

## NEW SCHEME

### FINAL COURSE – GROUP I PAPER 1: FINANCIAL REPORTING

*Syllabus 100%*

*Question 1 is compulsory.*

*The students may attempt any five of the remaining six questions*

*All the workings shall form a part of your answer.*

*Maximum Time : 3 hours*

*Maximum Marks : 100*

#### 100 A

1. a) (i) Cisca Pvt. Ltd. has a headcount of around 1,000 employees in the organisation in 20X0-20X1. As per the company 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 sick leave, 10 and 5 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 as PL and 5 as SL. Also the company has been incurring profits since 20XX. It has decided in 20X0-20X1 to distribute profits to its employees @ 4% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Cisca Pvt. Ltd. is expected to be around 3.5%. The profits earned during 20X0-20X1 is Rs. 2,000 crores.

Cisca Pvt. Ltd. has a post-employment benefit plan also available which is the nature of defined contribution plan where contribution to this fund amounts to Rs. 100 crores which will fall due within 12 months from the end of accounting period.

The company has paid Rs. 20 crores to its employees in 20X0-20X1.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Cisca Pvt. Ltd?

*(6 marks)*

- a) (ii) Differentiate between Ind AS 37 and AS 29.

(6 marks)

a) (iii) A plan pays a lump-sum retirement benefit of Rs. 4,000 to all employees who are still employed at the age of 55 after twenty years of service, or who are still employed at the age of 65, regardless of their length of service. Compute the benefit attributed?

(4 marks)

b) The following data is given in respect of Samriddhi Ltd. for the year ended 31 3-20X1:

Abstract of Statement of Profit & Loss for the year ended 31 3-20X1

	` in '000	` in '000
Income		
Sale	2,380	
Other Income	370	2,750
Expenditure		
Operating Cost	1,855	
Administrative Expenses	150	
Interest Cost	215	
Depreciation	240	2,460
Profit before tax		290
Provision for tax		87
Profit after tax		203
Credit balance as per last balance sheet		60
		263

Other Information:

		` in '000
1.	Operating cost consists of:	
	Material Cost	1,220
	Wages, salaries & other benefits to employees	330
	Local taxes including cess	70
	Other manufacturing expenses	235

2.	Administrative expenses consist of:	
	Directors' Remuneration	55
	Audit Fee	25
	Provision for doubtful debts	8
	Others	62
3.	Interest cost consists of:	
	Interest on 10% debentures	180
	Interest on temporary bank overdraft	35
4.	The capital structure of the company consists of:	
	Equity share capital	1,500
	9% Preference share capital	600

You are required to prepare a Gross Value Added (GVA) statement and calculate the following ratios:

- (a) GVA to Material Cost Ratio (Industry average 0.80)
- (b) GVA to Employee Cost Ratio (Industry average 3.82)
- (c) GVA to Sales Ratio (Industry average 0.70)
- (d) GVA to Capital Employed Ratio (Industry average 0.30)

Also advise on the utility of the above ratios in comparison to the Industry average.

*(4 marks)*

2. a) The following information relates to the results of the parent and subsidiary (jointly) and the investment in associate and joint venture: (All figures are in rupees)

Summarised Balance Sheet as at 31.3.20X1

	Holding and subsidiary	Associate	Joint Venture
Equity and Liabilities			
Called up equity shares of Rs.1 each	1,00,000	40,000	10,000
General reserve	40,000		-
Profit and loss account	37,000	27,000	83,000
Minority Interest	20,000	-	-

Current Liabilities			
Trade payables -Creditors	20,000	32,000	6,000
Provision for tax	<u>19,000</u>	<u>11,000</u>	<u>11,000</u>
	<u>2,36,000</u>	<u>1,10,000</u>	<u>1,10,000</u>
Assets			
Non-current assets			
Fixed assets- Tangible assets	1,95,000	74,000	41,000
Investments:			
8,000 shares in Associate	15,000	-	-
5,000 shares in Joint Venture	5,000	-	-
Current assets	<u>21,000</u>	<u>36,000</u>	<u>69,000</u>
	<u>2,36,000</u>	<u>1,10,000</u>	<u>1,10,000</u>

Details of Profit and Loss account for the year ended 31.3.20X1

	Holding and subsidiary	Associate	Joint Venture
Retained profit for the year	15,000	11,000	23,000
Add: Retained profit brought forward	<u>22,000</u>	<u>16,000</u>	<u>60,000</u>
Retained profit carried forward	<u>37,000</u>	<u>27,000</u>	<u>83,000</u>

You are given the following additional information:

- (a) The parent company purchased its investment in the associate two years ago when the balance on the profit and loss account was Rs. 17,000. There are no signs of impairment of the goodwill.
- (b) The parent company entered into a joint venture to access a lucrative market in the former East Germany. It set up a company two years ago and has 50 per cent of the voting rights of the company set up for this joint venture.

Prepare the consolidated balance sheet for the Group as per relevant Accounting Standards for the year ended 31.3.20X1.

(16 marks)

b) Ruby Ltd. has incurred USD (\$) 2,00,000 in CERs registration, certification and other related costs during financial year 2015~16. This entitles the company to 1,80,000 CERs The CERs are being traded at USD 1.2 per CER in MCX at the year end.

Pass journal entries for recognition of CERs, year-end value to be appeared in the financial statements and on the sale of CERs in the next year @ USD 1.2 per CER.

*(4 marks)*

3. a) On 10<sup>th</sup> May, 2016, A Ltd. acquired 40% shares of B Ltd. for Rs. 45,00,000. By such an acquisition Rohtas Ltd. can exercise significant influence over B Ltd. During the financial year ending on 31<sup>st</sup> March, 2016, B Ltd. earned profits Rs. 11,54,000 and declared a dividend of Rs. 2,48,000 on 16<sup>th</sup> September, 2016. B Ltd. reported earnings of Rs. 26,26,000 for the financial year ending on 31<sup>st</sup> March, 2017 and declared dividend of Rs. 9,85,000 on 17<sup>th</sup> August, 2017.

You are required to calculate the carrying amount of investments in Separate Financial Statements of A Ltd. as on 31<sup>st</sup> March, 2017 and also in Consolidated Financial Statements of A Ltd. as on 31<sup>st</sup> March, 2017. What will be the carrying amount of Investments in Consolidated Financial Statements of A Ltd. if prepared on 31<sup>st</sup> August 2017 on the basis of Accounting Standards?

*(6 marks)*

b) PQ Gas Ltd. is engaged in exploration, production and refining of crude oil. The company has two exploration sites- Site A and Site B; the two sites form part of a single operating segment in accordance with Ind AS 108, Operating Segments.

The company has recently acquired rights to explore the two sites and has paid Rs. 1 crore for permission from authorities, legal expense to acquire the land were Rs. 20 crores. Consultation fee paid to a topographical expert was Rs. 10 crores. Other expenses incurred by the company are digging trenches Rs. 2 crores, sample testing Rs. 30 crores, drilling expenses Rs. 70 crores, present value of cost of dismantling the test drilling rig is Rs. 30 crores, materials and fuel used Rs. 3 crores, employee costs Rs. 1.1 crores, administrative overheads Rs. 0.5 crore, payments

made to contractors Rs. 2 crores, expenses paid to a consultant to determine the commercial viability of the extraction is Rs. 1.5 crores.

Company has purchased two vehicles - Vehicle A and Vehicle B for each of the two sites, to transport persons engaged in exploratory drilling of mine amounting to Rs. 4 crores.

During the year, there is a change in taxation rules, which has adversely affected the management estimate of future prices. The recoverable amount of the each site is as follows:

Site A: Rs. 60 crores

Site B: Rs. 40 crores

How should the above expenses incurred be accounted for in the books of PQ Gas Ltd. (including classification, measurement and recognition) assuming that the company accounts for evaluation and development expenditure is accounted for using the successful efforts method of accounting, and follows the cost model for subsequent measurement of E&E assets?

*(6 marks)*

OR

b) What are the disclosures required in the Combined/Carved-out Financial Statements as described in the Guidance Note on Combined and Carved-out Financial Statements?

*(6 marks)*

c) XYZ Ltd. enters a contract with Y Ltd. to undertake a research work, which it expects to take 3 years. XYZ Ltd. will have to periodically update Y Ltd. with the progress of the work. Y Ltd. has exclusive rights over the results of research work. Y Ltd. will make an upfront payment of Rs.10 crores on contract signature and three equal annual payments of Rs. 2 crores, provided XYZ Ltd. demonstrates compliance with the development programme. In addition, upon successful testing, Y Ltd. will pay a further Rs.4 crores. XYZ Ltd. estimates the total project cost will be Rs. 15 crores. XYZ Ltd. incurred Rs.5 crores in year one in line with its original estimate. XYZ Ltd. is in agreement with other terms and conditions of the contract. In year 2 and 3, it

has incurred Rs. 7 crores and Rs.3 crores respectively. Towards the end of year 3, Y Ltd. concluded the successful testing of the research work. How should XYZ Ltd. recognise the revenue in year 1, 2 and 3?

*(8 marks)*

4. a) (i) On 1<sup>st</sup> January 2017, Expo Limited agreed to purchase USD (\$) 40,000 from E&I Bank in future on 31<sup>st</sup> December 2017 for a rate equal to ₹ 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31 <sup>st</sup> March, 2017	₹ (50,000)
As at 30 <sup>th</sup> June, 2017	₹ (30,000)
As at 30 <sup>th</sup> September, 2017	₹ 24,000
Spot rate of USD on 31 <sup>st</sup> December, 2017	₹ 62 per USD

*(6 marks)*

- a) (ii) On 1 July 20X1, D Ltd. issues preference shares to G Ltd. for a consideration of Rs. 10 lakhs. The holder has an option to convert these preference shares to a fixed number of equity instruments of the issuer anytime up to a period of 3 years. If the option is not exercised by the holder, the preference shares are redeemed at the end of 3 years. The preference shares carry a fixed coupon of 6% p.a. The prevailing market rate for similar preference shares, without the conversion feature, is 9% p.a.

Calculate the value of the liability and equity components.

*(3 marks)*

a) (iii) State whether the derecognition principles will be applied or not.

- (i) Interest strip of an interest-bearing financial asset i.e. the part entitles its holder to interest cash flows of a financial asset
- (ii) Dividend strip of an equity share i.e. the part entitles its holder to only dividends arising from an equity share
- (iii) Cash flows (principal and asset) up to a certain tenure or first right on a proportion of cash flows of an amortising financial asset. Say, the part entitles its holder to first 80% of the cash flows or cash flows for first 4 of the 6 years' tenure.

*(3 marks)*

b) P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 2017 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:

31st March 2018	`210
31st March 2019	`220
31st March 2020	`215
31st March 2021	`218

What would be the difference if at the end of the second year of service (i.e. at 31st March 2019), P Ltd. modifies the terms of the award to require only three years of service. Answer on the basis of relevant Ind AS.

*(8 marks)*

5. a) On June 1, 20X1, entity X plans to sell a group of assets and liabilities, which is classified as a disposal group. On July 31, 20X1, the Board of Directors approves and becomes committed to the plan to sell the manufacturing unit by entering into a firm purchase commitment with entity Y. However, since the manufacturing unit is regulated, the approval from the regulator is needed for sale. The approval from the regulator is customary and highly probable to be received by November 30, 20X1 and the sale is expected to be completed by March 31, 20X2.



Entity X follows December year end. The assets and liabilities attributable to this manufacturing unit are as under:

(Amount in Rs.)

Particulars	Carrying value as on December 31, 20X0	Carrying value as on July 31, 20X1
Goodwill	500	500
Plant and Machinery	1,000	900
Building	2,000	1,850
Debtors	850	1,050
Inventory	700	400
Creditors	(300)	(250)
Loans	<u>(2,000)</u>	<u>(1,850)</u>
	<u>2,750</u>	<u>2,600</u>

The fair value of the manufacturing unit as on December 31, 20X0 is Rs. 2,000 and as on July 31, 20X1 is Rs. 1,850. The cost to sell is 100 on both these dates. The disposal group is not sold at the period end i.e., December 31, 20X1. The fair value as on December 31, 20X1 is lower than the carrying value of the disposal group as on that date.

Required:

- (1) Assess whether the manufacturing unit can be classified as held for sale and reasons there for. If yes, then at which date?
- (2) The measurement of the manufacturing unit as on the date of classification as held for sale.
- (3) The measurement of the manufacturing unit as at the end of the year.

*(14 marks)*

b) What are the guiding principles for preparation and presentation of Integrated Report?

*(6 marks)*

6. a) On September 30, 20X1 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 September 30, 20X1 is 40. The quoted market price of Entity A's ordinary shares at that date is 16.

The fair values of Entity A's identifiable assets and liabilities at September 30, 20X1 are the same as their carrying amounts, except that the fair value of Entity A's non-current assets at September 30, 20X1 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	1,300	3,000
Total assets	1,800	3,700
Current liabilities	300	600
Non-current liabilities	400	1,100
Total liabilities	700	1,700
Shareholders' equity		
Retained earnings	800	1,400
Issued equity		
100 ordinary shares	300	
60 ordinary shares		600
Total shareholders' equity	1,100	2,000
Total liabilities and shareholders' equity	1,800	3,700

*(12 marks)*

b) (i) Differentiate between the two forms of capital.

*(4 marks)*

b) (ii) Entity A sells goods to Mr. X on November, 20X1 and received payments on January 31, 20X2. The entity follows December 31, 20X1 as its annual closing of financial statements. State how this business transaction should be accounted.

*(4 marks)*