CA FINAL – Nov'19

SUBJECT- FR

Test Code – FNJ 7097

(Date :)

(Marks -100)

Question 1 is compulsory and attempt any 4 questions out of remaining 5 questions

Question 1:

(A) NDA Ltd. is **developing a new distribution system** of its material, following are the costs incurred at different stages on research and development of the system

Year	Phase/ Expenses	Amt. (Rs. In crores)
2011	Research	8
2012	Research	10
2013	Development	30
2014	Development	36
2015	Development	40

On 31.12.2015, NDA Ltd identified the level of cost savings at Rs. 16 crores p.a. expected to be achieved by the new system over a period of 5 years, in addition this system developed can be marketed by way of consultancy which will earn cash flow of 10 crores p.a. NDA Ltd. demonstrated that new system meet the criteria of asset recognition on 01.01.2013.

Determine the amount/cost which will be expensed and to be capitalized as intangible assets, presuming that no active market exist to determine the selling price of product i.e. system developed. System shall be available for use from 2016, for testing for impairment 10% discount factor can be taken. Answer your question with reference to relevant Ind AS.

(10 Marks)

(B)

How should contingent consideration payable in relation to a **business combination** be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:

i) On 1 April 2016, A Ltd. acquires 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:

- an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;
- a further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.
- The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is Rs. 25 lakhs.
- During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded Rs. 1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is Rs. 25 per share.

ii) Continuing with the fact pattern in (a) above except for:

- The number of shares to be issued after one year is not fixed.

- ❖ Rather, A Ltd. agreed to issue variable number of shares having a fair value equal to Rs. 40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds Rs. 1 crore. A Ltd. issued shares with Rs. 40 lakhs after an year.

(10 marks)

Question 2:

(A)

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 Ind AS. 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 the year.

G Ltd. is a wholly owned subsidiary of U Ltd. engaged in management consultancy services. On 31st January 2018, the board of directors of U Ltd. decided to discontinue the business of G Ltd. from 30th April 2018. They made a public announcement of their decision on 15th February 2018.

G Ltd. does not have many assets or liabilities and it is estimated that the outstanding trade receivables and payables would be settled by 31st May 2018. U Ltd. would collect any amounts still owed by G Ltd's customers after 31st May 2018. They have offered the employees of G Ltd. termination payments or alternative employment opportunities.

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 pay 540 lakhs 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. 63 lakhs.

- G Ltd. had taken a property on operating lease, which was expiring on 31st March 2022. 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 lakhs in return for early termination of the lease.

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

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

What are the provisions that the Company is required to make as per **Ind AS 37**?

(10 marks)

(B)

On 1st January 2017, Expo Limited agreed to purchase USD ($) 40,000 from E&I Bank in future on 31st December 2017 for a rate equal to Rs. 65 per USD. Expo Limited did not pay any amount upon entering into the contract. Expo Limited is a listed company in India and prepares its financial statements on a quarterly basis.

Using the definition of derivative included in Ind AS 109 and following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchases of USD.

For the purpose of accounting, use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March, 2017	Rs. (50,000)
As at 30th June, 2017	Rs. (30,000)
As at 30th September, 2017	Rs. 24,000
Spot rate of USD on 31st December, 2017	Rs. 62 per USD

(10 marks)

Question 3:

(A)

QA Ltd. had on 1st April, 20X1 granted 1,000 share options each to 2,000 employees. The options are due to vest on 31st March, 20X4 provided the employee remains in employment till 31st March, 20X4.

On 1st April, 20X1, the Directors of Company estimated that 1,800 employees would qualify for the option on 31st March, 20X4. This estimate was amended to 1,850 employees on 31st March,20X2 and further amended to 1,840 employees on 31st March, 20X3.

On 1st April, 20X1, the fair value of an option was Rs. 1.20. The fair value increased toRs. 1.30 as on 31st March, 20X2 but due to challenging business conditions, the fair value declined thereafter. In September, 20X2, when the fair value of an option was Rs. 0.90, the Directors repriced the option and this caused the fair value to increase to Rs. 1.05. Trading conditions improved in the second half of the year and by 31st March, 20X3 the fair value of an option was Rs.1.25. QA Ltd. decided that additional cost incurred due to repricing of the options on 30th September, 20X2 should be spread over the remaining vesting period from 30th September, 20X2 to 31st March, 20X4.

The Company has requested you to suggest the suitable accounting treatment for these transaction as on 31st March, 20X3.

(6 marks)

(B)

- Entity S enters into a Rs. 100 crores notional amount five-year pay-variable, receive-fixed interest rate swap with Counterparty C.
- The variable leg of the swap is reset on a quarterly basis to three-month MIBOR.
- The fixed interest payments under the swap are calculated as 10% of the swap's notional amount, i.e. Rs. 10 crores p.a.
- Entity S prepays its obligation under the variable leg of the swap at inception at current market rates. Say, that amount is Rs. 36 crores.
- It retains the right to receive fixed interest payments of 10% on Rs. 100 crores every year.

Analyse. **(5 marks)**

(C)

How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20?

(i) A Ltd. received one acre of land to setup a plant in backward area (fair value of land Rs. 12 lakh and acquired value by Government is Rs. 8 lakhs).

(ii) B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

(iii) D Ltd. received an amount of Rs. 25 lakh for immediate start-up of a business without any condition.

(iv) S Ltd. received Rs. 10 lakh for purchase of machinery costing Rs. 80 lakh. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

(v) Government gives a grant of Rs. 25 lakh to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

(5 marks)

(D)

In the year 20X1, XYZ Ltd. falls within the purview of CSR provisions as per the Companies Act, 2013 since its net profit for the financial year exceeded Rs.5 crore. The company discharged CSR obligations in the year 20X2. However, the net profit of the year 20X2 was less than Rs. 5 crores. Also, it was also not satisfying the other two criteria of the section 135 for CSR compliance. Therefore, the company stopped performing CSR activities from the year 20X3 onwards. Comment on the company's accountability for **CSR.** **(4 marks)**

Question 4:

The 31st December, 2016 balance sheets of A Ltd. and its subsidiaries, B Ltd. and C Ltd., were as follows:

(Rs. in '000)

	A Ltd.	**B Ltd.**	**C Ltd.**
Investment, at cost			
1,00,000 Shares in B Ltd.	100	—	—
1,00,000 Shares in C Ltd.	300	—	—
Land	—	—	100
Other assets	600	600	400
	1,000	**600**	**500**
Share capital, @ Re.1 per share	400	100	100
Retained profit	400	300	200
Liabilities	200	200	200
	1,000	**600**	**500**

A Ltd. acquired its investment in B Ltd. in January 2014 when B Ltd. was formed with a share capital of Rs. 1,00,000.

A Ltd.'s acquired its investment in C Ltd. in February 2014 when C Ltd.'s net assets were represented by share capital of Rs. 1,00,000 and retained profits of Rs. 1,00,000. On this date, C Ltd.'s land, which was purchased in 2010, was revalued at Rs. 2,00,000.

On 30th September, 2017, A Ltd. sold 70,000 of C Ltd.'s shares for cash consideration of Rs.2,60,000.

The final accounts of the companies for the year 2017 were as follows :

(1) Balance Sheet as at 31-12-2017

(Rs. in '000)

	A Ltd.	B Ltd.	C Ltd.
Investment, at cost			
1,00,000 Share in B Ltd.	100	—	—
30,000 Share in C Ltd.	90	—	—
Land	—	—	100
Other assets	970	800	600
	1,160	**800**	**700**
Share capital @ Re. 1 per share	400	100	100
Retained profit	550	420	280
Liabilities	210	280	320
	1,160	**800**	**700**

(2) Profit and Loss A/c for the year ended 31-12-2017 **(Rs. in '000)**

	A Ltd.	B Ltd.	C Ltd.
Profit before tax	150	180	120
Taxation	50	60	40
Profit after tax	100	120	80
Extraordinary items*	50	—	—
Profit after tax and EI	150	120	80
End retained profit	550	420	280

*Profit on disposal of shares in C Ltd.

Required: Prepare for A Ltd. group the 2016 consolidated balance sheet and the 2017 consolidated balance sheet and consolidated profit and loss account. **(20 Marks)**

Question 5:

(A) The following facts are given for the Sky Ltd:

- A Lease which is non-cancellable was initiated on 1st April 2014 for equipment with an expected useful life of five years.
- Three payments are due to the 'Lessor' of an amount of Rs. 1,02,000 per year beginning 31st March 2015. Included in the lease payments is a sum of Rs. 2,000 to be paid annually by the 'Lessee' for insurance.
- The 'Lessee' guarantees Rs. 20,000 residual value on 31st March 2017 to the Lessor
- Irrespective of the Rs. 20,000 residual value guarantee, the leased asset is expected to have only Rs. 2,000 residual value to the lessee at the end of the lease term.
- The Lessee company depreciates similar equipment that it owns on a straight line basis.
- The fair value of the equipment at 1st April 2014 is Rs. 2,64,000.
- The Lessor's implicit rate is 10%. This fact is known to the Lessee company.

As per the provisions of Ind AS 17 'Leases' -

(i) How should Lessee Company classify and record the lease transaction at its inception on 1st April 2014? Indicate journal entry also.

(ii) What are the journal entries the Lessee is required to make to record the lease payment and the interest,insurance and depreciation expenses on 31st March 2015 through 31st March 2017?

(iii) What entry should the Lessee make on 31st March 2017 to record the guaranteed residual value payment (assuming estimated residual value of Rs. 2,000) and to clear the lease related accounts from the lessee's books?

(iv) What would be the Current and Non-current classification in the books of Lessee in the first year?

(Discount factor: 2015: 0.909; 2016: 0.826; 2017: 0.751)

(12 Marks)

(B)

X Ltd. prepares consolidated financial statements to 31st March each year. During the year ended 31st March 2018, the following events affected the **tax position** of the group:

(i) Y Ltd., a wholly owned subsidiary of X Ltd., made a loss adjusted for tax purposes of Rs. 30,00,000. Y Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow Y Ltd. to transfer the tax loss to other group companies. However, it allows Y Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of X Ltd. do not consider that Y Ltd. will make taxable profits in the foreseeable future.

(ii) Just before 31st March, 2018, X Ltd. committed itself to closing a division after the year end, making a number of employees redundant. Therefore X Ltd. recognised a provision for closure costs of Rs. 20,00,000 in its statement of financial position as at 31st March, 2018. Income-tax Act allows tax deductions for closure costs only when the closure actually takes place. In the year ended 31 March 2019, X Ltd. expects to make taxable profits which are well in excess of Rs. 20,00,000. On 31st March, 2018, X Ltd. had taxable temporary differences from other sources which were greater than Rs. 20,00,000.

(iii) During the year ended 31 March 2017, X Ltd. capitalised development costs which satisfied the criteria in paragraph 57 of Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs. 16,00,000. The development project began to generate economic benefits for X Ltd. from 1st January 2018. The directors of X Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31 March 2018.

(iv) On 1 April 2017, X Ltd. borrowed Rs. 1,00,00,000. The cost to X Ltd. of arranging the borrowing was Rs. 2,00,000 and this cost qualified for a tax deduction on 1 April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31 March 2020 will be Rs. 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs. 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of X Ltd. group at 31 March, 2018 as per Ind AS. Assume the rate of corporate income tax is 20%. **(8 marks)**

Question 6:

(A)

ABC Ltd. received a demand notice on 15th June, 2017 for an additional amount of Rs. 28,00,000 from the Excise Department on account of higher excise duty levied by the Excise Department compared to the rate at which the company was creating provision and depositing the same. The financial statements for the year 2016-17 are approved on 10th August, 2017. In July, 2017, the company has appealed against the demand ofRs. 28,00,000 and the company has expected that the demand would be settled at Rs. 15,00,000 only. Show how the above event will have a bearing on the financial statements for the year 2016-17. Whether these events are adjusting or non-adjusting events and explain the treatment accordingly. **(5 marks)**

(B)

Marine Transport Limited ordered 3 ships for its fleet on April 1, 20X0. It pays a down payment of 25% of the contract value of each of the ship out of long term borrowings from a scheduled bank. The delivery has to commence from the financial year 20X7. On March 1, 20X2, the ship builder informs that it has commenced production of one ship. There is no progress on other 2 ships. Marine Transport Limited prepares its financial statements on financial year basis.

Is it permissible for Marine Transport Limited to capitalise any **borrowing costs** for the financial year ended March 31, 20X1 or March 31, 20X2. **(5 marks)**

(C)

Stars Ltd. is a multinational entity that owns three properties. All the three properties were purchased on 1st April 2016. The details of purchase price and the market values of the properties are given as follows:

Particulars	**Property 1**	**Property 2**	**Property 3**
	Factory	**Factory**	**Let-out Building**
Purchase Price	30,000	20,000	24,000
Market Value (31-03-2017)	32,000	22,000	27,000
Life	10 years	10 years	10 years
Subsequent Measurement	Cost Model	Revaluation Model	Revaluation Model

Property 1 and 2 are occupied by Stars Ltd, whilst property 3 is let out to a non-related party at a market rent. The management presents all three properties in balance sheet as' 'Property, plant and equipment'.

The company does not depreciate any of the properties on the basis that the fair values are exceeding their carrying amount and recognise the difference between purchase price and fair value in Statement of Profit and Loss.

Evaluate whether the accounting policies adopted by the Stars Ltd. in relation to these properties is in accordance of relevant Indian Accounting Standards (Ind AS). If not, advise the correct treatment along with workings.

(10 marks)