NOV 2016

FINAL
GROUP-I PAPER-1
FINANCIAL REPORTING

Roll No. ....

Total No. of Questions – **7**

Total No. of Printed Pages – **16**

Time Allowed – **3** Hours

Maximum Marks – **100**

SAL

Answers to questions are to be given in English except in the case of candidates who have opted for Hindi Medium. If a candidate, who has not opted for Hindi Medium, answers in Hindi his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are required to answer any **five** questions from the remaining **six** questions.

In case, any candidate answers extra question(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.

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

Marks

1. (a) An employee, Darshan, has joined a company PQR Ltd. in the year 2014. The annual emoluments of Darshan as decided is ₹ 15,52,303. The company also has a policy of giving a lump sum payment of 25% of the last drawn salary of the employee for each completed year of service, if the employee retires after completing minimum 5 years of service. The salary of the Darshan is expected to grow @ 10% per annum. **5**

The company has inducted Darshan in the beginning of the year and it is expected that he will complete the minimum five year term before retiring.

Marks

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined-Benefit Obligation ? Also calculate service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

(b) Sun Ltd. has fabricated special equipment (solar power panel) during 2014-15 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. **5**

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 31-03-2016 are as follows;

Solar power panel (WIP)	₹ 85 lakhs
Solar power panel (finished products)	₹ 55 lakhs
Sundry Debtor (solar power panel)	₹ 65 lakhs

The petition for winding up against the customer has been filed during 2015-16 by Sun Ltd.

Comment with explanation on provision to be made of ₹ 205 lakh included in Sundry Debtors, Finished goods and work-in-progress in the financial statement of 2015-16.

(c) A construction contractor has a fixed price contract for ₹ 13,500 lakhs to build a railway tunnel. The contractor's initial estimate of contract costs is ₹ 12,000 lakhs. It will take 3 years to build the tunnel. **5**

By the end of year 1, the contractor's estimate of contract costs has increased to ₹ 12,075 lakhs.

In year 2, the Railway Authority approves a variation resulting in an increase in contract revenue of ₹ 300 lakhs and estimated additional contract costs of ₹ 225 lakhs. At the end of year 2, costs incurred include ₹ 200 lakhs for materials at site to be used fully in year 3, to complete the work.

Contract costs incurred up to the reporting date of

Year 1. ₹ 3,139 lakhs

Year 2. ₹ 9,102 lakhs

Year 3. ₹ 12,300 lakhs

You are required to find out the amount of revenue, expenses and profit to be recognised in the statement of Profit and Loss in all the three years.

(d) From the following summary of cash account for the year ended 31st March, 2016 of X Ltd., Calculate cash flow from Operating Activities using direct method. **5**

Particulars	**₹**	**Particulars**	**₹**
To, Balance b/d	1,25,000	By, Cash purchases	1,30,000
" Cash sales	1,50,000	" Trade payables	1,44,000
" Trade receivables	1,60,000	" Rent paid	50,000
" Interest & dividend	2,000	" Office expenses	25,000
" Loan from Bank	1,50,000	" Income tax	30,000
" Sale of investment	80,000	" Investment	90,000
" Trade commission	40,000	" Repayment of loan	1,00,000
		" Interest on loan	7,000
		" Balance c/d	1,31,000
	7,07,000		**7,07,000**

Marks

2. The following was the abridged Balance Sheet of Shiva Ltd. as at 31[st] March, 2016: **16**

Liabilities		₹	Assets	₹
Authorized Capital:			**Fixed Assets:**	
15,000 Equity Shares of			Plant and Machinery	12,90,000
₹ 100 each		15,00,000	at depreciated value	
Issued and paid up:			Land	10,50,000
12,000 Equity Shares of			**Current Assets**	
₹ 100 each, fully paid up		12,00,000	Trade Receivables	12,00,000
Reserves and Surplus:			Patent, Trademarks	
General Reserve	7,50,000		and Copyrights	9,00,000
Securities Premium	6,00,000			
Profit and Loss	5,40,000	18,90,000		
11 % Debentures secured				
against the assets of the Co.		7,50,000		
Current Liabilities:				
Trade Payables		6,00,000		
Total		**44,40,000**	**Total**	**44,40,000**

The Company ran two distinct departments utilizing the trademarks and copyrights owned and generated by it. The assets and liabilities of one of the departments as on the Balance Sheet were:

	₹
Plant and Machinery	6,00,000
Land (used for business)	3,00,000
Trade Receivables	3,00,000
Patent, Trademarks and Copyrights	5,25,000
	17,25,000
Trade Payables	3,75,000
	13,50,000

Due to managerial constraints, Shiva Ltd. is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 30,00,000 to the company for transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 2016 in the following manner:

(i) Issue of Equity Shares of the buyer's company for ₹ 15,00,000 nominal value at a premium of 20% over the face value; and

(ii) Payment of the balance consideration in Singapore $. The exchange rate agreed upon is ₹ 50 per Singapore $. This amount will be retained in Singapore, till the actual takeover of the business is done by the buyer.

(a) Expenses to put through the transaction come to ₹ 12,00,000 initially to be incurred by Shiva Ltd. but to be shared equally by the parties.

(b) The balance value of Patent, Trademarks and Copyrights left with Shiva Ltd. does not enjoy any market value and has to be written off.

(c) The value of the balance of Land in Shiva Ltd.'s possession will be taken at its market value in the books of account. Such a value, determined by an approved valuer, is 200 percent of the book value.

(d) The parties agree that the date of legal ownership of the transferred business shall be 31st March, 2016 though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be effected before 30th April, 2016.

Shiva Ltd. to carry on the business in the normal course and account for the profit of the transferred department to the foreign buyer. Shiva Ltd. made a net profit (cash profit) of ₹ 3,60,000 from the whole business for April, 2016; 40% of the net profit related to the business of the transferred department. The amount of Current Assets and Current Liabilities of Shiva Ltd. has been same as on 31.03.2016.

(e) The shares of the overseas buyer's company were quoted on the Singapore Stock Exchange and on 30th April, 2016 were quoted at 95 percent of their face value. Shiva Ltd. holds Investment in Shares of overseas buyer as temporary investment.

Draw the Balance Sheet of Shiva Ltd. as at 30th April, 2016, after the transfer of the business to the overseas buyer.

Marks

3. On 31st March, 2016 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows: **16**

Liabilities	H Ltd. (₹ in lakhs)	S Ltd. (₹ in lakhs)
Share capital:		
Authorized	**15,000**	**6,000**
Issued and subscribed:		
Equity shares of ₹ 10 each fully paid up	12,000	4,800
General reserve	2,784	1,380
Profit and loss account	2,715	1,620
Bills payable	372	160
Sundry creditors	1,461	854
Provision for taxation	855	394
Proposed dividend	1,200	—
	21,387	**9,208**
Assets:	**H Ltd. (₹ in lakhs)**	**S Ltd. (₹ in lakhs)**
Land and buildings	2,718	—
Plant and machinery	4,905	4,900
Furniture and fittings	1,845	586
Investment in shares in S Ltd.	3,000	—
Stock	3,949	1,956
Debtors	2,600	1,363
Cash and Bank Balances	1,490	204
Bills Receivables	360	199
Sundry Advances	520	—
	21,387	**9,208**

The following information is also provided to you:

(a) H Ltd. purchased 180 lakhs Shares in S Ltd. on 1st April, 2015 when the balances to General reserve and Profit and Loss Account of S Ltd stood at ₹ 3,000 lakhs and ₹ 1,200 lakhs respectively.

(b) On 4th July, 2015 S Ltd. declared a dividend of @ 20% for the year ended 31st March, 2015. H Ltd. credited the dividend received to its profit and loss account.

(c) On 1st November, 2015 S Ltd. issued, 3 fully paid-up shares for every 5 shares held, as bonus shares, out of balances to its General Reserve as on 31st March, 2015.

(d) On 31st March, 2016 all the bills payable in S Ltd.'s balance sheet were acceptances in favour of H Ltd. But on that date, H Ltd. held only ₹ 45 lakhs of these acceptances in hand, the rest having been endorsed in favour of its creditors.

(e) On 31st March, 2016 S Ltd.'s stock included goods which it had purchased for ₹ 100 lakhs from H Ltd. which made a profit @ 25% on cost.

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2016. Workings should form part of your answer.

4. (a) PIR Ltd and its subsidiary MAS Ltd get their supply of some essential raw material from DSS Ltd. To coordinate their production on a more profitable basis PIR Ltd and MAS Ltd agree between themselves each to acquire a quarter of shares in others Authorised Capital by means of exchange of shares. The terms are as follows : **12**

   (i) PIR Ltd shares are quoted in the stock exchange at ₹ 10/-. The value to be taken for this purpose was either the quoted price or on the basis of balance sheet valuation, whichever is higher.

   (ii) DSS Ltd shares which are not quoted in stock exchange are to be considered on the yield basis or Balance Sheet basis, whichever is higher.

(iii) The future profits are estimated @ ₹ 2,10,000/- subject to one third to be retained for the development purposes. The Shares of the similar company yield 8%.

(iv) Freehold properties of DSS Ltd are to valued @ ₹ 8,60,000.

(v) No cash is to pass and the balance due on settlement is to be treated as loan between the two companies.

The summaraised Balance Sheets of the companies at the relevant date stood as follows :

PARTICULARS	PIR Ltd.	MAS Ltd.	DSS Ltd.
EQUITY & LIABILITIES			
Share Capital			
Authorised Equity Share Capital	24,00,000	10,00,000	20,00,000
Issues & Paid up Equity Share Capital @ 10/- each	16,00,000	10,00,000	15,00,000
Reserves & Surplus			
Security Premium	1,60,000		
Profit & Loss	4,40,000	4,20,000	4,00,000
Non-Current Liabilities			
7% Debentures	6,00,000		
Current Liabilities			
Current Liabilities	5,60,000	3,60,000	4,20,000
Proposed Dividend	2,00,000	1,00,000	
	35,60,000	**18,80,000**	**23,20,000**
ASSETS			
Non Current Assets			
Free hold properties	13,20,000	5,80,000	6,60,000
Plant & Machinery	9,00,000	8,20,000	8,80,000
Investments	9,20,000		
80,000 shares in MAS Ltd			
Current Assets			
Current Assets	4,20,000	4,80,000	7,80,000
	35,60,000	**18,80,000**	**23,20,000**

Marks

You are required to compute the value of the Shares according to the terms of the agreement and to present the final settlement showing all the necessary workings.

(b) Glory Finance Ltd. is non-banking finance company. The extracts of its balance sheet are given below: 4

Liabilities	₹ in '000	Assets	₹ in '000
Paid-up equity capital	100	Leased out assets	800
Free reserve	500	Investments:	
Loans	400	In shares of subsidiaries	100
Deposits	400	In debentures of subsidiaries	100
		Cash and bank balances	200
		Deferred expenditure	200
	1,400		**1,400**

Compute "Net Owned Fund" of Glory Ltd as per NBFC (Deposit Accepting or Holding) Companies Prudential Norms (RBI) Directions, 2007.

Marks

5. (a) From the following Value added statement prepare the statement of Profit & Loss of the Value Ltd for the year ending 31/03/2016 : **8**

Statement of Gross value added of the Value Ltd.
for the year ending 31/03/2016

Particulars	Amount (₹)	Amount (₹)
Sales		30,56,000
Less : Bought in cost for Material & Services		
Decrease in stock	16,000	
Purchases	15,20,000	
Manufacturing & Other expenses	75,000	
Electricity	56,500	
Interest on working capital loan	25,600	(16,93,100)
		13,62,900
Add : Other Income		23,100
Gross Value Added		**13,86,000**
Gross Value Applied		
To Employees		
Wages & Salaries	4,35,000	
Director sitting fee & remuneration	25,000	4,60,000
To Government		
Cess & Taxes	5,000	
Provision for Income Tax	35,000	40,000
To Capital Provider		
Finance charges	3,75,000	
Proposed Dividend	1,00,000	4,75,000
Towards Renewals & Replacements		
Depreciation	1,22,000	
Debenture Redemption Reserve	2,00,000	
General Reserve	1,00,000	
Retained Profit	(11,000)	4,11,000
Gross Value Applied		**13,86,000**

Marks

Closing Stock as on Balance Sheet date was ₹ 40,000

Profit & Loss account at the beginning of the financial year was ₹ 1,25,000

(b) Explain major changes in Ind AS 24 (Related Party Disclosures) vis-a-vis Notified Accounting Standard (AS-18) ? **8**

6. (a) At the beginning of year 1, an enterprise grants 300 options to each of its 1,000 employees. The contractual life of option granted is 6 years. Other relevant information is as follows: **10**

Vesting Period	3 years
Exercise Period	3 years
Expected Life	5 years
Exercise Price	₹ 50
Market Price	₹ 50
Expected forfeitures per year	3%

The option granted vest according to a graded schedule of 25% at the end of the year 1, 25% at the end of the year 2, and the remaining 50% at the end of the year 3.

You are required to calculate total compensation expenses for the options expected to vest and cost and cumulative cost to be recognised at the end of all the 3 years assuming that expected forfeiture rate does not change during the vesting period when,

(i) The fair value of these options, computed based on their respective expected lives, are ₹ 10, ₹ 13, ₹ 15. per options, respectively.

(ii) The intrinsic value of the options at the grant date is ₹ 6 per options.

(b) You are required to calculate the Economic Value Added by using the following information of Balak Ltd. **6**

Equity shares of ₹ 100 each	₹ 45, 00,000
Reserve and Surplus	₹ 35, 00,000
10% Debentures of ₹ 100 each	₹ 60,00,000.
Dividend Expectations of equity share holders	16%
Prevailing corporate tax rate	30%
Financial Leverage	1.2 times

7. Answer any **four** of the questions: **4×4=16**

(a) Explain the conditions required to be met for a Financial Asset to be measured at Amortized Cost (applicable to Debt Instruments only). **4**

X Company invested in Equity Shares of another entity on 15th March, 2016 for ₹ 1,00,000. Transaction Cost = ₹ 2,000 (not included in ₹ 1,00,000). Fair value on Balance Sheet date i.e. 31st March 2016 = ₹ 1,20,000.

Marks

Pass necessary Journal entries (narration not required) if Financial Asset to be accounted as Fair Value Through Other Comprehensive Income (FVTOCI).

(b) From the following details of Jubilee Ltd. for the year ended 31.3.2016, Calculate the deferred tax asset / liability as per AS 22 and amount of tax to be debited to Profit and Loss Account for the year ended 31.3.2016. **4**

Particulars	₹
Accounting Profit	15,00,000
Book Profit as per MAT	8,75,000
Profit as per Income Tax Act	1,50,000
Tax Rate	30%
MAT Rate	7.50%

(c) Look-Like Investments Ltd. deals in Equity Derivatives. Their current portfolio comprises of the following instruments : **4**

K-Tech ₹ 2800 Call Expiry June 2016, 1000 unit bought at ₹ 167 each (cost)

K-Tech ₹ 2900 Call Expiry June 2016, 1800 unit bought at ₹ 103 each (cost)

K-Tech ₹ 2700 Put Expiry June 2016, 2000 unit bought at ₹ 68 each (cost)

What will be the profit or loss to Look-Like Investments Ltd. in the following situations ?

(i) K-Tech closes on the expiry day at ₹ 3,020

(ii) K-Tech closes on the expiry day at ₹ 2,900

(iii) K-Tech closes on the expiry day at ₹ 2,540

Marks

(d) Astro Corporation is dealing in seasonal products. The following is the quarterly sales pattern of the product : 4

Quarter 1	II	III	IV
Ending 31st March 20%	30th June 20%	30th September 50%	31st December 25%

For the First quarter ending 31st March, 2016, Astro Corporation gives you the following information:

	₹ in crores
Sales	100
Salary and other expenses	60
Advertisement expenses (routine)	4
Administrative and selling expenses	8

While preparing interim financial report for the first quarter, Astro Corporation wants to defer ₹ 42 crores expenditure to third quarter on the argument that third quarter is having more sales, therefore third quarter should be debited by higher expenditure, considering the seasonal nature of business. The expenditures are uniform throughout all quarters.

Calculate the result of first quarter as per AS 25 and comment on the Astro Corporation view.

Marks

(e) Nirman Solutions incurred costs to develop and produce a routine, low risk computer software product, as follows, as on 31st March, 2016: **4**

Completion of detailed program design	₹ 15,00,000
Costs incurred for coding and testing to establish technological feasibility	₹ 8,00,000
Other coding and testing costs after establishment of technological feasibility	₹ 6,50,000
Cost of producing product masters for training materials	₹ 4,20,000
Duplication of computer software and training materials from Product masters (5000 units)	₹ 2,50,000
Packaging product (2500 units)	₹ 1,50,000

(i) What amount should be capitalized as software cost, subject to amortization of Nirman Solutions as on 31st March, 2016.

(ii) What amount should be reported in Inventory of Nirman Solutions as on 31st March, 2016.