Roll No. .... NOV 2018

Total No. of Questions – 7 FINAL GROUP-I PAPER-1 FINANCIAL REPORTING Total No. of Printed Pages – 12

Time Allowed – 3 Hours Maximum Marks – 100

BPH

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 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.

Working notes should form part of the respective answers.

Marks

1. (a) On 1st April, 2018, Mansi Ltd. sold a plant for ₹ 8,52,800. The carrying amount of the plant on that date was ₹ 1,80,000. The sale was a part of the package under which Akash Ltd. leased the asset to Mansi Ltd. for eight years term. **5**

The economic life of the asset is estimated as 8 years. The minimum lease rents payable by the lessee has fixed at ₹ 1,60,000 payable annually beginning from 31st March, 2019.

The incremental borrowing interest rate of Mansi Ltd. is estimated at 10% p.a.

Calculate the net effect on the Statement of profit and loss in the books of Mansi Ltd.

(b) C Ltd. acquired S Ltd. business (a cash generating unit) on 31-3-2016 for ₹ 8,000 Lakhs. The details of acquisition are us under: - **5**

Fair value of identifiable asset	6000 Lakhs
Goodwill	2000 Lakhs

The anticipated useful life of acquired assets is 5 years. Goodwill is to be amortised in 4 years. C Ltd. uses straight-line method of depreciation with no residual values is anticipated. On 31-3-2018 C Ltd. estimated the significant decline in production due to change in Government policies. The net selling price of identifiable asset is not determinable. The cash flow forecast based on recent financial budget for next 7 years after considering change in Govt. policies are as follows. Incremental financing cost is 8% which represent current market assessment of the time value of money.

(₹ in Cr.)

Year	Cash flow	Year	Cash flow
2019	800	2022	600
2020	800	2023	600
2021	800	2024	500
		2025	400

You are required to calculate: -

(i) Value in use

(ii) Impairment loss

(iii) Revised carrying amount on 31-3-2018

(c) A Company has undertaken a contract to construct Railway Over Bridge (ROB), which is expected to be completed in three years. A summary of the financial data during construction period is as follows: 5

(₹ in lakhs)

	Year-I	Year-II	Year-III
Initial amount of revenue agreed in contract	750	750	750
Variation	-	50	50
Contract cost incurred upto the reporting date	240	520	700
Contract cost to complete	460	180	-
Material at site to be used in subsequent year included in contract cost above	65	100	-

Ascertain the amount of revenue, expenses and profit recognised in the Statement of Profit and Loss in each of the three years.

Marks

(d) X Ltd. carried on business of manufacturing of Bakery products. The company has two trademarks "Sun" and "Surya". One month before, the company knows through one of the marketing managers that both trademarks have allegedly been infringed by other competitors engaged in the same field. After investigation, legal department of the company informed that it had weak case on trademark "Sun" and strong case in regard to trademark "Surya". 5

X Ltd. incurred additional legal fees to stop infringement on both trademarks.

Both trademarks have a remaining legal life of 10 years.

How should X Ltd. account for these legal costs incurred relating to the two trademarks ?

2. The summarised Balance Sheet of Ujju Ltd. as at 31st March, 2017 is given below. In it, the respective shares of the company's two divisions namely A Division and B Division in the various assets and liabilities have also been shown. 16

(₹ in lakhs)

	A Division	B Division	Total
Fixed Assets (Net)	490	210	700
Investments			105
Net Current Assets :			
Current Assets	387	505	
Less : Current Liabilities	157	215	
	230	290	520
			1325
Financed by :			
Loan Funds		25	385
Own Funds :			300
Equity Share Capital : (Shares of ₹10 each)			640
			1325

Loan funds included, inter alia, Bank loans of ₹ 25 lacs specifically taken for Division B and Debentures of the paid up value of ₹ 100 lakhs redeemable at any time between 1st April, 2017 to 30th September, 2017.

On 1st April, 2017, the company sold all of its investments for ₹ 115 lakhs and redeemed all the debentures at ₹ 115 lakhs, the cash/bank transactions being recorded in the Bank Account pertaining to Division A.

Later a new company namely Jujju Ltd. was incorporated with an authorised capital of ₹ 900 lakhs divided into equity shares of ₹ 10 each. All the assets and liabilities of Division B were transferred to the new company. Jujju Ltd. to allot to Ujju Ltd.'s shareholders its two fully paid equity shares of ₹ 10 each at par for every fully paid equity share of ₹ 10 each held in Ujju Ltd. as discharge of consideration for the division taken over.

Jujju Ltd. recorded in its books the fixed assets at ₹ 357 lakhs and all other assets and liabilities at the same values at which these appeared in the books of Ujju Ltd.

You are required to :

(a) Show the journal entries in the books of Ujju Ltd.

(b) Prepare Ujju Ltd's Balance Sheet immediately after the demerger and the initial Balance Sheet of Jujju Ltd.

(c) Calculate the intrinsic value of one share of Ujju Ltd. immediately before the demerger and immediately after the demerger.

Marks

3. Raja Ltd. is a holding company and Praja Ltd. and Sevak Ltd. are its subsidiaries. The summarised Balance Sheets of all the companies as on 31.03.2018 are as under : 16

Particulars	Raja Ltd. ₹	Praja Ltd. ₹	Sevak Ltd. ₹
Share Capital	3,00,000	2,50,000	1,50,000
Reserves	1,08,000	36,000	24,000
Surplus in Statement	40,000	30,000	22,000
Trade Payables	24,000	18,000	15,000
Raja Ltd. Balance		4,000	
Sevak Ltd. Balance	8,000		
	4,80,000	**3,38,000**	**2,11,000**

Particulars	Raja Ltd. ₹	Praja Ltd. ₹	Sevak Ltd. ₹
Fixed Assets	66,000	1,36,000	1,18,000
Investments :			
Shares in Praja Ltd.	2,20,000		
Shares in Sevak Ltd.	40,000	1,04,000	
Inventory	48,000	20,000	20,000
Praja Ltd. Balance	4,000		
Raja Ltd. Balance			8,000
Trade Receivables	90,000	70,000	50,000
Cash & Cash equivalents	12,000	8,000	15,000
	4,80,000	**3,38,000**	**2,11,000**

 Marks

Additional Information :

(1) The share capital of all the companies is divided into equity shares of ₹ 10 each.

(2) Raja Ltd. holds 20,000 shares of Praja Ltd. and 3000 shares of Sevak Ltd.

(3) Praja Ltd. holds 9000 shares of Sevak Ltd.

(4) All the investments were made on 30.09.2017.

(5) The position on 31.03.2017 was as under :

	Praja Ltd. (₹)	Sevak Ltd. (₹)
Reserves	20,000	18,000
Surplus in Statement of P&L	16,000	10,000

(6) The whole of inventory of Praja Ltd. as on 30.09.2017 (₹ 14,000) was later sold to Raja Ltd. for ₹ 16,000 and half of it remained unsold at Raja Ltd. as on 31.03.2018.

(7) Trade Receivables of Praja Ltd. includes ₹ 15,000 receivables from Sevak Ltd.

(8) All the companies proposed dividend of 12%.

Prepare the consolidated Balance Sheet of the group as on 31.03.2018 using direct method. Notes to Accounts and working notes should form part of your solution.

4. (a) The capital structure of M/s Manu Ltd. on 31st March, 2018 was as follows : 8

	₹
Equity Share Capital (200000 shares of ₹10 each)	20,00,000
12% Preference Share Capital (10,000 shares of ₹ 100 each)	10,00,000
10% Secured Debentures	12,00,000
Reserves & Surplus	4,50,000
Profit earned before interest and taxes during the year	11,80,000

Tax rate was 30%

Marks

Additional information :

(1) The company has been paying regularly equity dividend @ 20%.

(2) The rate of return on equity shares of similar industry is 18%.

(3) The profit after tax covers fixed interest and fixed dividend at least 4 times.

(4) The Debt Equity ratio is at least 2.

(5) Yield on shares is calculated at 50% of distributed profit and 20% of undistributed profit.

(6) The risk premium for dividend is generally assumed at 2%.

You are required to find out value of an equity share of the company.

(b) Naresh Ltd. had the following transactions during the financial year 2017-2018 : **8**

(i) Naresh Ltd. acquired running business of Sunil Ltd. for ₹ 10,80,000 on 15th May, 2017. The fair value of Sunil Ltd.'s net assets was ₹ 5,16,000. Naresh Ltd. is of the view that due to popularity of Sunil Ltd.'s product in the market, the life of resulting goodwill is unlimited.

(ii) Naresh Ltd. had taken a franchise on July 2017 to operate a restaurant from Sankalp Ltd. for ₹ 1,80,000 and at an annual fee of 10% of net revenues (after deducting expenditure). The franchise expires after 6 years. Net revenues were ₹ 60,000 during the financial year 2017-2018. Naresh Ltd. projects future revenue of ₹ 1,00,000 in 2018-2019, ₹ 1,20,000 in 2019-20 and ₹ 1,50,000 per annum for next 3 years thereafter.

Marks

(iii) On 20th August, 2017, Naresh Ltd. was granted a patent that had been applied for by Sunil Ltd. During 2017-18, Naresh Ltd. incurred legal costs of ₹ 2,40,000 to register the patent and an additional ₹ 3,20,000 to successfully prosecute a patent infringement suit against a competitor. Naresh Ltd. expects the patent's economic life to be 8 years.

Naresh Ltd. follows an accounting policy to amortize all intangibles on straight line basis over the maximum period permitted by accounting standard taking a full year amortization in the year of acquisition.

Prepare :

(1) A schedule showing the intangible section in Naresh Ltd. Balance sheet at 31st March, 2018.

(2) A schedule showing the related expenses that would appear in Statement of Profit and Loss of Naresh Ltd. for 2017-2018.

5. (a) Tanish Ltd. announce an ESOP scheme for each of its 400 employees on 1st April, 2016. The scheme grants 200 stock options to each employee at an exercise price is ₹ 30 per share subject to the condition of continuous employment in the company for 2 years. **8**

The fair value of the option is ₹ 12 on the grant date.

The other information is given as under :

(i) The no. of employees expected to satisfy service condition are 360 in the 1st year and 320 in the 2nd year.

(ii) 30 employees left the company in the 1st year of service and 340 employees have actually completed 2-year vesting period.

Marks

(iii) The profit of the enterprise before amortization of the compensation cost on account of ESOPs is as follows :

PROFIT	YEAR
(A) ₹ 11,20,000 -	2016-17
(B) ₹ 13,40,000 -	2017-18

(iv) The fair value of share for these years was ₹ 45 and ₹ 50 respectively

(v) The company has 3 lakhs shares of ₹ 10 each outstanding at the end of both years. Calculate basic and diluted EPS for both the years. (Ignore the tax impacts)

(b) Anjali Ltd. has given a sum of ₹ 25 lakhs as a loan to Vidhya Ltd. at 12% rate of interest per annum, for 6 years. The loan had a Fair Value of ₹ 30,42,000 at the effective interest rate of 10%. **8**

To mitigate prepayment risks but at the same time retaining control over the loan, Anjali Ltd. transferred its right to receive the principal amount of the loan on its maturity with interest, after retaining rights over 15% of principal and 2% interest that carries Fair Value of ₹ 74,000 and ₹ 4,50,300 respectively. The consideration for the transaction was ₹ 24,80,000.

The interest component retained included 1% fee towards collection of principal and interest that has a Fair Value of ₹ 1,40,200. Defaults, if any are deductible to a maximum extent of the company's claim on principal portion.

You are required to pass the journal entries to record derecognition of the Loan.

Marks

6. (a) The summarised Balance Sheets of Lily Ltd. for the past three years are as follows : **8**

(₹ in thousands)

	31st March, 2016	31st March, 2017	31st March, 2018
Liabilities			
5,50,000 Equity Shares of ₹ 10 each fully paid up	5,500	5,500	5,500
General Reserves	3,200	4,100	5,000
Surplus-Statement of P&L	420	640	840
Trade Payables	1,800	1,500	2,000
Total	**10,920**	**11,740**	**13,340**
Assets			
Goodwill	2,000	1,600	1,200
Tangible Assets (Net)	4,800	5,200	5,500
Inventories	3,200	3,600	4,000
Trade Receivables	710	1,000	2,090
Cash and Cash Equivalents	210	340	550
Total	**10,920**	**11,740**	**13,340**

Additional Information :

(i)

Actual valuation were as under :	31.3.16	31.3.17	31.3.18
Tangible Assets (Net)	6,000	6,400	6,800
Inventories	3,600	4,000	4,400
Net Profit (Including opening Balance after writing off depreciation, goodwill, tax provision)	1,260	1,880	2,500

Marks

(ii) Capital employed in the business at market value at the beginning of 2015-16 was ₹ 1,22,40,000 which included cost of goodwill. The normal annual return on average capital employed in line of business in which Lily Ltd. is engaged is 15%.

(iii) The balance in General Reserves as on 1st April, 2015 was ₹ 23 lakhs.

(iv) The goodwill shown on 31st March, 2016 was purchased on 1st April, 2015 for ₹ 20 lakhs and the balance in Statement of Profit & Loss as on 1st April, 2015 was ₹ 3,18,000.

(v) Goodwill is to be valued at 3 years' purchase of super profit by using simple average method.

Find out the average capital employed in each year and total value of business as on 31st March, 2018.

(b) The investment portfolio of a mutual fund scheme includes 6000 shares of Leena Ltd. and 5000 shares of Meena Ltd. acquired on 01.10.2016. The acquisition cost of Leena Ltd.'s shares is ₹ 50 per share while that of Meena Ltd.'s shares is ₹ 65 per share. The market value of these shares at the end of 2016-17 were ₹ 47 and ₹ 70 per share respectively. On 30.09.2017 shares of both the companies were disposed off realizing ₹ 44 per Leena Ltd.'s share and ₹ 77 per Meena Ltd.'s share. Show important accounting entries with relevant dates in the books of the fund for the accounting year 2016-17 and 2017.18. **8**

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

(a) On 25th March, 2018 an entity entered into an agreement to purchase a Financial Asset for ₹ 1,00,000, which is the Fair value on that date. **4**

On Balance Sheet date i.e., 31st March, 2018 the fair value is ₹ 1,05,000 and on settlement date i.e., on 10th April, 2018 fair value is ₹ 1,07,000.

Pass necessary journal entries on trade date and settlement date when the asset acquired is measured at FVTPL.

(Narrations need not be given).

Marks

(b) Kiran Ltd., acquired 25% of Varun Ltd., shares for ₹ 5,00,000 on 1-6-2017. By such an acquisition Kiran Ltd., can exercise significant influence over Varun Ltd. During the financial year ending 31-3-2017 Varun Ltd., earned profit of ₹ 1,00,000 and declared a dividend of ₹ 60,000 on 25-8-2017. Varun Ltd., reported earnings of ₹ 3,50,000 for the financial year ending on 31-3-2018 and declared dividend of ₹ 80,000 on 15-7-2018. **4**

Calculate the carrying amount of investment in :

(i) Separate financial statement of Kiran Ltd. as on 31-3-2018.

(ii) Consolidated financial statements of Kiran Ltd. as on 31-3-2018. (Kiran Ltd., has a subsidiary company)

(iii) What will be the carrying amount as on 31-7-2018 in consolidated financial statements ?

(c) List out the types of leases. Under what circumstances can a non-cancellable lease be cancelled as per relevant Ind AS. **4**

(d) Vijeta Industries has 40% share in joint venture with Sujata Industries. Vijeta Industries sold a machinery of ₹ 200 lakhs (WDV value), for ₹ 240 lakhs. Calculate how much profit Vijeta Industries should recognize in its book in case the joint venture is a **4**

- Jointly controlled operation.
- Jointly controlled asset.
- Jointly controlled entity.

(e) Explain revision in Accounting Estimates including recognition in Financial Statement as per Ind AS-8. **4**
