MOCK TEST PAPER – 1

FINAL (OLD) COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

*Question No. **1** is compulsory.*

*Attempt any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Wherever necessary, suitable assumption(s) may be made by the candidates.

1. (a) ABC Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 25,00,000
2.	Initial delivery and handling costs	₹ 2,00,000
3.	Cost of site preparation	₹ 6,00,000
4.	Consultants used for advice on the acquisition of the plant	₹ 7,00,000
5.	Interest charges paid to supplier of plant for deferred credit	₹ 2,00,000
6.	Estimated dismantling costs to be incurred after 7 years	₹ 3,00,000
7.	Operating losses before commercial production	₹ 4,00,000

Please advise ABC Ltd. on the costs that can be capitalized in accordance with AS 10 (Revised).

(b) Bell Ltd. submits the following information pertaining to year 2018-2019. Using the data, you are required to find the ending cash and bank balances given an opening figure thereof was ₹ 1.55 million.

	(₹ millions)
Additional shares issued	6.50
CAPEX (Capital expenditure)	9.90
Proceeds from assets sold	1.60
Dividends declared	0.50
Gain from disposal of assets	(1.20)
Net income	3.30
Increase in Accounts Receivable	1.50
Redemption of 4.5% debentures	2.50
Depreciation & Amortization	0.75

(c) Samvit Ltd. has three business segments which are FMCG, Batteries and Sports Equipment. The Battery segment has been consistently underperforming and Samvit Ltd. after several discussions with labour unions have finally decided on closure of this segment. Under the agreement with the labour union, the employees of the Battery Segment will earn no further benefit as the arrangement is a curtailment without settlement wherein the employees of the discontinued segment will continue to receive benefits for services rendered when the segment was functioning. As a result of the curtailment, the company's obligations that were arrived on the basis of actuarial valuations before the curtailment have come down. The following information is also furnished:

(i) The value of gross obligations before the curtailment calculated on actuarial basis was Rs. 6,000 lakhs.

(ii) The value of unamortized past service costs is Rs. 150 lakhs.

(iii) The curtailment will bring down gross obligations by Rs. 750 lakhs and Samvit Ltd. anticipates a proportional decline in the value of unamortized past service costs also.

(iv) The fair value of plan assets on date is estimated at Rs. 4,875 lakhs.

You are required to calculate the gain from curtailment and also show the liability to be recognized in the Balance Sheet of Samvit Ltd. after the curtailment.

(d) From the given information, you are required to compute the deferred tax asset and deferred tax liability for Swamy Ltd. as on 31st March, 2019. The tax rate applicable is 40%.

(i) The company has charged depreciation of Rs. 3,71,450 in its books of accounts while as per income-tax computation, the depreciation available to the company is Rs. 4,32,700.

(ii) The company has made provision for doubtful debts for Rs. 27,150 during the year.

(iii) The company has debited share issue expenses of Rs. 3,11,750 which will be available for deduction under the Income-tax Act from the next year.

(iv) The expense of Rs. 3,92,250 has been charged to profit and loss account which are disallowed under the Income-tax Act.

(v) The company has made donation of Rs. 1,00,000 which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

(4 x 5 = 20 Marks)

2. Consider the following summarized balance sheets of subsidiary B Ltd.:

	2017 Rs.	**2018 Rs.**		**2017 Rs.**	**2018 Rs.**
Share-Capital			Property, Plant and Equipment		
Issued & subscribed 5,000 equity shares			Cost Less: Accumulated	3,20,000	3,20,000
of Rs. 100 each	5,00,000	5,00,000	depreciation	(48,000)	(96,000)
Reserves & Surplus				2,72,000	2,24,000
Revenue reserves	2,86,000	7,14,000	Investments		
Current Liabilities &			at cost	—	4,00,000
Provisions:			Current Assets:		
Trade Payables	4,90,000	4,94,000	Inventory	5,97,000	7,42,000
Bank overdraft	—	1,70,000	Trade Receivables	5,94,000	8,91,000
Provision for taxation	3,10,000	4,30,000	Prepaid Expenses	72,000	48,000
			Cash at Bank	51,000	3,000
	15,86,000	23,08,000		15,86,000	23,08,000

Consider also the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

(b) Different accounting policy is followed with respect to Inventories of A Ltd. and B Ltd. To bring uniformity in the accounting policies of both the companies while consolidation, ie. B Ltd.'s values its inventories in line with those of A Ltd., for which its value of inventory is required to be reduced by Rs. 12,000 at the end of 2017 and Rs. 34,000 at the end of 2018.

(c) Both the companies use straight-line method of depreciation. However, A Ltd. charges depreciation @ 10%.

(d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of Rs. 60,000 in 2017 and Rs. 30,000 in 2018, being part of initial advertising expenditure of Rs. 90,000 in 2017 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 2017.

Restate the balance sheet of B Ltd. as on 31st December, 2018 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform. ***(16 Marks)***

3. The summarized Balance Sheet of Precious Limited as on 31.3.2019 is as follows:

Liabilities	(Rs. in lakhs)	Assets	(Rs. in lakhs)
1,00,000 equity shares of Rs. 10 each fully paid	10	Property, Plant and Equipment	20
1,00,000 equity shares of		Other tangible assets	5
Rs. 6 each, fully paid up	6	Intangible assets (market	3
Reserves and Surplus	2	value)	
Liabilities	10		
	28		28

Property, Plant and Equipment are worth Rs. 24 lakhs. Other Tangible assets are revalued at Rs. 3 lakhs. The company is expected to settle the disputed bonus claim of Rs. 1 lakh not provided for in the accounts. Find the value of goodwill by average capital employed method. Goodwill is valued at 3 years' purchase of average super-profit for the last 4 years.

After tax, profits and dividend rates were as follows:

Year	PAT (Rs. in lakhs)	Dividend %
2016	3.0	11%
2017	3.5	12%
2018	4.0	13%
2019	4.1	14%

Normal expectation in the industry to which the company belongs is 10%.

Akbar holds 20,000 equity shares of Rs. 10 each fully paid and 10,000 equity shares of Rs. 6 each, fully paid up. He wants to sell away his holdings.

(i) Determine the break-up value and market value of both kinds of shares.

(ii) What should be the fair value of shares, if controlling interest is being sold? ***(16 Marks)***

4. Smith Ltd. is considering buying the business of B Ltd., the final accounts of which for the last three years were as follows:

Draft Profit and Loss Accounts for the years ended 31st Dec.

	2015 Rs.	2016 Rs.	2017 Rs.
Sales	2,00,000	1,90,000	2,24,000
Less: Material consumed	1,00,000	95,000	1,12,000

Business expenses	80,000	80,000	82,000
Depreciation	12,000	13,000	14,000
Net Profit	8,000	2,000	16,000

Draft Balance Sheets as at 31st Dec.

	2014 Rs.	2015 Rs.	2016 Rs.	2017 Rs.
Property, Plant and Equipment, at cost	1,00,000	1,20,000	1,40,000	1,80,000
Less : Depreciation	(70,000)	(82,000)	(95,000)	(1,09,000)
	30,000	38,000	45,000	71,000
Inventory-in-trade	16,000	17,000	18,500	21,000
Trade receivables	21,000	24,000	26,000	28,000
Cash in hand and at Bank	32,000	11,000	28,000	13,200
Prepaid Expenses	1,000	500	2,000	1,000
	1,00,000	90,500	1,19,500	1,34,200
Equity Capital	50,000	50,000	70,000	70,000
Securities Premium	—	—	5,000	5,000
General Reserve	16,000	24,000	26,000	42,000
Debentures	20,000	—	—	—
Trade payables	11,000	13,000	14,000	14,000
Accrued Business Expenses	3,000	3,500	4,500	3,200
	1,00,000	90,500	1,19,500	1,34,200

Smith Ltd. wishes the offer to be based upon trading cash flows rather than book profits. By trading cash flow is meant cash received from Trade receivables less cash paid to Trade payables and for business expenses (excluding depreciation), together with an allowance for average annual expenditure on Property, Plant and Equipment of Rs. 15,000 per year.

The actual expenditure on Property, Plant and Equipment is to be ignored, as is any cash received or paid out on the issue or redemption of shares or debentures.

Smith Ltd. wishes the trading cash flow to be calculated for each of the years 2015, 2016 and 2017, and for these to be combined using weighting of 20% for 2015, 30% for 2016 and 50% for 2017 to give an average annual trading cash flow.

Smith Ltd. considers that the average annual trading cash flow should show a return of 10% on its investment.

You are required to calculate:

(a) the trading cash flow for each of the years 2015, 2016 and 2017;

(b) the weighted average annual trading cash flow

(c) the price which Smith Ltd. should offer for the business. ***(16 Marks)***

5. (a) A company borrowed a sum of ₹ 85 lakhs for its expansion. The terms of loan were as follows:

(i) Tenure of the loan will be 10 years.

(ii) Interest is payable @ 12% p.a. and the principal is repayable at the end of 10th year.

The company defaulted in the payment of interest for the year 4, 5 and 6.

A loan reschedule agreement took place at the end of 7th year. As per the agreement the company is required to pay ₹ 150 lakhs at the end of 8th year.

You are required to calculate the additional amount to be paid on account of rescheduling and also the book value of the loan at the end of 8th year when reschedule took place assuming that interest will be compounded in case of default.

(b) At the beginning of year 1, an enterprise grants 300 stock options to each of its 1,000 employees, conditional upon the employees remaining in the employment of the enterprise for two years. The fair value of the stock options, at the date of grant, is Rs. 10 per option and the exercise price is Rs. 50 per share. The other relevant terms of the grant and assumptions are as below:

(i) The number of employees expected to complete two years vesting period, at the beginning of the plan, is 900. 50 employees are expected to leave during the each of the year 1 and year 2 and, consequently, the options granted to them are expected to be forfeited.

(ii) Actual forfeitures, during the vesting period, are equal to the expected forfeitures and 900 employees have actually completed two-years vesting period.

(iii) The profit of the enterprise for the year 1 and year 2, before amortisation of compensation cost on account of ESOPs, is Rs. 25,00,000 and Rs. 28,00,000 respectively.

(iv) The fair value of shares for these years was Rs. 57 and Rs.60 respectively.

(v) The enterprise has 5,00,000 shares of Rs. 10 each outstanding at the end of year 1 and year 2.

Compute the Basic and Diluted EPS, ignoring tax impacts, for the year 1 and year 2.

(8 + 8 =16 Marks)

6. (a) A Mutual Fund raised funds on 01.04.2018 by issuing 5 lakhs units @ 17.50 per unit. Out of this Fund, Rs. 80 lakhs invested in several capital market instruments. The initial expenses amount to Rs. 4.5 lakhs. During June, 2018, the Fund sold certain securities worth Rs. 50 lakhs for Rs. 62.5 lakhs and it bought certain securities for Rs. 45 lakhs. The Fund Management's expenses amounting to Rs. 2.5 lakhs per month. The dividend earned was Rs. 1.5 lakhs. 80% of the realised earnings were distributed among the unitholders. The market value of the portfolio was Rs. 87.5 lakhs. Determine Net Asset value (NAV) per unit as on 30.06.2018.

(b) Following information is provided in respect of Manpreet Ltd. as on 31st March, 2019:

	(Rs. in lakh)
Turnover (including discounts and returns worth Rs. 35 lakh)	2,500
Plant and machinery (net)	785
Depreciation on plant and machinery	132
Debtors	205
Dividend to ordinary shareholders	85
Creditors	180

Stock (net) of all raw materials, WIP, finished goods	
Opening stock	180
Closing stock	240
Raw material purchased	714
Cash at bank	98
Printing and stationery	24
Auditor's remuneration	15
Retained profit (opening balance)	998
Transfer to reserve	120
Retained profit for the year	445
Rent paid	172
Other expenses	88
Ordinary share capital (Rs. 100 each)	1700
Interest on borrowings	40
Income tax for the year	280
Wages and salaries	352
Employees state insurance	32
Provident fund contribution	26

You are required to:

(i) Prepare Value Added Statement and its application for the period 31.3.2019.

(ii) Value Added per Employee (If 87 employees work in Manpreet Ltd.)

(iii) Average Earnings per Employee (If 87 employees work in Manpreet Ltd.)

(iv) Sales per Employee (If 87 employees work in Manpreet Ltd.) ***(8 + 8 = 16 Marks)***

7. Answer any **four** of the following:

(a) Pilot Ltd. supplies the following information using which you are required to calculate the economic value added.

Financial Leverage	1.4 times	
Capital (equity and debt)	Equity shares of ₹ 1,000 each	34,000 (number)
	Accumulated profit	₹ 260 lakhs
	10 percent Debentures of ₹ 10 each	80 lakhs (number)
Dividend expectations of equity shareholders	17.50%	
Prevailing Corporate Tax rate	30%	

(b) Explain what do you mean by Carve outs and carve ins in Ind AS from IFRS.

(c) Company X entered into an operating lease over a property several years ago. The property is now surplus to requirements and Company X has vacated it. The lease has three years to run with an associated expense of Rs. 10,000 per year.

Company X believes it may be able to find a tenant to take a sublease of the property, but that it might only receive Rs. 8,000 per year from the sublease. Alternatively, the landlord is prepared to terminate the lease and forgive the future rentals of Rs. 30,000, if Company X makes a termination payment of Rs. 5,500.

What, if any, provision should Company X recognise in relation to the operating lease?

(d) Write short note on "Market Value Added."

(e) P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a listed company and regularly supplies goods to P Ltd. The management of R Ltd. has not disclosed its relationship with P Ltd.

How would you assess the situation from the view point of AS 18 on related party disclosures?

(4 x 4 = 16 Marks)