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OLD COURSE
FINAL COURSE- GROUP I

PAPER – 1: FINANCIAL REPORTING
SYLLABUS: 50%

Question paper

Question No.1 is compulsory. Candidates are also required to answer any five questions from the remaining six questions.

Maximum time: 3 hours **Maximum Marks:** 100

1.

(a) Shri Sai publication Ltd publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March, 2018 issue was made in February, 2018. The magazine was published on its scheduled date. It received Rs.2,40,000 on10.3.2018 andRs.60,000 on 10.4.2018 for the March 2018 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2018. What will be the treatment if the publication is delayed till 2.4.2018?

(b) Desirabillity Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer its excess employees in a phasedmanner.

a. You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

b. lf the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS24?

c. Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

(c) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2018 on Weighted Average Basis.

Details of Purchases:

Date of purchase	*Unit (Nos.)*	*Purchase cost per unit (Rs.)*
01-03-2018	20	108
08-03-2018	15	107
17-03-2018	30	109
25-03-2018	15	107

Details of issue of Inventory:

Date of Issue	*Unit*

	(Nos.)
03-03-2018	10
12-03-2018	20
18-03-2018	10
24-03-2018	20

Net realizable value of inventory as on 31st March, 2018 is Rs. 107.75 per unit. What will be the value of Inventory as per AS 2?

(d) The Chief Accountant of Old Limited gives the following data regarding its six segments:
Rs. In lakhs

Particulars	A	B	C	D	E	F	Total
Segment Assets	20	40	15	10	10	5	100
Segment Results	25	(95)	5	5	(5)	15	(50)
Segment Revenue	150	310	40	30	40	30	600

The Chief accountant is of the opinion that segments "A" and "B" alone should be reported. Is he justified in his view? Discuss.

(4x 5 marks)

2. Following are the summarized Balance Sheets of Karan ltd , Raman ltd & Dhawan ltd., as on 31.3.2018:

Liabilities	*Karan Ltd.*	*Raman Ltd.*	*Dhawan Ltd.*	*Assets*	*Karan Ltd.*	*Raman Ltd.*	*Dhawan Ltd.*
	Rs.	*Rs.*	*Rs.*		*Rs.*	*Rs.*	*Rs.*
Share capital of Rs. 10 each	5,00,000	3,00,000	2,00,000	Fixed Assets Investment	2,00,000	1,50,000	1,20,000
General Reserves	80,000	60,000	50,000	24,000 Shares in Raman Ltd.	2,50,000		
Profit & Loss A/c	1,00,000	80,000	60,000	6,000 Shares in Dhawan Ltd.	80,000		
Sundry Creditors	70,000	20,000	30,000	12,000 shares in Dhawan Ltd.		1,60,000	
Raman Ltd. balance			40,000				
Dhawan Ltd. Balance	1,20,000			Stock in trade	1,00,000	60,000	60,000
				Debtors	1,50,000	40,000	80,000
				Dhawan Ltd. Balance		30,000	
				Karan Ltd. Balance			90,000
				Cash and Bank Balance	90,000	20,000	30,000
	8,70,000	4,60,000	3,80,000		8,70,000	4,60,000	3,80,000

Other Information:

(a) All the investments were made on 1.8.2017 on which date the provisions were as follows:

	Raman Ltd. (Rs.)	*Dhawan Ltd. (Rs.)*
General Reserves	30,000	15,000
Profit & Loss Account	50,000	25,000

(b) In December 2017, Raman Ltd. invoiced goods to KaranLtd. for Rs. 80,000 at cost plus 25%. The closing stock of Karan Ltd. includes such goods valued at Rs.10,000.

(c) Dhawan Ltd. sold to Raman Ltd. a machinery costing Rs. 27,000 at a profit of 25% on selling price on 31.12.2017. Depreciation at 10% per annum was provided by Raman Ltd. on this equipment.

(d) Debtors of Karan Ltd. include Rs.12,000 being the amount due from Raman Ltd.

You are required to prepare the Consolidated Balance Sheet of the Group (following direct approach) as on 31.3.2018 as per Schedule III to the Companies Act,2013 ***(16Marks)***

3.

(a) On 1st April, 2016, a company offered 100 shares to each of its 500 employees at Rs. 50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs.56 per share.

On 30th April, 2016, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(4 marks)

(b) Bottom Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13.

(i) Long term investments in Company A, costing Rs. 17 lakhs are to be re-classified as current. The company had reduced the value of these investments to Rs.13 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs.13.6 lakhs.

(ii) Long term investments in Company B, costing Rs. 14 lakhs are to be re-classified as current. The fair value on date of transfer is Rs. 16 lakhs and book value is Rs. 14 lakhs.

(iii) Current investment in Company C, costing Rs. 20 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 24 lakhs.

(iv) Current investment in Company D, costing Rs. 30 lakhs are to be re-classified as long term. The market value on date of transfer is Rs. 28 lakhs.

Advise the company, as per the guidance given in the standard, on reclassification of its investment and the amount at which the same has to be recognized. ***(8 marks)***

(c) Raipur Ltd. purchased an oil well for \$ 100 million. It estimates that the well contains 250 million barrels of oil. The oil well has no salvage value. If the company extracts and sells 10,000 barrels of oil during the first year, how much depletion expense should be recognized as per IFRS 6? ***(4 marks)***

4. The Balance Sheet of Sunflower Ltd. as on 31st March, 2018 was summarized as follows:

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Share Capital:		Land & Building	75,00,000
Equity Shares of Rs. 50 each, fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of Rs. 10 each, fully paid up	40,00,000	Trade Investment	16,50,000
		Inventories	9,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Trade Receivable	18,00,000
8% Debentures	17,00,000	Cash and Bank Balances	3,60,000
Trade Payables	6,00,000	Profit & Loss Account	2,15,000
Provision for Tax	75,000		
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

a. The equity shareholders agreed to receive in lieu of their present holding of Rs. 1,20,000 shares of Rs.50 each as under:

    i. New fully paid equity shares of Rs. 10 each equal to 2/3rd of their total number of shares.

    ii. 9% preference shares of Rs. 8 each to the extent of 25% of the above new equity share capital.

    iii. Rs. 2,80,000, 10% debentures of Rs. 80each.

b. The preference shareholders agreed that their Rs. 10 shares should be reduced to Rs. 8 by cancellation of Rs. 2 per share. They also agreed to subscribe for two new equity shares of Rs. 10 each for every five preference shares held.

c. The taxation liability of the company is settled at Rs. 66,000 and the same is paid immediately.

d. One of the trade creditors of the company to whom the company owes Rs. 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of Rs. 10 each in full satisfaction of his balance claim.

Other trade creditors of Rs. 5,00,000 are given option of either to accept fully paid 9% preference shares of Rs. 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for Rs. 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(a) Company's contractual commitments amounting to Rs. 6,50,000 have been settled by paying 4% penalty of contractvalue.

(b) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of theirdues.

(c) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debentures of Rs. 50 each and agreed to accept 10% debentures of Rs. 80 each for every two debentures held bythem.

(d) The land and building to be depreciated by 5%.

(e) The debit balance of profit and loss account is to be eliminated.

(f) $1/4^{th}$ of trade receivables and $1/5^{th}$ of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of Sunflower. as per Schedule III to the Companies Act, 2013. (16 marks)

5. (a) Satisfaction Ltd. granted 500 options to each of its 2,500 employees in 2011 at an exercise price of Rs. 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 per cent. The fair value per option is arrived at Rs. 15. Actual forfeitures in 2011 were 5 per cent. However at the end of 2011 the management of Satisfaction Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2012 the management revises its estimated average forfeiture rate to 10 per cent per annum over the entire vesting period. Of the 2,500 employees 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2015 and 500 employees exercise their right at the end of 2016. The rights of the remaining employees expire unexercised at the end of 2016. The face value per share is Rs. 10. Show the necessary journal entries with suitable narrations. Workings should form part of the answer. ***(12 marks)***

(b) Priyanka Ltd., has been successful jewellers for the past 100 years and sales are against cash only. The company diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales is that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy, with reference to AS 9. ***(4 marks)***

6.

(a) Kashish Ltd. leased a machinery to Kusum Ltd. on the following terms:

	(Rs. in Lakhs)
Fair value of the machinery	20.00
Lease term	5years
Lease Rental per annum	5.00
Guaranteed Residual value	1.00
Expected Residual value	2.00
Internal Rate of Return	15%

Depreciation is provided on straight line method @ 10% per annum. Ascertain unearned financial income and necessary entries may be passed in the books of the Lessee in the First year. ***(12 marks)***

(b) Top & Top Limited has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of Rs. 50 crore in capital assets, received Rs. 10 crore from the Government in January, 2005 (accounting period being 2004-2005). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2005.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not. ***(4 marks)***

7.

(a) Explain the carve outs in Ind AS 103 from IFRS 3 alongwith the reasons.

(b) Differentiate the Impairment of Assets with reference to Existing Accounting Standards and Ind AS

(c) What do you mean by Employees' stock purchase plans (ESPP)?

(d) Medium Ltd. entered into a sale deed for its immovable property before the end of the year. But registration was done with registrar subsequent to Balance Sheet date. But before finalisation, is it possible to recognise the sale and the gain at the Balance Sheet date? Give your view with reasons.

(e) Explain the carve outs in Ind AS 101 from IFRS 1 alongwith the reasons.

(4 marks each)