2 was 10%.

How would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 20X2?. Pass the journal entry to show the accounting treatment.

[C] (i) A Limited acquires 80% of B Limited by paying cash consideration of ₹ 120 crore. The fair value of non-controlling interest on the date of acquisition is ₹ 30 crore. The value of subsidiary's identifiable net assets as per Ind AS 103 is ₹ 130 crore. Determine the value of goodwill and pass the journal entry. On 1 January 20X1, Entity X writes a put option for 1,00,000 of its own equity shares for which it receives a premium of ₹ 5,00,000. *5

(ii) Under the terms of the option, Entity X may be obliged to take delivery of 1,00,000 of its own shares in one year's time and to pay the option exercise price of ₹ 22,000,000. The option can only be settled through physical delivery of the shares (gross physical settlement). Examine the nature of the financial instrument and how it will be accounted.

5. **[A]** Maxi Mini Ltd. has 2 divisions - Maxi and Mini. The draft information of assets and liabilities as at 31st October, 2019 was as under: **15**

	Maxi division	**Mini division**	**Total (in crores)**
Property, Plant and Equipment			
Cost	600	300	900
Depreciation	-500	-100	-600
W.D.V. (A)	100	200	300
Current assets	400	300	700
Less: Current liabilities	-100	-100	-200
(B)	300	200	500
Total (A+B)	400	400	800
Financed by :			
Loan funds (A) (secured by a charge on property, plant and equipment)	–	100	100
Own funds:			
Equity capital (fully paid up ₹ 10 per share)			50
Other Equity			650
(B)	?	?	700
Total (A+B)	400	400	800

It is decided to form a new company Mini Ltd. to take over the assets and liabilities of Mini division.

Accordingly, Mini Ltd. was incorporated to take over at Balance Sheet figures, the assets and liabilities of that division. Mini Ltd. is to allot 5 crore equity shares of ₹ 10 each in the company to the members of Maxi Mini Ltd. in full settlement of the consideration. The members of Maxi Mini Ltd. are therefore to become members of Mini Ltd. as well without having to make any further investment.

Required :

(a) You are asked to pass journal entries in relation to the above in the books of Maxi Mini Ltd. and Mini Ltd. Also show the Balance Sheets of the 2 companies as on the morning of 1st November, 2019, showing corresponding previous year's figures.

(b) The directors of the 2 companies ask you to find out the net asset value of equity shares pre and post demerger.

(c) Comment on the impact of demerger on "share holders wealth".

[B] Two parties structure a joint arrangement in an incorporated entity (entity D) in which each party has a 50 per cent ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties. The legal form of enti ty D (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in entity D are the assets and liabilities of entity D. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of entity D. **5**

(i) What type of joint arrangement would entity D be?

(ii) Would your classification change if the parties instead of using the share of output themselves sold to third parties?

(iii) If the parties changed the terms of contractual arrangement such that entity D would be able to sell the output to third parties, would your answer be the same as in part (i) above?

6. **[A] Following information pertains to an entity for the year ending 31st March 20X1:** **4**

Net profit for the year	₹ 12,00,000
Weighted average number of equity shares outstanding during the year	5,00,000 shares
Average market price per share during the year	₹ 20
Weighted average number of shares under option during the year	1,00,000 shares
Exercise price per share under option during the year	₹ 15

Calculate basic and diluted earnings per share.

[B] X Ltd. has identified 4 operating segments for which revenue data is given below: **4**

	External Sale (₹)	Internal Sale (₹)	Total (₹)
Segment A	30,00,000	Nil	30,00,000
Segment B	6,50,000	Nil	6,50,000
Segment C	8,50,000	1,00,000	9,50,000
Segment D	5,00,000	49,00,000	54,00,000
Total Sales	50,00,000	50,00,000	1,00,00,000

Additional information: Segment C is a new business unit and management expect this segment to make a significant contribution to external revenue in coming years.
Which of the segments would be reportable under the criteria identified in Ind AS 108?

[C] Company A acquires 70 percent of Company S on 1st January, 20X1 for consideration transferred of ₹ 5 million. Company A intends to recognise the NCI at proportionate share of fair value of identifiable net assets. With the assistance of a suitably qualified valuation professional, A measures the identifiable net assets of B at ₹ 10 million. A performs a review and determines that the business combination did not include any transactions that should be accounted for separately from the business combination. State whether the procedures followed by A and the resulting measurements are appropriate or not. Also calculate the bargain purchase gain in the process. **4**

[D] On the basis of provisions of IndAS 24 'Related Party Disclosures': **4**

(i) S Ltd., a wholly owned subsidiary of P Ltd is the sole distributor of electricity to consumers in a specified geographical area. A manufacturing facility of P Ltd is located in the said geographical area and, accordingly, P Ltd is also a consumer of electricity supplied by S Ltd. The electricity tariffs for the geographical area are determined by an independent rate-setting authority and are applicable to all consumers of S Ltd, including P Ltd. Whether the above transaction is required to be disclosed as a related party transaction in the financial statements of S Ltd.?

(ii) Himalaya Limited sold goods for ₹ 40 Lakhs to Aravalli Limited during financial year ended on March 31, 2019. Managing Director of Himalaya Limited owns 80% of Aravalli Limited. The sales were made to Aravalli Limited at normal selling prices followed by Himalaya Limited. Chief accountant of Himalaya Limited contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary. Is contention of chief accountant of Himalaya Ltd. correct? Examine.

[E] Infotech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of Infotech Inc. (L$). **4**

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

	USD	L$
Property, plant and equipment	50000	
Receivables	9,35,000	
Total assets	9,85,000	
Issued capital	50000	30055
Opening retained earnings	28000	15274
Profit for the year	20000	
Accounts payable	8,40,000	
Accrued liabilities	47000	
Total equity and liabilities	9,85,000	

Required: Translate the statement of financial position of Infotech Global Ltd. into L$ ready for consolidation by Infotech Inc. (Share capital and opening retained earnings have been pre-populated.)

Prepare a working of the cumulative balance of the foreign currency translation reserve.

Additional information:

Relevant exchange rates are:

Rate at beginning of the year L$ 1 = USD 1.22

Average rate for the year L$ 1 = USD 1.175

Rate at end of the year L$ 1 = USD 1.13

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