MOCK TEST PAPER - 1

FINAL (OLD): GROUP – I

PAPER – 1: FINANCIAL REPORTING

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

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

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: 3 hours) **(Maximum Marks: 100)**

1. (a) ABC Pvt. Ltd. is engaged in the business of manufacturing of PP Fabrics. The company had imported 16 second hand machineries on January 8, 2018 for $ 4,40,000. The company had paid the full amount due to the vendor on the next day and gain arising from the same is capitalized in the books of accounts.

On January 9, 2018, the company borrowed 60% (i.e. $ 2,64,000 @ Rs. 63.5 per $) of the amount due by way of buyer's credit, payable on July 9, 2018. Total interest for the borrowing period was $ 3,056.

Upto March 31, 2018, out of the 16 machines only 8 machines were put to use by the company. The company capitalized the interest cost of 16 machines as per the provisions of AS 16 "Borrowing Costs". The company opted to exercise para 46A of AS 11 wherein it capitalizes the exchange differences. The company had booked notional loss as on March 31, 2018 on the buyer's credit amounting to Rs. 4,43,520 [i.e. 2,64,000 x (65.18 - 63.5)] and the company had recognized the same in the statement of profit & loss.

Further, the company has incurred actual loss as at July 3, 2018 on account of rollover of such buyer's credit.

Whether the treatment given by company on March 31, 2018 is as per AS 11?

If not, what is the treatment of notional loss of Rs. 4,43,520 in the books of accounts?

Whether the company is required to capitalise the notional gain / loss of Rs. 4,43,520 proportionately as at 31/03/2018 for 8 Machines which were not put to use as at March 31, 2018?

Whether the company need to capitalize the actual loss incurred in FY 2018 - 2019 for 8 machines which were not put to use?

(b) Achal Ltd. is a group engaged in manufacture and sale of industrial and FMCG products. One of their division also deals in Leasing of properties - Mobile Towers. The accountant showed the rent arising from the leasing of such properties as other income in the Statement of Profit and Loss.

Comment whether the classification of the rent income made by the accountant is correct or not in the light of Schedule III to the Companies Act, 2013.

(c) Kapil Ltd. has fabricated special equipment (solar power panel) during 2016-2017 as per drawing and design supplied by the customer. However due to a liquidity crunch, the customer has requested the company for postponement in delivery schedule and requested the company to withhold the delivery of finished goods products and discontinue the production of balance items.

As a result of the above, the details of customer balance and the goods held by the company as work-in-progress and finished goods as on 31.3.2018 are as follows:

Solar power panel (WIP) Rs. 170 lakhs

Solar power panel (finished products) Rs. 110 lakhs

Sundry Debtor (solar power panel) Rs. 130 lakhs

The petition for winding up against the customer has been filed during 2017-2018 by Kapil Ltd.

Comment with explanation on provision to be made of Rs. 410 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statement of 2017-2018.

(d) A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively, employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

(i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.

(ii) Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer. ***(4 x 5 = 20 Marks)***

2. Following is the summarized Balance Sheet of Siddharth Ltd. as on 31st March, 2018:

Liabilities	*Rs.*	*Assets*	*Rs.*
50,000 Equity shares of Rs. 10 each	5,00,000	Building	3,50,000
2,500, 12% Preference shares of Rs. 100 each	2,50,000	Plant and Machinery	4,30,000
Reserves and Surplus - Profit & Loss A/c	2,20,000	Patents	80,000
15% Debentures	1,20,000	Trade Receivables	2,00,000
General Reserve	1,80,000	Stock in trade	2,90,000
Trade Payables	1,50,000	Cash at Bank	70,000
	14,20,000		14,20,000

Buildings & Plant and Machinery were acquired many years ago and should be considered as worth of Rs. 5,00,000 and Rs. 6,30,000 respectively.

The Profits for the last five years were as follows:

Year	*Profit (before tax) Rs.*
2013-2014	1,80,000
2014-2015	2,50,000
2015-2016	60,000
2016-2017	3,00,000
2017-2018	3,50,000

The company paid a remuneration of Rs. 50,000 p.a. to the managerial personnel, but in future it will be paying Rs. 75,000, the increase having been sanctioned by the Government. During 2015-2016, there was a prolonged strike, resulting in low profits. There has been no substantial change in the capital employed. The company has paid a dividend of 12 percent on equity shares consistently and proposes to stick to this rate in the foreseeable future. In the class of business to which the company belongs, the dividend rates have been fluctuating and the asset backing of an equity share is about 2 times. Equity shares with an average dividend of 15% sell at par. The company is anxious to provide funds for replacement of assets when due, for which it is proposed to make 20% provision on PAT. Assume future tax rate to be 40%. Calculate the value of an equity share of Siddharth Ltd. on yield basis. ***(16 Marks)***

3. The summarized consolidated balance sheets of Milli Ltd. and its subsidiary Neeta Ltd. and balance sheet of joint venture entity Chitra Ltd. as on 31.3.2018 are as follows:

Liabilities	*Milli Ltd. (CBS) (Rs.)*	*Chitra Ltd. (Rs.)*
Share capital :		
Shares of Rs. 100 each	6,00,000	2,00,000
General reserve	2,00,000	--
Profit and loss account	80,000	--
6% Debentures	-	1,50,000
Trade payables	75,000	67,500
	9,55,000	4,17,500
Assets		
Tangible Assets	4,50,000	1,50,000
Stock-in-trade	1,40,000	60,000
Trade Receivables	80,000	45,000
6% Debentures of Chitra Ltd. acquired at par	90,000	-
Shares of Chitra Ltd. (1,500 shares @ Rs. 80 each)	1,20,000	-
Cash at bank	75,000	12,500
Profit and loss A/c	-	1,50,000
	9,55,000	4,17,500

Milli Ltd., acquired the shares on 1st August, 2017. The Profit and Loss account of Chitra Ltd., showed a debit balance of Rs. 2,25,000 on 1.4.2017. During June 2017, goods costing Rs. 9,000 were destroyed against which the insurer paid only Rs. 3,000. Trade creditors of Chitra Ltd., include Rs. 30,000 for goods supplied by Milli Ltd., on which Milli Ltd., made a profit of Rs. 3,000. Half of the goods were still in stock on 31.3.2018.

Prepare a consolidated balance sheet incorporating the Joint Venture entity operations using proportionate consolidation method as per AS. ***(16 Marks)***

4. (a) On 1st April, 2016, QA Ltd. purchased 10 Lakhs options to acquire shares in KS Ltd., a listed entity. The Company paid Rs. 0.25 per option which allows the Company to purchase shares in KS Ltd. for a price of Rs. 2 per share. The exercise date for the option was 31st December, 2016. On 31st December, 2016, when the market value of a share in KS Ltd. was Rs. 2.6 per share, the Company exercised all its options to acquire shares in KS Ltd.

   In addition to the purchase price, the Company has also incurred directly attributable cost of Rs. 1,00,000 for purchase of 10 lakhs shares in KS Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in KS Ltd. between 31st December, 2016 to 31st March, 2017.

   The market value of the shares of KS Ltd. as on 31st March, 2017 is Rs. 2.90 per share.

   Suggest the accounting treatment in the books of QA Ltd. on the above arrangement and transaction of acquisition of shares in KS Ltd.

   (b) S Ltd. granted 500 options to each of its 2,500 employees in 2013 at an exercise price of Rs. 50 when the market price was the same. The contractual life (vesting and exercise period) of the options granted is 6 years with the vesting period and exercise period being 3 years each. The expected life is 5 years and the expected annual forfeitures are estimated at 3 per cent. The fair value per option is arrived at Rs. 15. Actual forfeitures in 2013 were 5 per cent. However, at the end of 2013 the management of S Ltd. still expects that the actual forfeitures would average only 3 per cent over the entire vesting period. During 2014 the management revises its estimated average forfeiture rate to 10 per cent per annum over the entire vesting period. Of the 2,500 employees 1,900 employees have completed the 3 year vesting period. 1,000 employees exercise their right to obtain shares vested in them in pursuance of ESOP at the end of 2017 and 500 employees exercise their right at the end of 2018. The rights of the remaining employees expire unexercised at the end of 2018. The face value per share is Rs. 10. Show the necessary journal entries with suitable narrations. Workings should form part of the answer.

(10 + 6 = 16 Marks)

5 (a) From the following Profit & Loss Account of Y Ltd. prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before Taxation.

Profit and Loss Account for the year ended 31st March, 2018

Particulars		*Notes*	*(Rs. in '000s)*
Sales less return			21,350
Trading profit		1	1,920
Less: Depreciation	302		
Interest	140	2	(442)
Add: Other income			80
Profit before tax			1,558
Provision for tax		3	(688)
Profit after tax			870
Less: Extraordinary items		4	(15)
			855
Less: Dividend			(340)
Retained profit			515

Notes:

1.	Trading profit is arrived at after charging the following:		(Rs. in '000s)
	Salaries, wages etc. to employees		3685
	Director's remuneration		360
	Audit fees		220
	Hire of equipment		290
2.	Interest figure is ascertained as below		
	Interest paid on bank loans and overdrafts	160	
	Interest received	(20)	140
3.	Extraordinary items:		
	Surplus on sale of properties	20	
	Loss of Goods by fire	(35)	(15)
4.	The charge for taxation include a transfer of Rs. 1,48,000 to the credit of deferred tax account		

(b) BSP Rock is a SEBI Registered Mutual Fund which made its maiden N.F.O (New Fund Offer) on 10th April, 2017 of Rs. 10 face value per unit. Subscription was received for 90 lakhs units. An underwriting arrangement was also entered into with Stable Capital Markets Ltd., that agreed to underwrite the entire NFO of 100 lakh units on a commission of 1.5%.

Out of the monies received Rs. 892.50 lakhs was invested in various capital market instruments. The marketing expenses for the N.F.O amounted to Rs. 11.25 lakhs. During the financial year ended March 2018 the Fund sold securities having cost of *Rs.*127.25 lakh (FV Rs. 54.36 lakhs) for *Rs.* 141.25 lakhs. The fund in turn purchased securities for Rs. 130 lakhs. The management expenses of the fund are regulated by SEBI stipulations which state that the same shall not exceed 0.25% of the average funds invested during the year. The actual amount spent towards management expenses was Rs. 2.47 lakhs of which Rs. 47,000 was in arrear. The dividends earned on the investments held amounted to Rs. 2.51 lakhs of which a sum of Rs. 25,000 is yet to be collected. The fund distributed 80% of realized earnings. The closing market value of the portfolio was Rs. 1120.23 lakhs

You are required to determine the closing per unit NAV of the fund. ***(8 + 8 = 16 Marks)***

6. Golden Ltd. has the following capital structure as on 31.3.2018:

Particulars		(Rs. in crores)
Equity share capital (shares of Rs. 10 each, fully paid)		660
Reserve and Surplus:		
General Reserve	480	
Profit and Loss Account	360	
Infrastructure Development Reserve	360	1200
Loan Funds		3,600

The shareholders of Golden Ltd. have on the recommendation of their Board of Directors approved on 12.9.2018, a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is Rs. 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under, a situation where the loan funds of the company were either Rs. 2,400 crores or Rs. 3,000 crores.

Assuming that the entire buy-back is completed by 9.12.2018, show-the accounting entries with full narrations in the company's books in each situation. ***(16 Marks)***

7. Answer any four of the following:

(a) Muthoo Bank has a criterion that it will give loans to companies that have an “Economic Value Added” greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals Rs. 25,00,000 per year for the last three years.

(ii) Average total assets over the last three years equals Rs. 75,00,000.

(iii) Weighted average cost of capital appropriate for the company is 10% which is applicable for all three years.

(iv) The company’s average current liabilities over the last three years are Rs. 15,00,000.

Does the company meet the bank’s criterion for a positive economic value added?

(b) From the following information, determine the possible value of brand as per potential earning model:

	Particulars	*Rs. in lakhs*
(i)	Profit After Tax (PAT)	2,500
(ii)	Tangible Fixed Assets	10,000
(iii)	Identifiable intangible other than brand	1,500
(iv)	Weighted average cost of capital (%)	14%
(v)	Expected normal return on tangible assets [weighted average cost (14%) + normal spread 4%]	18%
(vi)	Appropriate capitalization factor for intangibles	25%

(c) The directors of Whale Ltd. are considering the acquisition of an existing company Dolphin Ltd. engaged in a line of business suited to them. The financial data at the time of acquisition being:

	Whale Ltd.	Dolphin Ltd.
Net profit after tax	Rs. 36,00,000	Rs. 7,20,000
Number of shares	7,20,000	3,00,000
Market price per share	Rs. 150	Rs. 50
Earnings per share	Rs. 5	Rs. 2.50
Price earnings ratio	30	20

It is expected that the net profit after tax of the two companies would continue to be Rs. 43,20,000. Whale Ltd. would pay the amount in the form of shares of Whale Ltd.

Explain the effect on EPS of the merged company if Whale Ltd. offers to pay Rs. 60 per share to the shareholders of Dolphin Ltd.

(d) XYZ Ltd., with a turnover of Rs. 35 lakhs and borrowings of Rs. 10 lakhs during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2018. Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2006.

(e) Explain the differences between AS 10 and Ind AS 16. ***(4 x 4 =16 Marks)***