Roll No. ............................ FINAL GROUP-I PAPER-1 FINANCIAL REPORTING MAY 2018

Total No. of Questions – **7**

Total No. of Printed Pages – **15**

Time Allowed – **3** Hours

Maximum Marks – **100**

# AFQ

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, 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.

In case, any candidate answers extra questions(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.

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

**Marks**

1. (a) Kunthu Ltd. began construction of a new building at an estimated cost of ₹ 7 lakhs on 1st April, 2017. To finance construction of the building it obtained a specific loan of ₹ 2 lakhs from a financial institution at an interest rate of 9% per annum. **4×5 =20**

The company's other outstanding loans were :

| Amount | Rate of interest per annum |
|---|---|
| ₹ 7,00,000 | 12% |
| ₹ 9,00,000 | 11% |

The expenditure incurred on the construction was :

| | |
|---|---|
| April, 2017 | ₹ 1,50,000 |
| August, 2017 | ₹ 2,00,000 |
| October, 2017 | ₹ 3,50,000 |
| January, 2018 | ₹ 1,00,000 |

The construction of building was completed by 31st January, 2018. Following the provisions of AS-16 'Borrowing Costs', calculate the amount of interest to be capitalised and pass necessary journal entry for capitalising the cost and borrowing cost in respect of the building as on 31st January, 2018.

(b) The following particulars are stated in the Balance Sheet of M/s PQR Ltd. as on 31.03.2016 :

| | **(₹ in lakh)** |
|---|---|
| Deferred Tax Liability (Cr) | 30.00 |
| Deferred Tax Assets (Dr) | 15.00 |

 **Marks**

The following transactions were reported during the year 2016-17 :

| | | |
|---|---|---|
| i. | Tax Rate | 30%<br>(₹ in lakh) |
| ii. | Depreciation – as per books<br>Depreciation – for Tax purposes | 80.00<br>70.00 |
| iii. | Items disallowed in 2015-16 and allowed for tax purposes in 2016-17. | 10.00 |
| iv. | Interest to Financial Institutions accounted in the books on accrual basis, but actual payment was made on 30.09.2017 | 20.00 |
| v. | Donations to Private Trusts made in 2016-17. | 10.00 |
| vi. | Share issue expenses allowed under I.T. Act for the year 2016-17 (1/10th of ₹ 50 lakhs incurred in 2015-16). | 5.00 |
| vii. | Repairs to Plant and Machinery ₹ 200 lakhs were spread over the period 2016-17 and 2017-18 equally in the books. However, the entire expenditure was allowed for income purposes. | |

There were no additions to Fixed Assets during the year.

Prepare Deferred Tax Assets A/c and Deferred Tax Liability A/c as on 31-03-2017.

(c) Ganesha Ltd. acquired a machine on 1st April, 2011 for ₹ 18 crores which had an estimated useful life of 9 years. The company follows Straight Line Method (SLM) for depreciating its fixed assets. It was estimated that this machine would have Zero residual value. On 1st April, 2016 the carrying value of the machine was reassessed at ₹ 12.40 crores and the gain arising out of the revaluation is credited to Revaluation Reserve. During the year 2017-18, due to change in market conditions, the recoverable amount ascertained to be only ₹ 260 lakhs as on 31st March, 2018. Ganesha Ltd. had followed the policy of writing down the revaluation gain by the increased charge of depreciation resulting from revaluation.

You are required to calculate the loss on impairment of the machine and show the amount to be debited to Statement of Profit and Loss for the year ended on 31st March, 2018 as per AS-28 "Impairment of Assets".

 **Marks**

(d) Nemi Finance is a non-banking finance company. The following are the details of various investments held by it as on 31.03.2018.

(₹ in lakh)

| Scripts | | Cost | Market Price |
|---|---|---|---|
| **A.** | **Equity Shares** | | |
| | A | 55 | 57.50 |
| | B | 34 | 31.20 |
| | C | 72 | 67.00 |
| | D | 48 | 53.00 |
| | E | 88 | 102.30 |
| | F | 24 | 18.50 |
| **B.** | **Mutual Funds** | | |
| | MF-1 | 50.55 | 46.10 |
| | MF-2 | 27.00 | 29.00 |
| | MF-3 | 16.00 | 12.90 |
| **C.** | **PSUs Bonds** | | |
| | PB-1 | 14.00 | 15.50 |
| | PB-2 | 9.00 | 8.70 |
| | PB-3 | 7.00 | 7.80 |

Marks

(i) Find out the value of investments as on 31.03.2018 when :

(a) Considered category-wise

(b) Considered scrip-wise

Assuming investments in equity shares and mutual funds are current investments.

(ii) Can depreciation in the value of investment in mutual funds be offset against appreciation in the value of investment in equity shares and bonds of PSUs. Comment.

2. The summarised Balance Sheet of Pinki Ltd. as on 31st March, 2018 is as under : **16**

**I. Equity and Liabilities**

| | **Particulars** | **₹** |
|---|---|---|
| 1. | Shareholders Fund<br>Equity Shares of ₹ 10 each | 3,00,000 |
| | 6,000, 9% cumulative preference shares of ₹ 10 each | 60,000 |
| | Reserves & Surplus | (1,70,000) |
| 2. | Non-Current Liabilities | |
| | 10% Debentures of ₹ 100 each | 2,00,000 |
| 3. | Current Liabilities | |
| | Interest accrued on Debentures | 20,000 |
| | Trade Payables | 1,50,000 |
| | **Total** | **5,60,000** |

**II. Assets**

| | Particulars | ₹ |
|---|---|---|
| 1. | Non-Current Assets | |
| | Fixed Assets – Tangible | 3,40,000 |
| | Intangible – Goodwill | 10,000 |
| 2. | Current Assets | |
| | Inventory | 80,000 |
| | Trade Receivables | 1,10,000 |
| | Bank Balance | 20,000 |
| | **Total** | **5,60,000** |

The following scheme of reconstruction is passed and sanctioned by the Court :

(i) A new company Ravi Ltd. is formed with authorised share capital of ₹ 5,00,000 divided into 40,000 Equity Shares of ₹ 10 each and 10,000 9% Preference Shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of Pinki Ltd. on the following terms :

(a) Pinki Ltd's debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

(b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

(c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

(d) Equity shareholders are issued one share at par for every three shares held in Pinki Ltd.

(iii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. Balance of purchase consideration being attributed to fixed assets.

(iv) Remaining equity shares of the new company are issued to public at par fully paid up.

(v) Expenses of ₹ 5,000 to be met from bank balance of Pinki Ltd.

You are required to present :

(a) In the books of Pinki Ltd. :

(i) Realisation and Reconstruction (combined) account.

(ii) Equity Shareholders account.

(b) In the books of Ravi Ltd.

(i) Bank Account.

(ii) Summarised Balance Sheet with notes to accounts.

Marks

3. Sumati Ltd. acquired 100% (50,00,000) equity shares of ₹ 10 each in Sheetal Ltd. on 1st April, 2014. **16**

Sumati Ltd. acquired 80% (24,00,000) equity shares in Dharam Ltd. for ₹ 600 lakhs on 1st April, 2014 when Dharam Ltd. had share capital of ₹ 300 lakhs and Reserves and Surplus of ₹ 300 lakhs.

The company amortizes goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortization is considered if the goodwill exists for more than 6 months.

On 1st April, 2017, Sumati Ltd. sold 12,00,000 equity shares of Dharam Ltd. for cash consideration of ₹ 360 lakhs with recognition of profit arising out of this sale.

The net assets of Dharam Ltd. on 31st March, 2017 were ₹ 700 lakhs. The amount of Reserves and Surplus was ₹ 880 lakhs, ₹ 720 lakhs and ₹ 480 lakhs respectively of Sumati Ltd., Sheetal Ltd. and Dharam Ltd. on 31st March, 2017.

The Balance Sheet extracts of the companies as on 31st March, 2018 were as follows :

**(₹ in lakhs)**

| | **Sumati Ltd.** | **Sheetal Ltd.** | **Dharam Ltd.** |
|---|---|---|---|
| Share Capital (₹ 10 each) | 1000 | 500 | 300 |
| Reserves and Surplus | 1240 | 910 | 640 |
| Current Liabilities | 460 | 490 | 560 |
| | **2700** | **1900** | **1500** |
| Fixed Assets | 640 | 420 | 380 |
| 50,00,000 equity shares in Sheetal Ltd. | 500 | - | - |
| 12,00,000 equity shares in Dharam Ltd. | 300 | - | - |
| Current Assets | 1260 | 1480 | 1120 |
| | **2700** | **1900** | **1500** |

You are required to prepare for Sumati Ltd. Group Balance-Sheet as on 31st March, 2018 following AS-21 and AS-23. Notes to Accounts and working notes should form part of your answer.

Marks

4. (a) A company announced Stock Appreciation Right (SAR) on 01.04.2014 for each of its 518 employees. The scheme gives employees the right to claim payment equivalent to excess of market price of company's shares, on exercise date, over the exercise price ₹ 130 per share in respect of 100 shares, subject to condition of continuous employment for 3 years. The SAR is exercisable after 31.03.2017 but before 30.09.2017. The fair value of SAR was ₹ 24 in 2014-15, ₹ 27 in 2015-16 and ₹ 30 in 2016-17. **8**

In 2014-15 the company estimates that 3% of the employees shall leave the company annually. This was revised to 4% in 2015-16. Actually 18 employees left the company in 2014-15, 10 left in 2015-16 and 12 left in 2016-17. The SAR, therefore actually vested to 478 employees. On 30.09.2017 when the SAR was exercised, the intrinsic value was ₹ 32 per share. Show provision for SAR A/c by fair value method.

(b) Hill Ltd. has contracted as a point of staff welfare mesures to lend to its employees a sum of ₹ 12,00,000 on 1st January, 2017 at a rate of interest of 6% per annum. The amounts lent are to be repaid along with the interest in four equal annual instalments. The market rate of interest is 10% per annum. **8**

Following the principles of recognition and measurement as laid down in Ind AS-109, you are required to record the journal entries for the year ended 31st December, 2015 for the transaction and also calculate the value of the loan initially to be recognised and the amortised cost for all the subsequent years.

For the purpose of calculation, the following discount factors at interest rate of 10% may be considered :

| **At the end of year** | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| **Discount factor** | 0.909 | 0.827 | 0.751 | 0.683 |

**Marks**

5. (a) Thoco Ltd. is in the business of high fashion women wears. The company operates from Taiwan. It out source substantial supplies of women wears from an Indian company Gorgeous Fashion Ltd. To ripe the synergy of business, Thoco Ltd. negotiated with Indian company for takeover. After due diligence of Gorgeous Fashion Ltd. (GFL) the following information is available : **10**

(i) Cash Flow forecast for next 5 years :

**(₹ in lakhs)**

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Thoco Ltd.** | 1200 | 1500 | 2000 | 2700 | 3500 |
| **Gorgeous Fashion Ltd.** | 600 | 800 | 1000 | 1300 | 1700 |

(ii) The net worth of Gorgeous Fashion Ltd. suggested in due diligence report is as under :

**(₹ in lakhs)**

| | |
|---|---|
| Fixed Assets | 1750 |
| Investments (Non-trade) | 750 |
| Inventories | 450 |
| Trade Receivables | 400 |
| **Total** | **3350** |
| Current Liabilities | (850) |
| Bank loan | (1000) |
| **Net Worth** | **1500** |

(iii) Talks for takeover have been crystallized on the followings terms :

(1) Thoco Ltd. will have to discard machinery worth ₹ 200 lakhs considered not being energy efficient. The expected realisation of the same will be ₹ 50 lakhs.

(2) The Inventories and Trade Receivable are agreed for takeover at Values of ₹ 300 lakhs each, being their realisable price on disposal.

(3) Investments have ready market for ₹ 1000 lakhs.

(4) The entire liabilities are to be paid off immediately in full on takeover alongwith workman compensation claim payable ₹ 10 lakhs, not provided for.

(5) Thoco Ltd. will have to incur Rs.100 lakhs in the second year to revamp the machine shop floor of Gorgeous Fashion Ltd. (GFL).

(iv) The Cash Flows of Thoco Ltd. post takeover are estimated as follows :

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Cash Flows (₹ in lakhs)** | 2000 | 2500 | 3500 | 4500 | 6000 |

You are required to advise Thoco Ltd. the maximum value it can pay for takeover of GFL. Also show the current valuation of GFL as a 'Stand Alone' entity. The discount rate of 15% is considered appropriate, values for which are given below :

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Present Value** | 0.870 | 0.756 | 0.658 | 0.572 | 0.497 |

**Marks**

(b) Find out leverage effect on Goodwill from the following information : **6**

| | | |
|---|---|---|
| (i) | Average Capital employed (equity approach) | ₹ 10,00,000 |
| (ii) | Future Maintainable profit on equity fund (After Tax) | ₹ 1,60,000 |
| (iii) | 12% Debentures outstanding (long term) | ₹ 5,00,000 |
| (iv) | Tax rate | 30% |
| (v) | Normal Rate of return : | |
| | On equity capital employed | 16% |
| | On long term capital employed | 12.5% |

6. (a) The following information is supplied to you by Lion Ltd. as of 31.03.2017 **8**

| | Particulars | | (₹ in crores) |
|---|---|---|---|
| (i) | Profit after tax | | 205.90 |
| (ii) | Interest | | 5.10 |
| (iii) | Equity Share capital | 40.00 | |
| | Accumulated surplus | 700.00 | |
| | Shareholder's fund | 740.00 | |
| | Long Term Loan | 37.00 | |
| | Total long term funds | | 777.00 |
| (iv) | Market capitalisation | | 2,892.00 |

Marks

**Additional information :**

| | | | |
|---|---|---|---|
| (a) | Risk free rate | | 12% |
| (b) | Long term market rate (based on BSE Sensex) | | 15.50% |
| (c) | Effective tax rate for the company | | 30% |
| (d) | Beta for last few years 1 | 0.48 | |
| | 2 | 0.52 | |
| | 3 | 0.60 | |
| | 4 | 0.80 | |
| | 5 | 0.90 | |

Using the above data you are required to calculate the Economic Value Added of Lion Ltd. as on 31st March, 2017.

(b) From the following details, compute the total value of human resources of skilled and unskilled group of employees according to Lev and Schwartz (1971) model : **8**

| | | **Skilled** | **Unskilled** |
|---|---|---|---|
| (i) | Average annual earnings of an employee till the retirement age | ₹ 85,000 | ₹ 50,000 |
| (ii) | Age of retirement | 62 years | 60 years |
| (iii) | Discount rate | 15% | 15% |
| (iv) | No. of employees in the group | 40 | 60 |
| (v) | Average age | 59 years | 58 years |

Marks

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

(a) Highlight significant differences in Ind AS-7 vis-a-vis AS-3 with reference to the followings : **4**

(i) Bank Overdraft Repayable on-demand;

(ii) Cash Flows associated with extra ordinary activities;

(iii) Investment in Subsidiaries, Associates and Joint Ventures (Investee), and

(iv) Disclosures.

(b) While closing its books of account on 31st March, 2018 a Non-banking Finance Company has its advances classified as follows; **4**

| | (₹ in lakhs) |
|---|---|
| Standard Assets | 14,200 |
| Sub-standard Assets | 2,750 |
| Secured portion of doubtful debts | |
| - Upto one year | 880 |
| - One year to three years | 540 |
| - More than three years | 260 |
| Unsecured portion of doubtful debts | 1010 |
| Loss assets | 745 |

Calculate amount of provision, which must be made against the advances as per the Non-banking finance company – Non-systemically important – Non-deposit taking company (Reserve Bank) Directions, 2016.

Marks

(c) Tonk Tanners is engaged in manufacturing of leather shoes. They provide you the following information for the year 2017-18 : 4

(i) On 31st December, 2017 shoes worth ₹ 3,20,000 were sent to Mohan Shoes for sale on consignment basis of which 25% shoes were unsold and lying with Mohan Shoes as on 31st March, 2018.

(ii) On 10th January, 2018 Tonk Tanner supplied shoes worth ₹ 4,50,000 to Shani Shoes and concurrently agrees to re-purchase the same goods on 11th April, 2018.

(iii) On 21st March, 2018 shoes worth ₹ 1,60,000 were sold to Shoe Shine but due to refurbishing of their showroom being underway, on their request, shoes were delivered on 12th April, 2018.

You are required to advise the accountant of Tonk Tanners, when amount is to be recognised as revenue in 2017-18 in above cases in the context of AS-9.

(d) State the significant differences between Ind AS-37 "Provisions Contingent Liabilities and Contingent Assets" and AS-29 "Provisions Contingent Liabilities and Contingent Assets". 4

(e) (i) Whether Corporate Dividend Tax is chargeable on any amount declared/paid by the domestic company by way of interim dividend ? 4

(ii) Whether Corporate Dividend Tax is chargeable when dividend is declared/paid by the domestic company out of the accumulated profits ?

(iii) Whether Corporate Dividend Tax is payable when no income tax is payable by the domestic company on its total income ?

(iv) When Corporate Dividend Tax is payable by the domestic company to the credit of Central Government ?