

November-2019

Roll No.

CA Final (Old Syll)

NOV 2019

Total No. of Questions – 7

Time Allowed – 3 Hours

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Total No. of Printed Pages – 16

Maximum Marks – 100

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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.

Working notes should form part of the respective answers.

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1. (a) RS Ltd. has acquired a heavy plant at a cost of ₹ 2,00,00,000.00 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the 2nd year, one of the major components i.e. the Boiler has become obsolete and requires replacement, as further maintenance is uneconomical. The remainder of the plant is perfect and is expected to last for next 8 years. The cost of a new boiler is ₹ 60,00,000.00. The discount rate assumed is 5%.
Can the cost of the new boiler be recognised as an asset, and, if so, what should be the carrying value of the plant at the end of second year ? **5**
- (b) A contractor firm obtained a contract for construction of bridge. The following details are available in the records kept for the year ended March 31, 2019 : **5**

(₹ in Crore)

Total Contract Price	500
Work Certified	250
Work not Certified	80
Estimated further Cost to Completion	220
Progress Payment Received	200
To be Received	70

You are required to calculate :

- (i) The amount of revenue to be recognized.
(ii) The amount of profit or loss to be recognized.
(iii) The amount due from / to customers.

Also present relevant disclosures as per AS-7 (Revised).

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- (c) How will you capitalise the interest when qualifying assets are funded by borrowings in the nature of bonds that are issued at discount ? 5

Y Ltd. issued at the start of year 1, 10% (interest paid annually and having maturity period of 4 years) bonds with a face value of ₹ 2,00,000 at a discount of 10% to finance a qualifying asset which is ready for intended use at the end of year 2. Compute the amount of borrowing costs to be capitalized if the company amortizes discount using Effective Interest Rate method by applying 13.39% p.a. of EIR.

- (d) P Ltd. leased a machinery to Q Ltd. on the following terms : 5

(₹ in Lakhs)

Fair value of the machinery (₹)	24
Lease term	5 years
Lease Rental per annum (₹)	6
Guaranteed Residual value (₹)	1
Expected Residual value (₹)	3
Internal Rate of Return	15%

You are required to ascertain the amount of unearned finance income.

Present value of ₹ 1 for year 1 to 5 are 0.8696, 0.7561, 0.6575, 0.5718, 0.4972.

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2. The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2019 :

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Particulars	Note No.	Aakash Limited (₹)	Ganga Limited (₹)
I. Equity and Liabilities :			
(1) Shareholder's Funds :			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities :			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	—
(3) Current Liabilities :			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		5,08,00,000	3,28,00,000
II. Assets :			
(1) Non-Current Assets :			
Property, Plant & Equipment		68,00,000	1,36,00,000
(2) Current Assets :			
(a) Inventories		3,68,00,000	—
(b) Other Current Assets		72,00,000	1,92,00,000
Total		5,08,00,000	3,28,00,000

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Notes to Accounts :

Note No.		Aakash Limited (₹)	Ganga Limited (₹)
1.	Share Capital		
	Authorised, Issued, Subscribed & Paid up :		
	6,00,000 Equity Shares of ₹ 10 each	60,00,000	—
	20,000 Preference Shares of ₹ 100 each	20,00,000	—
	2,00,000 Equity Shares of ₹ 10 each	—	20,00,000
		80,00,000	20,00,000
2.	Reserves and Surplus		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	—
		(3,24,00,000)	56,00,000
3.	Secured Loans		
	(Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	Unsecured Loans	1,72,00,000	—
5.	Other Current Liabilities		
	Statutory Liabilities		
	(Statutory Liabilities including ₹ 44 Lakh in case of Aakash Limited of a claim not having been admitted shown as contingent liability)	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	56,00,000

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Both the companies go into liquidation and a new company 'AakashGanga Limited' is formed to take over their business. The following information is given :

- (i) All Current Assets of two companies, except pledged inventory are taken over by AakashGanga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.
- (ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.
- (iii) Secured Loans include ₹ 32,00,000 accrued interest in case of Ganga Limited.
- (iv) 4,00,000 Equity Shares of ₹ 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.
- (v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth ₹ 4,00,000 in lieu of their present holdings.
- (vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.
- (vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.
- (viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.
- (ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited.

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3. HE Limited is a company carrying on the business of beauty products and is having a subsidiary SHE Limited. Balance Sheets of both the companies as at March 31, 2019 are as under :

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Particulars	Note No.	HE Limited (₹)	SHE Limited (₹)
I. Equity and Liabilities :			
(1) Shareholder's Funds :			
(a) Share Capital	1	1,25,00,000	29,00,000
(b) Reserves and Surplus	2	25,62,500	16,25,000
(2) Current Liabilities :			
(a) Trade Payables	3	24,15,000	15,92,500
Total		1,74,77,500	61,17,500
II. Assets :			
(1) Non-Current Assets			
(a) Property, Plant & Equipment		1,08,50,000	31,25,000
(b) Investments	4	25,50,000	—
(2) Current Assets :			
(a) Inventories		24,00,000	15,96,000
(b) Trade Receivables	5	12,40,000	13,20,000
(c) Cash and Cash Equivalents		4,37,500	76,500
Total		1,74,77,500	61,17,500

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Notes to Accounts :

Note No.		HE Limited (₹)	SHE Limited (₹)
1.	Share Capital Authorised, Issued, Subscribed & Paid up : 1,25,000 Equity Shares of ₹ 100 each 29,000 Equity Shares of ₹ 100 each	1,25,00,000 —	— 29,00,000
2.	Reserves and Surplus General Reserve Profit and Loss Account	10,00,000 15,62,500 25,62,500	6,00,000 10,25,000 16,25,000
3.	Trade Payables Trade Payables Bills Payable	22,75,000 1,40,000 24,15,000	11,77,500 4,15,000 15,92,500
4.	Investments 20,300 Shares in SHE Limited	25,50,000	—
5.	Trade Receivables Trade Receivables Bills Receivables	9,00,000 3,40,000 12,40,000	8,20,000 5,00,000 13,20,000

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HE Limited has also given the following information :

- (i) HE Limited has acquired the shares in SHE Limited in two lots on two different dates during the current financial year 2018-19.

The relevant information at the time of acquisition of shares was as under :

No. of Shares acquired	Balance in General Reserve	Balance in Profit & Loss A/c
1 st acquisition – 17,400	4,00,000	1,25,000
2 nd acquisition – 2,900	4,25,000	5,10,000

- (ii) Bills Receivables of HE Limited includes ₹ 75,000 being acceptance from SHE Limited.
- (iii) Both the companies have proposed dividend of 10% for the year ended on March 31, 2019, but it has not been provided in the books of accounts.
- (iv) SHE Limited's inventory includes stock of ₹ 7,25,000 purchased from HE Limited. HE Limited sells goods at mark up of 25% on its costs.

You are required to prepare the Consolidated Balance Sheet of HE Limited along with 'Notes to Accounts'.

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4. (a) Describe major changes in Ind AS-16 vis-à-vis IAS-16 not resulting in **5**

Carve Outs and major changes in Ind AS-16 vis-à-vis notified AS-10.

(b) What are the five steps of Revenue Recognition as per Ind AS-115 ? **5**

(c) A Ltd. made a security deposit the details of which are given below : **6**

Particulars	Details
Date of Security Deposit (Starting Date)	01-04-2019
Date of Security Deposit (Finishing Date)	31-03-2024
Description	Lease
Total Lease Period	5 years
Discount Rate	10.00%
Security deposit	₹ 15,00,000
Present value factor for 5 th year @ 10% p.a.	0.6209

You are required to pass necessary journal entries for accounting of the deposit in the first year and last year.

Assume market interest rate for a deposit for similar period to be 10% per annum.

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5. Following is the extract from the Balance Sheet of XYZ Limited :

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	As at 31-03-2018	As at 31-03-2019
	(₹)	(₹)
I. Equity and Liabilities :		
Share Capital	2,50,00,000	2,50,00,000
General Reserve	2,00,00,000	2,12,50,000
Profit and Loss Account	80,00,000	1,07,50,000
12% Term loan	90,00,000	82,50,000
Trade Payables	17,50,000	22,50,000
Provision for Tax	5,50,000	6,50,000
	6,43,00,000	6,81,50,000
II. Assets :		
Fixed Assets	2,75,00,000	3,25,00,000
9% Investment	1,25,00,000	1,25,00,000
Inventory	1,30,00,000	1,50,00,000
Trade Receivables	85,00,000	55,00,000
Cash at Bank	23,00,000	22,50,000
Fictitious Assets	5,00,000	4,00,000
	6,43,00,000	6,81,50,000

Additional Information :

- (i) Replacement values of Fixed Assets were ₹ 5,50,00,000 on 31-03-2018 and ₹ 6,25,00,000 on 31-03-2019 respectively.
- (ii) Rate of depreciation adopted on Fixed Assets was 5% p.a.

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- (iii) 50% of the inventory is to be valued at 120% of its book value.
- (iv) 50% of Investments were trade investments.
- (v) Trade Receivables on March 31, 2019 included foreign trade receivables of \$ 17,500 recorded in the books at ₹ 65 per US Dollar. The closing exchange rate was \$ 1 = ₹ 69.
- (vi) Trade Payables on March 31, 2019 included foreign trade payables of \$ 30,000 recorded in the books at ₹ 63 per US Dollar. The closing exchange rate was \$ 1 = ₹ 69.
- (vii) Profits for the 2018-19 included ₹ 30,00,000 of government subsidy which is not likely to recur.
- (viii) ₹ 62,50,000 of Research and Development expenditure was written off to the Profit and Loss Account in the current year. This expenditure is not likely to recur.
- (ix) Future maintainable profits (pre-tax) are likely to be higher by 10%.
- (x) Tax rate during 2018-19 was 50%, effective future tax rate will be 40%.
- (xi) Normal rate of return expected is 7%.

One of the directors of the company, feels that the company does not have goodwill in the prevalent market circumstances. Do you agree with the contention of the director ? If yes, then why and if no, then calculate the value of goodwill along with its leverage effect on company's result. Industry average return is 6% on long-term funds and 8% on equity funds. (Use average capital employed for the purpose of calculations.)

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6. (a) The following particulars in respect of stock options granted by a company are available :

Grant date	April 01, 2016
Number of employees covered	800
Number of options granted per employee	120
Nominal value per share (₹)	100
Exercise price per share (₹)	120

Shares offered were put in three groups. Group-I was for 20% of shares offered with vesting period one-year. Group-II was for 40% of shares offered with vesting period two-years. Group-III was for 40% of shares offered with vesting period three-years. Fair value of option per share on grant date was ₹ 10 for Group-I, ₹ 12 for Group-II and ₹ 14 for Group-III.

Position on 31-03-2017 :

- (i) Number of employees left = 80
- (ii) Estimate of number of employees to leave in 2017-18 = 72
- (iii) Estimate of number of employees to leave in 2018-19 = 68
- (iv) Number of employees exercising options in Group-I = 700

Position on 31-03-2018 :

- (i) Number of employees left = 70
- (ii) Estimate of number of employees to leave in 2018-19 = 60
- (iii) Number of employees exercising options in Group-II = 638

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Position on 31-03-2019 :

- (i) Number of employees left = 56
- (ii) Number of employees at the end of last vesting period = 594
- (iii) Number of employees exercising options in Group-III = 590

Options not exercised immediately on vesting, were forfeited.

You are required to calculate the expenses to be recognized in each year and also the number of options forfeited.

- (b) Vyom Gupta has invested in three mutual funds. From the details given below, you are required to find out effective yield on per annum basis in respect of each of the schemes to Vyom Gupta upto 31-03-2019. **8**

Particulars	Mutual Fund		
	X	Y	Z
Date of Investment	01-11-2018	01-12-2018	01-03-2019
Amount of investment (₹)	1,50,000	2,50,000	1,25,000
NAV at the date of investment (₹)	10.60	10.50	10.00
Dividend received upto 31-03-2019 (₹)	2,100	3,200	Nil
NAV as on 31-03-2019 (₹)	10.70	10.40	10.20

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

- (a) R Ltd. has 60% voting right in S Ltd. S Ltd. has 15% voting right in T Ltd. R Ltd. directly enjoys voting right of 16% in T Ltd. T Ltd. is a listed company and regularly supplies goods to R Ltd. The management of T Ltd. has not disclosed its relationship with R Ltd. 4

You are required to assess the situation from the view point of AS-18 on Related Party Disclosures.

- (b) From the following information you are required to determine the possible value of brand as per Potential Earning Model : 4

		₹ in Lakhs
(i)	Profit After Tax (PAT)	3,500
(ii)	Tangible Fixed Assets	15,000
(iii)	Identifiable intangible other than brand	1,800
(iv)	Weighted average cost of capital (%)	15%
(v)	Expected normal return on tangible assets weighted average cost (15%) + normal spread 4%	19%
(vi)	Appropriate capitalisation factor for intangibles	25%

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- (c) Growing 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. The data relating to the company are as follows :
- (i) Average operating income after tax equals ₹ 30,00,000 per year for the last three years.
- (ii) Average total assets over the last three years equals ₹ 90,00,000.
- (iii) Weighted average cost of capital appropriate for the company is 12% which is applicable for all three years.
- (iv) The company's average current liabilities over the last three years are ₹ 20,00,000.

You are required to justify whether the company qualifies for bank loan ?

- (d) On April 01, 2018 a mutual fund scheme had 45 lakh units of face value ₹ 10 each. The scheme earned ₹ 405 Lakh in 2018-19, out of which ₹ 225 Lakh was earned in first half-year. 5 Lakh units were further issued by scheme on 30-09-2018 at NAV ₹ 60. You are required to show the allocation of earnings and distribution of earning per unit. Also show important journal entries for sale of units and distribution of dividend at the end of 2018-19.

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- (e) Z Limited issued 25,00,000 9% Convertible Debentures of ₹ 10 each on April 01, 2018. The debentures are due for redemption on March 31, 2022 at a premium of 10% convertible into equity shares to the extent of 50% and the balance to be settled in cash to the debenture-holders. The interest rate on equivalent debentures without conversion rights was 12%. You are required to calculate the debt and equity components at the time of the issue and show the accounting entry in the company's books at initial recognition.

4

The following Present Values of ₹ 1 at 9% and at 12% are given to you :

Interest Rate	Year 1	Year 2	Year 3	Year 4
9%	0.9174	0.8417	0.7722	0.7084
12%	0.8929	0.7972	0.7118	0.6355

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