CA FINAL

SUBJECT-FR

Test Code – FNJ 7389

(Date :)

(Marks - 100)

Question 1 is compulsory and attempt any four out of remaining five questions

Question 1:

(A)

Flywing Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	Amount Rs.'000
Costs of the basic materials (list price Rs.12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months to 30 June 20X1	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

Additional Information

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included an abnormal cost of Rs.3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flywing Airways Ltd is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs.2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0·68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs.3 million.

The Company computes its depreciation charge on a monthly basis. No impairment of the plant had occurred by 31 March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2. **(12 marks)**

(B)

On 1 July 20X1, FA Ltd acquired 75% of the equity shares of Bolton Ltd and gained control of Bolton Ltd. Bolton Ltd has 12 million equity shares in issue.

Details of the purchase consideration are as follows:

- On 1 July 20X1, FA Ltd issued two shares for every three shares acquired in Bolton Ltd. On 1 July 20X1, the market value of an equity share in FA Ltd was Rs.6.50 and the market value of an equity share in Bolton Ltd was Rs. 6.00.
- On 30 June 20X2, FA Ltd will make a cash payment of Rs. 7.15 million to the former shareholders of Bolton Ltd. who sold their shares to FA Ltd on 1 July 20X1. On 1 July 20X1, FA Ltd would have needed to pay interest at an annual rate of 10% on borrowings.
- On 30 June 20X3, FA Ltd may make a cash payment of Rs. 30 million to the former shareholders of Bolton Ltd who sold their shares to FA on 1 July20X1. This payment is contingent upon the revenues of FA Ltd. growing by 15% over the two-year period from 1 July 20X1 to 30 June 20X3. On 1 July 20X1, the fair value of this contingent consideration was Rs. 25 million. On 31 March 20X2, the fair value of the contingent consideration was Rs. 22 million.

On 1 July 20X1, the carrying values of the identifiable net assets of Bolton Ltd in the books of that company totaled Rs. 60 million. On 1 July 20X1, the fair values of these net assets totaled Rs. 70 million. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31 March 20X2, Bolton Ltd had a poorer than expected operating performance. Therefore on 31 March 20X2, it was necessary for FA Ltd to recognize an impairment of the goodwill arising on acquisition of Bolton Ltd, amounting to 10% of its total computed value.

Compute the impairment of goodwill on acquisition of Bolton Ltd under both the methods permitted in the relevant Ind AS for the initial computation of the non-controlling interest in Bolton Ltd at the date of acquisition. **(8 marks)**

Question 2:

(A) An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to intrinsic value of the entity's share price. All of the rights vest on 31st December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is Rs. 11; and it estimates that 10% of the employees will leave evenly during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31^{st} December 20X7 (when the intrinsic value of each SAR was Rs. 10), six employees exercised their options and remaining employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of Rs. 12).

How much expense and liability is to be recognized at the end of each year? Also pass Journal entries.

(10 marks)

(B)

A Limited received from the **government a loan** of Rs.1,00,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of **government grant**and Pass necessary **journal entry**. Also examine how the Government grant be realized. Also state how the grant will be recognized in the statementofprofitorlossassumingthattheloanistofinanceadepreciableasset.

(5 marks)

(C)

A Ltd. prepares its financial statements to 31st March each year. It operates a **defined benefit retirement benefits plan** on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was Rs.6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was Rs. 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of Rs. 70,00,000 into the plan and the plan paid out benefits of Rs. 42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 31st March, 2018 wasRs. 62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by Rs. 15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation byRs. 80,00,000. Before 31st March, 2018, A Ltd. made payments of Rs. 75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was Rs. 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were Rs. 5,60,00,000.

Examine and present **how the above event would be reported**in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS. **(5 marks)**

Question 3(A):

Angel Ltd. has adopted IndAS with a transition date of 1^{st}April, 2017. Prior to Ind AS adoption, it followed Accounting Standards notified under Companies (Accounting Standards) Rules, 2006 (hereinafter referred to as"IGAAP").

It has made investments in equity shares of Pharma Ltd., a listed company engaged in the business of pharmaceuticals. The shareholding pattern of Pharma Ltd. is givenbelow:

Shareholders (refer Note 1)	Percentage shareholding as on 1st April, 2017
Angel Ltd.	21%
Little Angel Ltd. (refer Note 2)	24%
Wealth Master Mutual Fund (refer Note 3)	3%
Individual public shareholders (refer Note 4)	52%

Notes:

(1) None of the shareholders have entered into any shareholders' agreement.

(2) Little Angel Ltd. is a subsidiary of Angel Ltd. (under IndAS) in which Angel Ltd. holds51% votingpower.

(3) Wealth Master Mutual Fund is not related party of either Little Angel Ltd. or PharmaLtd.

(4) Individual public shareholders represent 17,455 individuals. None of the individual shareholders hold more than 1% of voting power in PharmaLtd.

All commercial decisions of Pharma Ltd.are taken by its directors who are appointed by a simple majority vote of the shareholders in the annual general meetings ("AGM ”). The following table shows the voting pattern of past AGMs of PharmaLtd.:

Shareholders	AGM for the financial year:		
	2013-14	2014-15	2015-16
Angel Ltd.	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions	Attended and voted in favour of all the resolutions
Little Angel Ltd.	Attended and voted as per directions of Angel Ltd.	Attended and voted as per directions of Angel Ltd	Attended and voted as per directions of Angel Ltd
Wealth Master Mutual Fund	Attended and voted in favourof all the resolutions except for the reappointment of the retiring directors	Attended and voted in favourof all the resolutions except for the reappointment of the retiring directors	Attended and voted in favourof all the resolutions except for the reappointment of the retiring directors

Individuals	7% of the individual shareholders attended the AGM. All the individual shareholders voted in favourof all the resolutions, except that 50% of the individual Shareholders voted againstthe resolution to appoint the retiring directors.	8% of the individual shareholders attended the AGM. All the individual shareholders voted in favourof all the resolutions, except that 50% of the individual Shareholders voted against the Resolution to appoint the retiring directors.	6% of the individual shareholders attended the AGM. All the individual shareholders voted in favourof all the resolutions, except that 50% of the individual Shareholders voted against the resolutionto appoint the retiringdirectors.

Pharma Ltd. has obtained substantial long term borrowings from a bank. The loan is payable in 20 years from 1st April, 2017. As perthe terms of the borrowing, following actions by Pharma Ltd. will require prior approval of thebank:

- Payment of dividends to the shareholders in cash orkind;
- Buyback of its own equityshares;
- Issue of bonus equityshares;
- Amalgamation of Pharma Ltd. with any other entity;and
- Obtaining additional loans from anyentity.

Recently, the Board of Directors of Pharma Ltd. proposed a dividend of *Rs.*5 per share. However, when the CFO of Pharma Ltd. approached the bank for obtaining their approval, the bank rejected the proposal citing concerns over the short-term cash liquidity of Pharma Ltd. Having learned about the developments, the Directors of Angel Ltd. along with the Directors of Little Angel Ltd. approached the bank with a request to re-consider its decision. The Directors ofAngel Ltd. and Little Angel Ltd. urged the bank to approve a reduced dividend of at least *Rs.*2 per share. However, the bank categorically refused to approve any payout ofdividend.

Under IGAAP, Angel Ltd. has classified Pharma Ltd. as its associate. As theCFO of Angel Ltd., **you are required to comment on the correct classification of Pharma Ltd. on transition to IndAS.**

(15 marks)

(B) A building is used for CSR activities of the company. The same is capitalised as 'an asset' in the books and depreciation is charged on the same as per the Companies Act, 2013. The Company claims the cost of the building as '**CSR expenditure**' and also the depreciation thereon.

Required:

Is this the **correct treatment** as per the Act? **(5 marks)**

Question 4:

(A) Asset A is a contractual right to receive Rs. 1000 after one year. Asset B is a contractual right to receive Rs. 1250 in two years and has a market price of Rs. 1080. **How the discount rate adjustment technique should be applied to Asset A**. There is no comparable asset which matures in one year. The zero coupon yield curve on government securities two years rate is 40bp higher than one year rate. **(4 marks)**

(B) Entity L enters into a lease for 10 years, with a single lease payment payable at the beginning of each year.

The initial lease payment is Rs. 1,00,000. Lease payments will increase by the rate of LIBOR each year.

At the date of commencement of the lease, LIBOR is 2 per cent.

Assume that the interest rate implicit in the lease is 5 per cent. How lease liability is initiallymeasured?

(6 marks)

(C) Blueberry Ltd entered into the following transactions during the year ended 31st March, 20X2:

(a) Entered into a speculative interest rate option costing Rs. 10,000 on 1st April, 20X0 to borrow Rs. 6,000,000 from Exon Bank commencing 30th June,20X2 for 6 months at 4%.

The value of the option at 31st March.20X2 was Rs.15,250.

(b) Purchased 6% debentures in Fox Ltd on 1st April, 20X1 (their issue date) for Rs. 150,000 as an investment. Blueberry Ltd. intends to hold the debentures, until their redemption at a premium, in 5 years' time. The effective rate of interest of the bond is 8%.

(c) Purchased 50,000 shares in Cox Ltd on 1st October, 20X2 for Rs.3.50 each as an investment. The share price on 31st March, 20X2 was Rs. 3.75.

Show the accounting treatment and relevant extracts from the financial statements for the year ended 31st March, 20X2 of transactions related to financial instruments. Blueberry Ltd designates financial assets at fair value through Profit or loss only when this is unavoidable.

(10 marks)

Question 5:

(A)

ABC changed its accounting policy for inventory in 2016-2017. Prior to the change, inventory had been valued using the first in first out method (FIFO).However, it was felt that in order to match current practice and to make the financial statements more relevant and reliable a weighted average valuation model should be used.

The effect of the change on the valuation of inventory was as follows:

- 31stMarch, 2015 - Increase of Rs. 10million
- 31stMarch, 2016 - Increase of Rs. 15 million
- 31stMarch, 2017- Increase of Rs. 20million

Profit or loss under the FIFO valuation model are as follows: Rs. In million

	2016-2017	2015-2016
Revenue	324	296
Cost of sales	(173)	(164)
Gross profit	**151**	**132**
Expenses	(83)	(74)
Profit	**68**	**58**

Retained earnings at 31st March, 2015 were Rs. 423million.

Present the change in accounting policy in the profit or loss and produce an extract of the statement of changes in equity in accordance with Ind AS 8. **(5 marks)**

(B)

Seeds Ltd. is operating in oil industry. Its business segments comprise crushing and refining. Certain information for financial year 2017-18 is givenbelow:

(Rs. inlakh)

Segments	External Sale	Tax	OtherOperating Income	Result	Assets	Liabilities
Crushing	1,00,000	2,500	20,000	5,000	25,000	15,000
Refining	35,000	1,500	7,500	2,000	15,000	5,000

Additional Information: (Rs.inlakh)

– Unallocated revenue net of expenses is Rs.1,500.

– Interest and bank charges is Rs.1,000

– Income-tax expense is Rs.1,000 (current tax Rs.975 and deferred tax Rs.25)

– Investments Rs.5,000 and unallocated assets Rs.5,000

– Unallocated liabilities, Reserves &Surplus and Share capital are Rs.10,000; Rs. 15,000 and Rs. 5,000 respectively.

– Depreciation amounts for crushing and refining are Rs.500 and Rs.150 respectively.

– Capital expenditure for crushing and refining are Rs.2,500 and Rs.1,000respectively.

- Revenue from outside India is Rs.15,000 and segment assets outside India Rs.5,000.

Based on the above information, how Seeds Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 2017-18?

(10 marks)

(C)

An entity enters into 1,000 contracts with customers. Each contract includes the sale of one product for Rs. 50 (1,000 total products × Rs. 50 = Rs. 50,000 total consideration). Cash is received when control of a product transfers. The entity's customary business practice is to allow a customer to return any unused product within 30 days and receive a full refund. The entity's cost of each product is Rs. 30.

Since the contract allows a customer to return the products, the consideration received from the customer is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value. Using the expected value method, the entity estimates that 970 products will not be returned.

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Determine the amount of revenue, refund liability and the asset to be recognised by the entity for the said contracts.

(5 marks)

Question 6:

(A)

A Ltd. intends to open a new retail store in a new location in the next few weeks. It has spent a substantial sum on a series of television advertisements to promote this new store. It has paid for advertisements costing Rs.8,00,000 before 31stMarch, 2018. Rs.7,00,000of this sum relates to advertisements shown before 31stMarch, 2018 and Rs.1,00,000 to advertisements shown in April, 2018. Since 31stMarch, 2018, A Ltd. has paid for further advertisements costing Rs.4,00,000. The accountant charged all these costs as expenses in the year to 31 March 2018. However, CFO of A Ltd. does not want to charge Rs.12,00,000 against 2017-2018 profits. He believes that these costs can be carried forward as intangibleassets because the company's market research indicates that this new store is likely to be highlysuccessful.

Examine and justify the treatment of these costs of Rs.12,00,000 in the financial statements for the year ended 31stMarch, 2018 as per IndAS. **(4 marks)**

(B)

U Ltd. is a large conglomerate with a number of subsidiaries. It is preparing consolidated financial statements as on 31st March 2018 as per the notified IndAS. The financial statements are due to be authorised for issue on 15th May 2018. It is seeking your assistance for some transactions that have taken place in some of its subsidiaries during theyear.

G Ltd. is a wholly owned subsidiary of U Ltd. engaged in managementconsultancy services. On 31stJanuary 2018, the board of directors of U Ltd. decided to discontinue the business of G Ltd. from 30thApril 2018. They made a public announcement of their decision on 15thFebruary 2018.

G Ltd. does not have many assets or liabilities and it is estimated that the outstandingtrade receivables and payables would be settled by 31st May 2018. U Ltd. would collectany amounts still owed by G Ltd's customers after 31st May 2018. They have offered theemployeesofGLtd.terminationpaymentsoralternativeemploymentopportunities.

Following are some of the details relating to G Ltd.:

On the date of public announcement, it is estimated by G Ltd. that it would have to pay540lakhs as termination payments to employees and the costs for relocation of employees who would remain with the Group would be Rs. 60 lakhs. The actual termination payments totalling to Rs.520 lakhs were made in full on 15th May 2018. As per latest estimates made on 15th May 2018, the total relocation cost is Rs. 63lakhs.

G Ltd. had taken a property on operating lease, whichwas expiring on 31st March2022. The present value of the future lease rentals (using an appropriate discount rate)is Rs.430 lakhs. On 15th May 2018, G Ltd. made a payment to the lessor of Rs.410 lakhsin return for early termination of thelease.

The loss after tax of G Ltd. for the year ended 31st March 2018 was Rs. 400 lakhs. G Ltd.made further operating losses totallingRs. 60 lakhs till 30th April 2018.

How should U Ltd. present the decision to discontinue the business of G Ltd. in itsconsolidated statement of comprehensive income as per Ind AS?

WhataretheprovisionsthattheCompanyisrequiredtomakeasperIndAS37?

(8 marks)

(C)

Company A acquires 70% of the equity stake in Company B on July 20, 20 X1. The consideration paid for this transaction is asbelow:

(a) Cash consideration of Rs.15,00,000

(b) 200,000 equity shares having face of Rs. 10 and fair value of Rs. 15 pershare.

On the date of acquisition, Company B has cash and cash equivalent balance of Rs. 2,50,000 in its books of account.

On October 10, 20X2, Company A further acquires 10% stake in Company B for cash consideration of Rs.8,00,000.

Advise how the above transactions will be disclosed/presented in the statement of cash flows as per IndAS7. **(8 marks)**