MAY 2023

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Final New Syllabus
Paper - 1
Financial Reporting

Maximum Marks – **100**

WHT

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

Question No. **1** is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.
Working notes should form part of the respective answers.

Marks

1. (a) The draft balance sheets of Swan Limited and Duck Limited as at 31st March 2023 is as under : **15**

		Amount in ₹ Lakhs
Particulars	**Swan Limited**	**Duck Limited**
Assets		
Non – Current Assets		
Property, Plant and Equipment	800	1,000
Investments	900	240
Current Assets		
Inventories	360	260
Financial Assets		
– Trade Receivables	1,040	540
– Cash & Cash Equivalents	520	290
Other Current Assets	700	350
Total	**4,320**	**2,680**

Marks

	Swan Limited	Duck Limited
Equity and Liabilities		
Equity		
Share Capital		
– Swan Limited : Equity Shares of ₹ 10/ - each	1,200	-
– Duck Limited : Equity Shares of ₹ 100/- each	-	900
Other Equity	1,450	420
Non – Current Liabilities		
Financial Liabilities		
– Long Term Borrowings	700	500
Long Term Provisions	140	200
Deferred Tax	80	-
Current Liabilities		
Financial Liabilities		
– Short Term Borrowings	250	290
– Trade Payables	500	370
Total	**4,320**	**2,680**

On 1st April 2023, Swan Limited acquired 80% equity shares of Duck Limited. Swan Limited agreed to pay to each shareholder of Duck Limited, ₹ 20/- per equity share in cash and to issue five equity shares of ₹ 10/- each of Swan Limited in lieu of every six shares held by the shareholder Duck Limited. The fair value of the shares of Swan Limited was ₹ 100/- per share as on the date of acquisition.

Swan Limited also agreed to pay an additional consideration being higher of ₹ 90 lakhs and 30% of any excess profits in the first year, after acquisition, over Duck Limited's profits in the preceding 12 months (financial year 2022 – 23) made by Duck Limited. The additional amount will be due in 3 years post the date of acquisition. Duck Limited had earned ₹ 30 lakhs profit in the preceding year and expects to earn ₹ 40 lakhs in financial year 2023 – 24.

The fair value exercise resulted in the following :

i. Fair value of Property, Plant and Equipment and Investments of Duck Limited on 1st April 2023 was ₹ 1200 lakhs and ₹ 300 lakhs respectively.

ii. Duck Limited owns a popular brand name that meets the recognition criteria for Intangible Assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of ₹ 250 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

iii. Following is the statement of Contingent Liabilities of Duck Limited as on 1st April 2023 :

Particulars	Fair Value (₹/Lakhs)	Remarks
Law suit filed by a customer for a claim of ₹ 20 lakhs	5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of ₹ 70 lakhs raised by tax authorities. Duck Limited has challenged the demand in the High Court	20	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

Marks

iv. Duck Limited had certain equity settled share based payment awards (original award) which were replaced by the new awards issued by Swan Limited. As per the terms of original awards, the vesting period was 5 years and as of the acquisition date the employees of Duck Limited had already served 2 years of service. As per the new awards, the vesting period has been reduced to 1 year (1 year from the acquisition date). The fair value of the award on acquisition date was as follows :

Original Awards : ₹ 12 lakhs

New Awards : ₹ 18 lakhs.

v. Further, Swan Limited has also agreed to pay one of the founder shareholder of Duck Limited a sum of ₹ 15 lakhs provided he stays with the Company for two years after the acquisition.

vi. The acquisition cost of Swan Limited for Duck Limited was ₹ 26 lakhs.

vii. The applicable tax rate for both the companies is 30 %.

viii. Assume 10 % per annum discount rate.

ix. Also, assume, unless stated otherwise, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to prepare opening Consolidated Balance Sheet of Swan Limited as on 1st April 2023. Working Notes should form part of your answer.

(b) X Limited has a loan facility from a bank which is to be repaid within a period of six months from the end of the reporting period. Before the end of the reporting period, X Limited and the bank enters into an arrangement as per which the existing outstanding loan will, unconditionally, roll into the new facility which will expire after a period of 3 years. 5

Marks

i. How should the loan be classified in the balance sheet of X Limited as at the reporting date ? Give reasons.

ii. Will the answer be different if the new facility is agreed upon after the end of the reporting period ? Why ? What will be the answer ?

iii. Will the answer to (i) be different if the new facility is not yet tied up with the existing bank, but X Limited has the potential to refinance the obligation. Give reasons.

2. (a) Venus limited had purchased on 1st April 2020, a PPE kits manufacturing plant for ₹ 12.00 lakhs. The useful life of the plant is 8 years. The deprecation is provided on straight line method. On 30th September 2022, Venus Limited temporarily discontinues the production at the said plant due to decline in the demand for PPE kits. However, the plant is maintained in a workable condition and it can be used in future whenever the demand picks up. **8**

The accountant of Venus Limited decided to treat the plant as held for sale under Ind AS 105 until the demand picks up. She, thus measures the plant at lower of carrying amount and fair value less cost to sell.

She also stopped charging the depreciation for the rest of period as the plant was held for sale. The fair value less cost to sell the said plant on 30th September, 2022 and 31st March, 2023 was ₹ 6.75 lakhs and ₹ 6.00 lakhs respectively.

She performed the following working to determine the carrying amount of the plant on initial classification as held for sale :

Particulars	₹ in Lakhs
Purchase price of the plant : Less : Accumulated depreciation for 2.5 years (₹ 12.00 lakhs/8 years X 2.5 years)	12.00 3.75 8.25
Fair value less cost to sales as on 30th September 2022	6.75
The carrying amount is lower of ₹ 8.25 lakhs and ₹ 6.75 lakhs	6.75

Marks

Balance Sheet extracts as at 31st March 2023

Particulars	₹ In lakhs
Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	6.00

Discuss whether the above accounting treatment made by the accountant is as per applicable Ind AS. If not, what should be the correct treatment. Provide balance sheet extract as at 31st March 2023 together with the computation of the carrying value of PPE as at 31st March, 2023.

(b) On 1st April 2021, Z Limited enters into a contract to construct a manufacturing facility for Mint Limited at a fixed consideration of ₹ 30.00 lakhs. Z Limited can earn an incentive of ₹ 3.75 lakhs if the construction is completed within 24 months. Z Limited expects the costs to be ₹ 16.50 lakhs. At the inception of the contract, Z Limited determines that the contract contains single performance obligation satisfied over time. Z Limited also concludes that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will occur as the completion of the manufacturing facility is highly susceptible to factors outside of the Company's influence, due to exceptionally high rainfall in the region. 6

At 31st March, 2022, Z Limited has satisfied 65% of its performance obligation on the basis of costs incurred to date and concludes that the variable consideration is still constrained due to uncertain weather conditions.

However, on 15th April 2022, the contract is modified. The fixed consideration is enhanced by ₹ 2.25 lakhs and the expected costs increases by ₹ 1.20 lakhs. The contract period is also extended by 6 months. Z Limited now concludes that it is highly probable that the incentive award will be achieved. The contract remains a single performance obligation.

Compute, as per applicable Ind AS : (i) For Financial Year 2022 – 23, revenue from the contract, contract costs & resultant profit, (ii) Additional revenue (catch up adjustment) as on the date of modification of the contract i.e. 15th April 2022.

Marks

(c) On 1st January 2023, Z Limited enters into an agreement with a college for renovation of building including installation of new air conditioners at a transaction price of ₹ 40.00 lakhs. The expected cost of air conditioners is ₹ 12.00 lakhs. The other expected cost is ₹ 20.00 lakhs. Z Limited purchases the air conditioners and they are delivered to the site before 31st March 2023. Z Limited uses an input method based on cost to measure progress towards completion of the contract. Z Limited has incurred actual other costs (excluding the air conditioners) of ₹ 4.00 lakhs by 31st March, 2023. 6

Determine the revenue to be recognized as per applicable Ind AS for the year ended 31st March 2023 if performance obligation is met over a period of time.

3. (a) ABC Limited is into dairy farm. Cows are milked on a daily basis. After milking, milk is immediately kept in cold storage. The milk is sold to retail distributors on a weekly basis. 8

On 1st April 2022 ABC Ltd. had 500 cows which were all 3 years old.

During the financial year 2022 - 23, some of the cows became sick and on 30th September 2022, 20 cows died. On 1st October 2022, ABC Limited purchased 20 replacement cows from the market for ₹ 63,000 each. These 20 cows were all 1 year old when they were purchased.

On 31st March 2023, ABC Ltd. had 1000 litres of milk in cold storage which had not been sold to retail distributors. The market price of milk as at 31st March 2023 was ₹ 60 per litre. While selling the milk to distributors, ABC Limited incurs selling costs of ₹ 3 per litre. These amounts did not change during March 2023 and are not expected to change during April 2023.

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

Date	Fair value of a dairy cow aged				Cost to sell a cow
	1 year	1.5 year	3 years	4 years	
01.04.2022	60,000	66,000	81,000	75,000	3,000
01.10.2022	63,000	69,000	84,000	78,000	3,000
31.03.2023	64,500	70,500	87,000	79,500	3,300

Marks

You can assume that fair value of 3.5 year old cow as on 30th September 2022 is ₹ 81,000.

Provide necessary journal entries in the books of account with respect to cows for above events & transactions in the financial statement of ABC Limited as at (i) 30th September 2022; (ii) 1st October 2022 and (iii) 31st March 2023 . Also determine the value of milk inventory as at 31st March 2023.

(b) On 1st May 2022, Sanskar Limited purchased ₹ 42,00,000 worth of land for construction of a new warehouse for stocking new products. The land purchased had an old temporary structure which was to be demolished for the purpose of construction of warehouse. The salvaged material from the demolition was to be sold as scrap. The company started the construction work of the warehouse on 1st June, 2022. Following costs were incurred by the company with regard to purchase of land and construction of warehouse : 8

Particulars	Amount (₹)
Legal fees for purchase contract of land and recording ownership	1,50,000
Architect and consultant's fee	2,70,000
Cost of demolishing existing structure on the purchased land	1,35,000
Site preparation charges for the warehouse	1,00,000
Purchase of Cement and other materials for the construction (including GST of ₹ 1,00,000 and GST credit is 50% of the payment)	15,00,000
Employment costs of the construction workers	8,00,000
General overhead costs allocated to the construction work	30,000 per month
Overhead costs incurred directly on the construction of warehouse	35,000 per month
Income received from land used as temporary parking during construction phase	80,000

Additional information :

- Receipt of ₹ 35,000 being proceeds from sale of salvaged and scrapped materials from demolition of existing structure
- Materials costing ₹ 40,000 was wasted and further ₹ 1,20,000 was spent to rectify the wrong design work.
- The employment costs are for 10 months i.e. from 1st June 2022 till 31st March 2023.
- The construction of factory was completed on 28th February, 2023 (which is considered as substantial period of time as per Ind AS-23)
- The use of warehouse commenced on 1st March, 2023.
- The overall useful life of factory building was estimated at 25 years from the date of completion; however, it is estimated that the roof of the warehouse will need to be replaced 15 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.
- At the end of the 25-year period, Sanskar Limited is legally bound to demolish the factory and restore the site to its original condition. The directors of the company estimate that the cost of demolition in 25 years' time (based on prices prevailing at that time) will be ₹ 80,00,000. An annual risk adjusted discount rate which is appropriate to this project is 10% per annum. The present value of ₹ 1 payable in 25 years' time at an annual discount rate of 10% per annum is ₹ 0.092.
- Sanskar Limited raised a loan of ₹ 60 lakhs @ 10% per annum rate of interest on 1st June, 2022. The building of warehouse meets the definition of a qualifying asset in accordance with Ind AS-23 Borrowing Costs. Sanskar Limited received an investment income of ₹ 25,000 on the temporary investment of the proceeds.
- Assume that cost of demolition of old structure is directly attributable to the cost of land.
- The company follows straight line method of depreciation.

Marks

You are required to compute :

i. Cost of construction of the warehouse

ii. Depreciation charge for the year ended 31st March, 2023

iii. Carrying value of Warehouse to be taken to Balance Sheet of the Company on 31st March, 2023.

You should explain your treatment of all the amounts referred to in this question as part of your answer.

(c) Mr. M has an investment in X Limited and Y limited 4

(i) Under what circumstances Mr. M is a related party of X Limited and Y Limited ?

(ii) Will X Limited and Y Limited be related parties if Mr. M has only significant influence over both X Limited and Y Limited ?

4. (a) Autumn Limited has a policy of providing subsidized loans to its employees for their personal purposes. Mrs. Jama Bai, a senior HR manager in the Company, took a loan of ₹ 12.00 lakhs on the following terms : 14

- Interest rate 4 % per annum
- Loan disbursement date : 1st April 2019
- The principal amount of the loan shall be recovered in 4 equal annual installments commencing from 31st March 2020
- The accumulated interest computed on reducing balance at simple interest is collected in 3 equal annual installments after collection of the principal amount
- Mrs. Jama Bai must remain in service till the principal and interest are paid
- The market rate of a comparable loan to Mrs. Jama Bai is 9% per annum

- The present value of ₹ 1 at 9% per annum at the end of respective years is as follows :

Year ending 31st March	2020	2021	2022	2023	2024	2025	2026
Present Value	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470

Under the assumption that no probable future economic benefits except the return of loan has been guaranteed by the employee, you are required to :

i. Provide the journal entries at the time of initial recognition of loan on 1st April 2019 and as at 31st March 2020; and

ii. Prepare ledger account of 'Loan to Mrs. Jama Bai' from the inception of the loan till its final payment.

(b) Discuss with respect to 'Conceptual Framework for Financial Reporting under Indian Accounting Standards', 'faithful representation', one of the qualitative characteristic of financial information. **6**

OR

Discuss the Organizational Structure / Issuing Authority of Integrated Reporting.

5. (a) A Limited operates in coating industry. Its business segments comprise Coating (consisting of decorative, automotive, industrial paints and related activities) and Others (consisting of chemicals, polymers and related activities). **16**

Certain information for Financial Year 2022-2023 is given below :

All amounts in ₹ Lakhs						
Segments	**External Revenue (including GST)**	**GST**	**Other operating income**	**Result**	**Assets**	**Liabilities**
Coating	1,20,000	3,000	24,000	6,000	30,000	18,000
Others	42,000	1,800	9,000	2,400	18,000	6,000

Marks

Additional Information :

i. Unallocated income net of expenses is ₹ 18,00,00,000

ii. Interest and bank charges is ₹ 12,00,00,000

iii. Income tax expenses is ₹ 12,00,00,000 (current tax ₹ 11,70,00,000 and deferred tax ₹ 30,00,000)

iv. Unallocated Investments are ₹ 60,00,00,000 and other assets are ₹ 60,00,00,000.

v. Unallocated liabilities, Reserve & Surplus and Share Capital are ₹ 1,20,00,00,000, ₹ 1,80,00,00,000 & ₹ 60,00,00,000 respectively.

vi. Depreciation amounts for coating & others are ₹ 6,00,00,000 and ₹ 1,80,00,000 respectively.

vii. Capital expenditure for coating and others are ₹ 30,00,00,000 and ₹ 12,00,00,000 respectively.

viii. Revenue from outside India is ₹ 3,72,00,00,000 and segment asset outside India ₹ 60,00,00,000.

Based on the above information, how A Limited would disclose information about reportable segment, revenue, profit or loss, assets and liabilities for financial year 2022-2023. Ignore corresponding figures for the previous year. Give figures in ₹ lakhs.

(b) TCO Limited is a telecom operator. Laying of cables across the world is a requirement to enable the entity to run its business. Cables are also laid under the sea and contracts are entered into for the same. By virtue of laws of the countries through which the cable passes, the entity is required to restore the sea bed at the end of the contract period. Discuss the nature of obligation that TCO Limited has in such a case. 4

Marks

6. (a) Discuss the following situations as per Ind AS 10 : **5**

i. The financial statements of a Company for the year 2021-22 are approved by the management and were sent on 5th June 2022 for review and approval to its supervisory board i.e., Board of Directors. The supervisory board approves the financial statements on 26th June 2022. The financial statements are then made available to shareholders on 4th July 2022. The financial statements are approved by shareholders in their annual general meeting on 18th August 2022 and then filed with Ministry of Corporate Affairs (MCA) on 19th August, 2022. Determine & discuss the date on which financial statements were approved.

ii. A Company is in litigation with Income Tax Department with respect to allowability of certain exemptions for financial year 2018 – 19. No provision for tax has been made for disallowances of exemptions as the Company was under bonafide belief based on a legal opinion that it will succeed in litigation. On 21st April, 2023 the Hon'ble Supreme Court rejected the Company's claim. The Order is received on 30th April 2023. The financial statements for the financial year 2022 – 23 of the Company are yet to be approved. The earlier year financial statements stands approved. Advise in financial statements of which financial year the impact of the Order of the Hon'ble Supreme Court should be recognized.

iii. Z Limited while preparing its financial statements on 31st March, 2023 made a provision for doubtful debts @ 6% on accounts receivables. In the last week of January, 2023, a debtor for ₹ 3 lakhs had suffered heavy loss due to fire; the loss was not covered by any insurance policy. Z Limited, considering the event of fire made a provision @ 60% of the amount receivables from that debtor apart from the general provision @ 6% on remaining debtors. The same debtor was declared insolvent on 10th April, 2023. The financial statements have not yet been approved. You are required to suggest whether the company should provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 2023.

Marks

iv. D Limited acquired equity shares of another company on 1st March, 2023 at a cost of ₹ 28 lakhs. The fair market value of these shares on 31st March, 2023 was ₹ 35 lakhs and the company measured it at ₹ 35 lakhs (assume that it is classified as FVTOCI as per Ind AS 109 and change in fair value is transferred to 'fair value fluctuation reserve'). Due to market conditions subsequent to the reporting date, the value of investments drastically came down to ₹ 20 lakhs. The financial statements have not yet been approved. You are required to suggest whether D Limited should value the investments at ₹ 35 lakhs or ₹ 20 Lakhs as on 31st March 2023.

v. Tanmay Limited was in negotiation with Varun Limited from 1st December, 2022 to acquire land for ₹ 5.00 crores. The negotiations were concluded in the first week of April 2023. The transaction was completed by last week of April, 2023. In which financial year, the purchase of land should be recognized ?

(b) Weak Limited, which is a fully owned subsidiary company of Strong Limited approached Strong Limited for an interest free loan for mitigation of its financial difficulties. Strong Limited provided the loan to Weak Limited on the following terms & conditions : 5

Nature of loan	Interest Free
Amount of Loan	₹ 60,00,000
Date of disbursement of loan	April 1, 2021
Loan period	3 years
Loan repayable by Weak Ltd.	On March 31, 2024
Market rate of interest for similar loan	8% (both for holding and subsidiary) per annum
P.V Factor of ₹ 1 at the end of 3rd year at 8% per annum is	0.7938

Assuming that there are no transaction costs, you are required to pass necessary accounting entries in the books of Weak Limited for all the three years.

Marks

(c) Summer Solutions Limited is engaged in the manufacturing of customized gifts for its corporate customers. On 1st December 2022, the company received an order from Rain Limited for the supply of 15,000 customized corporate gifts. On 4th December 2022, to meet the order, Summer Solutions Limited purchased 20,000 kg of certain material at ₹ 110 per kg. The purchase price includes GST of ₹ 10 per kg in respect of which full GST credit is admissible. Freight incurred amounted to ₹ 1,00,000. 5

During January 2023 the company incurred the following expenses to design the corporate gift for Rain Limited :

- Fee to external designer ₹ 20,000
- Labour ₹ 8,000

After checking the sample of gift, the management of Rain Limited did not approve the design of gift and suggested some modifications. Consequently, the production team of Summer Solutions Limited made modifications to bring the inventories as per the conditions specified in the order.

Following costs were incurred during testing phase :

- Materials ₹ 45,000
- Labour ₹ 20,000
- Depreciation of plant used during testing phase = ₹ 7,000

Some of the materials used during testing phase was scrapped and sold for ₹ 5,000.

During February 2023, Summer Solutions Limited incurred the following additional costs in the manufacturing of customized corporate gifts:

- Consumable stores ₹ 1,25,000
- Labour ₹ 1,42,000
- Depreciation of plant used in manufacturing of customized corporate gifts : ₹ 38,000

Marks

On 15th March, 2023 the customized gifts were ready for delivery. There was no abnormal loss during the manufacturing process.

You are required to compute the cost of customized gifts. Your answer should be supported by appropriate reasons and calculations wherever necessary.

(d) On 1st April 2021, P Limited acquired 100 % interest in S Limited for ₹ 75.00 lakhs when the fair value of the net assets of S Limited was ₹ 60.00 lakhs. Goodwill of ₹ 15.00 lakhs arose on consolidation. On 31st March, 2023, P Limited disposed off 80% interest in S Limited for ₹ 114.00 lakhs. As on the date of disposal, the carrying value of the net assets of the S Limited excluding goodwill was ₹ 1,20,00,000/-. The fair value of the remaining interest is ₹ 28,50,000/-. **5**

You are required to :

i. calculate the gain or loss on sale of disposal and

ii. pass necessary journal entries on disposal of 80% interest in S Limited in P Limited's separate and consolidated financial statements as on 31st March, 2023.
