FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

MAY 2018

Roll No. ....

Total No. of Questions – **6**

Total No. of Printed Pages – **12**

Time Allowed – **3** Hours

Maximum Marks – **100**

FHLK

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 who has not opted for Hindi Medium, answers in Hindi, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

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

In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the respective answers.

Wherever necessary, candidates are permitted to make suitable assumptions which should be disclosed by way of note.

Marks

1. (a) Hold Limited acquired 100% ordinary shares of ₹ 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below : 15

Particular	Hold Limited (₹)	Sub Limited (₹)
I. **Assets**		
(1) Non-current Assets		
(i) Property, Plant & Equipment		
(a) Land & Building	30,00,000	36,00,000
(b) Plant & Machinery	48,00,000	27,00,000
(ii) Investment in Sub Limited	68,00,000	
(2) Current Assets		
(i) Inventory	24,00,000	7,28,000
(ii) Financial Assets		
(a) Trade Receivables	11,96,000	8,00,000
(b) Cash & Cash Equivalents	2,90,000	1,60,000
Total	**1,84,86,000**	**79,88,000**
II. **Equity and Liabilities**		
(1) Equity		
(i) Equity Share Capital (Shares of ₹ 100 each fully paid)	1,00,00,000	40,00,000
(ii) Other Equity		
(a) Other Reserves	48,00,000	20,00,000
(b) Retained Earnings	11,44,000	16,40,000
(2) Current Liabilities		
Financial Liabilities		
(a) Bank Overdraft	16,00,000	–
(b) Trade Payable	9,42,000	3,48,000
Total	**1,84,86,000**	**79,88,000**

 Marks

The retained earnings of Sub Limited showed a credit balance of ₹ 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

(i) Fair value of Plant and Machinery was ₹ 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

(ii) Land and Building appreciated by ₹ 20,00,000.

(iii) Inventories increased by ₹ 3,00,000.

(iv) Trade payable increased by ₹ 2,00,000.

Prepare consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

(b) Determine whether the following are insurance contracts as per Ind AS 104 : **5**

(i) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates guaranteed at inception.

(ii) Deferred annuity i.e., policyholder will receive, or can elect to receive, a life-contingent annuity at rates prevailing when the annuity begins.

(iii) A contract permits the issuer to deduct an MVA (Market Value Adjustment) from surrender values or maturity payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death benefits.

Marks

(iv) A contract permits the issuer to deduct an MVA from surrender payments to reflect current market prices for the underlying assets. The contract does not permit an MVA for death and maturity benefits. The amount payable on death or maturity is the amount originally invested plus interest.

(v) An agreement that entity A will compensate entity B for losses on one or more contracts issued by entity B that do not transfer significant insurance risk.

2. (a) Notorola Limited has two divisions A and B. Division A has been making constant profits while Division B has been invariably suffering losses. 10

On 31st March 2018, the division-wise draft extract of the Balance Sheet was as follows :

(₹ in crores)

	A	B	Total
Fixed Assets Cost	500	1,000	1,500
Depreciation	(450)	(800)	(1,250)
Net Fixed Assets (A)	50	200	250
Current Assets	400	1,000	1,400
Less : Current Liabilities	(50)	(800)	(850)
Net Current Assets (B)	350	200	550
Total (A) + (B)	**400**	**400**	**800**
Financed by :			
Loan Funds	–	600	600
Capital : Equity ₹ 10 each	50	–	50
Surplus	350	(200)	150
Total	**400**	**400**	**800**

Marks

Division B along with its assets and liabilities was sold for ₹ 50 crores to Senovo Limited a new company, who allotted 2 crore equity shares of ₹ 10 each at a premium of ₹ 15 per share to the members of Notorola Limited in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Notorola Limited was holding 52% shares of the company.

Assuming that, there are no other transactions, you are required to :

(i) Pass journal entries in the books of Notorola Limited.

(ii) Prepare the Balance Sheet of Notorola Limited after the entries in (i).

(iii) Prepare the Balance Sheet of Senovo Limited.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only.

(b) Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is given below : 10

(₹ in Lakhs)

Segments	External Sale	Tax	Other Operating Income	Result	Assets	Liabilities
Crushing	1,00,000	2,500	20,000	5,000	25,000	15,000
Refining	35,000	1,500	7,500	2,000	15,000	5,000

Additional Information : (₹ in lakhs)

– Unallocated revenue net of expenses is ₹ 1,500.

– Interest and bank charges is ₹ 1,000

– Income-tax expense is ₹ 1,000 (current tax ₹ 975 and deferred tax ₹ 25)

- Investments ₹ 5,000 and unallocated assets ₹ 5,000.
- Unallocated liabilities, Reserves & Surplus and Share capital are ₹ 10,000; ₹ 15,000 and ₹ 5,000 respectively.
- Depreciation amounts for crushing and refining are ₹ 500 and ₹ 150 respectively.
- Capital expenditure for crushing and refining are ₹ 2,500 and ₹ 1,000 respectively.
- Revenue from outside India is ₹ 15,000 and segment assets outside India ₹ 5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18 ?

3. (a) S Limited issued redeemable preference shares to its Holding Company – H Limited. The terms of the instrument have been summarized below. Analyse the given situation, applying the guidance in Ind AS 109 'Financial Instruments', and account for this in the books of H Limited. **8**

Nature	**Non-cumulative redeemable preference shares**
Repayment	Redeemable after 3 years
Date of Allotment	1st April 2015
Date of Repayment	31st March 2018
Total Period	3 Years
Value of Preference Shares issued	5,00,00,000
Dividend Rate	0.0001% Per Annum
Market rate of interest	12% Per Annum
Present value factor	0.7118

Marks

(b) On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E & I Bank in future on 31st 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. **8**

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

(c) 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. **4**

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.

Marks

4. (a) ABC Limited issued 20,000 Share Appreciation Rights (SARs) that vest immediately to its employees on 1st April 2015. The SARs will be settled in cash. At that date it is estimated using an option pricing model, that the fair value of a SAR is ₹ 95. SAR can be exercised any time up to 31st March 2018. At the end of period on 31st March 2016 it is expected that 95% of total employees will exercise the option, 92% of total employees will exercise the option at the end of next year and finally 89% will be vested only at the end of the 3rd year. Fair values at the end of each period have been given below : **10**

Fair value of SAR	**₹**
31st March 2016	110
31st March 2017	107
31st March 2018	112

Discuss the applicability of Cash Settled Share based payments under the relevant Ind AS and pass the journal entries.

(b) Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows : **10**

Particulars	**Property 1**	**Property 2**	**Property 3**
	Factory	Factory	Let-out Building
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

 Marks

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non-related party at a market rent. The management presents all three properties in balance sheet as 'Property, plant and equipment'.

The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

5. (a) What are the provisions of section 135 of the Companies Act, 2013 regarding constitution of a Corporate Social Responsibility (CSR) Committee. Also explain the role of Corporate Social Responsibility (CSR) Committee and Board. 8

XYZ Limited is a company which has net worth of ₹ 250 crores. It manufactures parts for automobiles. The sales of the company are affected due to low demand of the products. The previous years' financial state of company are as below :

(₹ in crores)

	31st March, 2018 (Current Year)	**31st March, 2017**	**31st March, 2016**	**31st March, 2015**
Net Profit	4.25	8.00	3.50	3.25
Turnover	500.00	900.00	400.00	350.00

Examine, whether the company has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year.

Marks

(b) The following facts are given for the Sky Ltd : **12**

- A Lease which is non-cancellable was initiated on 1st April 2014 for equipment with an expected useful life of five years.
- Three payments are due to the 'Lessor' of an amount of ₹ 1,02,000 per year beginning 31st March 2015. Included in the lease payments is a sum of ₹ 2,000 to be paid annually by the 'Lessee' for insurance.
- The 'Lessee' guarantees ₹ 20,000 residual value on 31st March 2017 to the Lessor.
- Irrespective of the ₹ 20,000 residual value guarantee, the leased asset is expected to have only ₹ 2,000 residual value to the lessee at the end of the lease term.
- The Lessee company depreciates similar equipment that it owns on a straight line basis.
- The fair value of the equipment at 1st April 2014 is ₹ 2,64,000.
- The Lessor's implicit rate is 10%. This fact is known to the Lessee company.

As per the provisions of Ind AS 17 (Leases) –

(i) How should Lessee Company classify and record the lease transaction at its inception on 1st April 2014 ? Indicate journal entry also.

(ii) What are the journal entries the Lessee is required to make to record the lease payments and the interest, insurance and depreciation expenses on 31st March 2015 through 31st March 2017 ?

Marks

(iii) What entry should the Lessee make on 31st March 2017 to record the guaranteed residual value payment (assuming estimated residual value of ₹ 2,000) and to clear the lease related accounts from the lessee's books ?

(iv) What would be the Current and Non-current classification in the books of Lessee in the first year ?

(Discount factor : 2015 : 0.909; 2016 : 0.826; 2017 : 0.751)

6. (a) XYZ Limited acquired 70% of equity shares of TUV Limited on 1st April, 2010 at cost of ₹ 20,00,000 when TUV Limited had an equity share capital of ₹ 20,00,000 and reserve and surplus of ₹ 1,60,000. In the four consecutive years, TUV Limited, fared badly and suffered losses of ₹ 5,00,000, ₹ 8,00,000, ₹ 10,00,000 and ₹ 2,40,000 respectively. Thereafter in 2014-15, TUV Limited, experienced turnaround and registered an annual profit of ₹ 1,00,000. In the next two years i.e. 2015-16 and 2016-17, TUV Limited recorded annual profits of ₹ 2,00,000 and ₹ 3,00,000 respectively. Calculate the minority interests and cost of control at the end of each year for the purpose of consolidation, as per AS 21 "Consolidated Financial Statements". **10**

(b) A vendor namely 'See', who is in Delhi sells the Laptop worth ₹ 10,00,000 to 'Pee' a customer in Gujarat at ₹ 15,00,000 through 'Bee' an E-Commerce operator who is located in Mumbai. Laptops are purchased by vendor 'See' from another vendor 'Jee' from Kolkata. The E-Commerce operator charges commission at 2%. Pass the necessary journal entries in the books of vendor 'See' and E-Commerce operator, taking into consideration GST @ 18%. **6**

Marks

(c) Royal Silks, a textile chain operates a customer loyalty programme. It grants programme members loyalty points when they purchase textiles for a specified amount. Programme members can redeem the points for further purchase of textiles. The points have no expiry date. In one period, the entity grants 10,000 points. Management estimates the fair value of textiles for which each loyalty point can be redeemed as ₹ 125. This amount takes into account an estimate of the discount that management expects would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management expects only 8,000 of these points to be redeemed. At the end of the first year, 4,000 of the points have been redeemed in exchange for textiles, i.e. half of those expected to be redeemed. In the second year, management revises its expectations. It now expects 9,000 points to be redeemed altogether. During the second year, 4,100 points are redeemed. In the third year, a further 900 points are redeemed, i.e. that no more points will be redeemed after the third year. How would the Royal Silks account for the customer loyalty programme ? **4**

OR

XYZ Limited has a plant with the normal capacity to produce 10,00,000 units of a product per annum and the expected fixed overhead is ₹ 30,00,000, Fixed overhead, therefore based on normal capacity is ₹ 3 per unit.

Determine Fixed overhead as per Ind AS-2 'Inventories' if

(i) Actual production is 7,50,000 units.

(ii) Actual production is 15,00,000 units.