Roll No. ....

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

DEC 2021

Total No. of Questions – 7

Total No. of Printed Pages – **16**

Time Allowed – 3 Hours

Maximum Marks – **100**

EWP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any **five** questions from the remaining **six** questions.

Working notes should form part of the answer.

Marks

1. (a) Ram Ltd. furnishes the following information. You are required to compute the basic earnings per share as per paragraphs 10 and 26 of Accounting Standards 20 : **5**

Accounting Period : 1st January, 2020 to 31st December, 2020

Net Profit for the Year 2020 ₹ 25,00,000 and Year 2021 ₹ 37,50,000

No. of shares outstanding prior to right issue : 12,50,000 shares

Right issue : One new share for each four outstanding shares.

Right issue price : ₹ 20 each

Last date of exercise rights : 31.03.2021

Fair rate of one Equity share immediately prior to exercise of rights on 31.03.2021 : ₹ 25

Marks

(b) (i) A Ltd. had acquired 80% share in the B Ltd. for ₹ 45 lacs. The net assets of B Ltd. on the day are ₹ 66 lacs. During the year A Ltd. sold the investment for ₹ 90 lacs and Net assets of B Ltd. on the date of disposal was ₹ 105 lacs. Calculate the profit or loss on disposal of this investment to be recognised in consolidated financial statement. **2**

(ii) Mahasukh Corporation is dealing in seasonal product sales pattern of the product, quarter wise is as follows : **3**

1st quarter 30th June	10%
2nd quarter 30th September	10%
3rd quarter 31st December	60%
4th quarter 31st March	20%

Information regarding the 1st quarter ending on 30th June, 2020 is as follows :

Sales	₹ 200 crores
Salary and other expenses	₹ 150 crores
Advertisement expenses (routine)	₹ 10 crores
Administrative and selling expenses	₹ 20 crores

While preparing interim financial report for first quarter Mahasukh Corporation wants to defer ₹ 25 Crores expenditure to third quarter on the argument that third quarter is having more sales therefore third quarter should be debited by more expenditure. Considering the seasonal nature of business and the expenditures are uniform throughout all quarters, calculate the result of the first quarter as per Accounting Standard 25. Whether Company's view is correct ?

Marks

(c) (i) Bay Ltd. has an existing freehold property where it operates an amusement park, which it intends to knock down and redevelop. During the redevelopment period the company will move its facilities to another nearby (temporary) site. The following incremental costs will be incurred : 5

- Setup costs of ₹ 5 lakhs to install the facilities in the new location.
- Rent of ₹ 3 lakhs
- Removal costs of ₹ 2 lakhs including transportation of the structures/machinery from the old location to the temporary location.

Can these costs be capitalised into the cost of the new amusement park ?

(ii) After redevelopment of facilities, Bay Ltd. made a 'soft' opening to the public, to trial run its attractions. Tickets are sold at a 70% discount during this period and the operating capacity is 90%. The official opening day of the amusement park is two months later. Management claim that the soft opening is a trial run necessary for the amusement park to be in the condition capable of operating in the intended manner and accordingly, the net operating costs incurred during soft launch should be capitalised.

You are required to advise the management regarding proper treatment of the above events in the financial statements of the company Bay Ltd. keeping in mind the relevant applicable accounting standards.

Marks

(d) Mohan Ltd. gives the following estimates of cash flows relating to fixed asset on 31.12.2020. The discount rate is 15%. **5**

Year	**Cash Flow (₹ In lakhs)**
2021	9,000
2022	13,500
2023	13,500
2024	18,000
2025	9,000

Residual value at the end of 2025 = ₹ 2,250 lakhs

Fixed assets purchased on 01.01.2021 = ₹ 90,000 lakhs

Useful life = 8 years

Net selling price on 31.12.2020 = ₹ 45,000 lakhs

Calculate on 31.12.20

(a) Carrying amount at the end of 2020

(b) Value in use on 31.12.2020

(c) Recoverable amount on 31.12.2020

(d) Impairment loss to be recognised for the year ended 31.12.2020

(e) Revised carrying amount

(f) Depreciation charge for 2021

(Discount factor @ 15% for 1, 2, 3, 4 and 5 years are 0.870, 0.756, 0.658, 0.572 and 0.497 respectively)

Marks

2. Blue Limited and Green Limited both are engaged in the business of trading in essential commodities. Blue Limited proposes to absorb the business of Green Limited as part of its business strategy. The summarized Balance Sheets of Blue Limited and Green Limited as on 31st March, 2021 are as follows : 16

Particulars	Blue Limited (₹)	Green Limited (₹)
(I) Equity and Liabilities :		
(1) Shareholder's fund		
(a) Share capital		
Equity shares of ₹ 10 each	30,00,000	15,00,000
10% Preference share capital of ₹ 100 each	9,00,000	
12% Preference share capital of ₹ 100 each		4,80,000
(b) Reserves and surplus		
Statutory reserve	50,000	80,000
General reserve	19,50,000	12,50,000
(2) Non-current liabilities		
Secured loans		
14% Debentures	4,00,000	
12% Debentures		5,00,000
(3) Current liabilities		
Trade payables	7,80,000	8,20,000
Total	**70,80,000**	**46,30,000**
(II) Assets :		
(1) Non-current assets		
(a) Property, Plant and Equipment	38,00,000	20,00,000
(b) Non-current investments	5,00,000	4,00,000
(2) Current assets		
(a) Inventories	14,00,000	11,60,000
(b) Trade receivables	12,40,000	9,68,000
(c) Cash at bank	1,40,000	1,02,000
Total	**70,80,000**	**46,30,000**

Marks

(i) The following terms and conditions were agreed for absorption.

(ii) 12% preference shareholders of Green Limited will receive 10% preference shares of Blue Limited in sufficient number to increase their present income by 15%.

(iii) The equity shareholders of Green Limited will receive equity shares in Blue Limited on the following terms :

The equity shares of Green Limited will be valued at ₹ 30 per share.

The market price of equity shares of Blue Limited is ₹ 50 per share.

The number of shares to be issued to equity shareholders of Green Limited will be based on the 75% of market price of the shares of Blue Limited.

(iv) 12% Debentures holders of Green Limited are to be paid at 10% premium by issue of 14% Debentures in Blue Limited issued at a discount of 12%.

(v) 12% Debentures holders of Green Limited are to be paid Debenture interest of last year which was not accounted for due to omission and it was decided to make necessary provisions.

(vi) Trade Receivables of Green Limited includes ₹ 18,000 receivable from Blue Limited.

Marks

(vii) Trade Payables of Green Limited includes ₹ 6,000 due to Blue Limited.

(viii) ₹ 9,000 is to be paid by Blue Limited to Green Limited for liquidation expenses.

(ix) Property, Plant and Equipment of both the companies are to be valued at 20% above book value. Inventory in trade is taken over at 10% less than their book value. A provision for bad-debt is to be provided for at 10% on the Receivables of Green Limited from other outside parties.

(x) Statutory reserve has to be maintained as it is at same level.

You are required to :

(I) Compute the purchase consideration.

(II) Prepare Balance Sheet of Blue Limited as at 31st March, 2021 after absorption, as per Schedule III to the Companies Act, 2013 alongwith Notes to the accounts.

3. A Ltd., a listed Company, entered into an expansion programme on 1st April, 2020. On that date the Company purchased from B Ltd. its investments in two Private Limited Companies. The purchase was of **16**

(a) The entire share capital of C Ltd. and

(b) 50% of the share capital of D Ltd.

Both the investments were previously owned by B Ltd. After acquisition by A Limited, D Ltd. was to be run by A Ltd. and B Ltd. as a jointly controlled entity.

A Ltd. makes its financial statements up to 31st March each year. The terms of acquisition were :

C Ltd.

The total consideration was based on price earnings (P/E) of 12 applied to the reported profit of ₹ 45 lakhs of C Ltd. for the year 31st March, 2020. The consideration was settled by A Ltd. issuing 8% debentures for ₹ 315 lakhs (at par) and the balance by a new issue of ₹ 1 equity shares, based on its market value of ₹ 2.50 each.

D Ltd.

The market value of D Ltd. on 1st April, 2020 was mutually agreed as ₹ 843.75 lakhs. A Ltd. satisfied its share of 50% of this amount by issuing 168.75 lakhs ₹ 1 equity shares (market value ₹ 2.50 each) to B Ltd.

A Ltd. has not recorded in its books the acquisition of the above investments or the discharge of the consideration.

Marks

The summarised statements of financial position of the three entities at 31st March, 2021 are :

(₹ In thousands)

	A Ltd.	C Ltd.	D Ltd.
Liabilities			
Equity Capital ₹ 1 each	22,500.00	45,000.00	56,250.00
Retained earnings	46,800.00	33,750.00	10,125.00
Trade and other payables	38,520.00	11,857.50	31,725.00
Overdraft	3,465.00	–	–
Provision for taxes	12,690.00	5,400.00	1,710.00
	1,23,975.00	**96,007.50**	**99,810.00**
Assets			
Tangible Assets	77,085.00	60,750.00	47,385.00
Inventories	21,690.00	16,200.00	41,940.00
Trade Receivables	25,200.00	11,385.00	10,395.00
Cash	–	7,672.50	90.00
	1,23,975.00	**96,007.50**	**99,810.00**

Additional information are as follows :

(i) The book values of the net assets of C Ltd. and D Ltd. on the date of acquisition were considered to be a reasonable approximation to their fair values.

(ii) The current profit of C Ltd. and D Ltd. for the year ended 31st March, 2021 were ₹ 180 lakhs and ₹ 45 lakhs respectively. No dividends were paid by any of the companies during the year.

(iii) D Ltd. the jointly controlled entity is to be accounted for using proportionate consolidation, in accordance with AS 27 "Interest in Joint Venture".

(iv) Goodwill in respect of the acquisition of D Ltd. has been impaired by ₹ 22.50 lakhs at 31st March, 2021. Gain on acquisition, if any, will be separately accounted.

You are required to prepare the Consolidated Balance Sheet of A Ltd. and its subsidiaries as at 31st March, 2021.

4. (a) ABC Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2021 : 5

Asset Funded	Interest overdue but recognise in profit and loss		Net Book Value of Assets outstanding (₹ in lakhs)
	Period overdue	Interest Amount (₹ in lakhs)	
Television	Up to 12 months	960.00	40,246
Washing Machine	For 24 months	204.00	4,820
Refrigerators	For 30 months	101.00	2,560
Air-Conditions	For 45 months	53.50	1,294

Calculate the amount of provision to be made.

Marks

(b) On 1st April, 2020, A Ltd. issued ₹ 52,50,000, 6% convertible debentures of face value of ₹ 100 per each debenture at par. The debentures are redeemable at a premium of 10% on 31.03.2024 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%. 5

Being compound financial instrument you are required to separate equity and debt portion as on 01.04.2020.

(c) Explain the carve out in Ind AS 28 from IAS 28 along with the reasons. 6

5. (a) The directors of a public limited company are considering the acquisition of the entire share capital of an existing company Ramlal Ltd. engaged in a line of business suited to them. The directors feel that acquisition of Ramlal will not create any further risk to their business interest. 8

The following is the summarized Balance sheet of Ramlal Limited as at 31st December, 2020 :

Liabilities	Amount	Amount
Share Capital		
9,000 Equity shares of ₹ 10 each fully paid up	9,00,000	
Reserve & Surplus		
General Reserve	6,75,000	
Current Liability		
Bank Overdraft	5,40,000	
Trade Payables	6,75,000	
		27,90,000
		27,90,000

 Marks

Assets	**Amount**	**Amount**
Fixed Assets		
Freehold Properties	13,50,000	
Current Assets		
Inventory	4,50,000	
Trade Receivable	7,65,000	
Cash & Bank balance	2,25,000	27,90,000
		27,90,000

Ramlal's financial records for the five years were as under :

	Amount (₹)				
	2020	**2019**	**2018**	**2017**	**2016**
Profit	1,80,000	1,66,500	1,57,500	1,35,000	1,39,500
Extraordinary items	7,875	9,000	(13,500)	(18,000)	(2,250)
	1,87,875	**1,75,500**	**1,44,000**	**1,17,000**	**1,37,250**
Less : Dividends	1,08,000	90,000	90,000	72,000	72,000
	79,875	**85,500**	**54,000**	**45,000**	**65,250**

Additional Informations :

(i) There were no changes in the issued capital of Ramlal Ltd. during this period.

(ii) The estimated values of Ramlal's assets on 31.12.2020 are :

	Replacement Cost	**Realizable value**
Free hold properties	18,00,000	12,15,000
Inventory	6,75,000	7,20,000

(iii) For realizable purpose, it is anticipated that 1% of the Trade receivable may prove to be difficult to be realized.

(iv) The cost of capital to the acquiring company is 10%.

(v) The current return of an investment of the acquiring company is 10%. Quoted companies with similer business and activities as Ramlal Ltd. have a P/E ratio approximating to 8, although these companies tend to be larger than Ramlal Ltd.

You are required to estimate the value of the total equity capital of Ramlal Ltd. on 31.12.2020 using each of the following bases :

(1) Balance Sheet Value

(2) Replacement Cost

(3) Realizable value

(4) P/E ratio model

(b) From the following information, calculate the value of share if buyer wants to 8

(i) Buy a small lot of shares

(ii) Buy a controlling interest in the Company

Year	Profit (₹ in thousand)	Capital Employed (₹ In thousand)	Dividend (%)
2017	13,750.00	85,937.50	12
2018	40,000.00	2,00,000.00	15
2019	55,000.00	2,50,000.00	18
2020	62,500.00	2,50,000.00	20

The market expectation is 12%

Marks

6. (a) Following information is provided in respect of Jack Ltd. as on 31st March, 2021 : 8

	(₹ in lakh)
Turnover (including discounts worth ₹ 10 lakh)	2,020
Plant and machinery (net)	700
Depreciation on plant and machinery	105
Trade Receivables	190
Dividend to Equity shareholders	75
Trade Payables	170

Stock (₹ in lakh)	Raw-Materials	WIP & Finished
Opening stock 1.04.2020	80	40
Closing stock 31.03. 2021	120	10

	(₹ in lakh)
Raw material purchased during the year	500
Cash at bank	125
Travelling & Conveyance	25
Audit Fees Expenses	10
Wages and salaries	250
Employees state insurance Expenses	20
Provident fund contribution	30
Retained profit (opening balance)	800
Retained profit for the year	325
Transfer to reserve	100
Rent paid	60
Other overhead expenses	70
Ordinary share capital (₹ 100 each)	1500
Interest on borrowings	50
Income tax for the year	400

Number of employees working in the company Jack Ltd. is 90 during the financial year 2020-21.

Marks

You are required to :

(i) Prepare Value Added Statement and its application for the year ended 31.3.2021

(ii) Value Added per Employee for the year

(iii) Average Earnings per Employee for the year

(iv) Sales per Employee for the year

(b) Reshma Ltd. grants 1,000 employees stock options on 01.04.2017 at ₹ 80 when the market price is ₹ 320. The vesting period is two and half years and the maximum exercise period is one year. 300 unvested options lapsed on 01.05.2019. 600 options were exercised on 30.06.2020 100 vested options lapsed at the end of the exercise period. Pass journal entries with suitable narrations. 8

7. Answer any **four** of the following : 4×4 =16

(a) Explain whether the following will constitute a change in accounting policy or not as per AS 5 :

(i) Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

(ii) Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 15,000 per month. Earlier there was no such scheme of pension in the organization.

Marks

(b) What is the meaning of 'valuation of liabilities' ? State the purpose of valuation of liabilities in financial accounting and reporting.

(c) X Ltd., a parent company with subsidiaries holds 25% of the equity shares in Y Ltd. During the year, X Ltd. makes sales of ₹ 15,00,000 to Y Ltd. at cost plus a 25 % mark up. At the end of the year Y Ltd. has all these goods still in inventories. State the entries to be passed if associate has made sale to parent company and goods still in Inventories of parent company.

(d) What is interim period and what is interim period Financial Report as per Ind AS 34 ?

(e) The Balance Mutual Fund raised ₹ 500 lakhs on April 1, 2020 by issue of 5 lakh units of ₹ 100 per unit. The fund invested in several capital market instruments both in debt and equity to build a portfolio of ₹ 475 lakhs. The initial expenses amounted to ₹ 12 lakhs. During the financial year 2020-21, the fund sold certain securities of cost ₹ 200 lakhs for ₹ 215 lakhs. Fund further invested in shares for ₹ 60 lakhs on 1st June, 2020 and purchased certain other securities for ₹ 70 lakhs on 30th Sept., 2020.

During the financial year, the fund management expenses on an average amounted to ₹ 3.50 lakhs per month of which ₹ 3.50 lakh was in arrears at end of the year. The dividend earned during the period was ₹ 20 lakhs. 60% of the realized earnings were distributed. The market value of the portfolio on 31.03.2021 was ₹ 525 lakh. You are required to determine the NAV of the fund at 31.03.2021.
