CA FINAL N' 2019

F.R.

Test Code – FNJ 7275

(100 Marks)

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

QUESTION 1 **(20 MARKS)**

The balance sheet of P Ltd. and D Ltd. as of 31st March, 20X2 is given below:

Assets	**P Ltd.**	**D Ltd.**
Non-Current Assets:		
Property, plant and equipment	300	500
Investment	400	100
Current assets:		
Inventories	250	150
Financial assets		
Trade receivables	450	300
Cash and cash equivalents	200	100
Others	400	230
Total	**2,000**	**1,380**
Equity and Liabilities		
Equity		
Share capital- Equity shares of Rs. 100 each	500	400
Other Equity	810	225
Non-Current liabilities:		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Short term borrowings	100	150
Trade payables	250	300
Total	**2,000**	**1,380**

Other information

(a) P Ltd. acquired 70% shares of D Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of P Ltd. for every 2 shares of D Ltd. The fair value of the shares of P Ltd. was Rs. 40 per share. Shares Issued are at face value of Rs. 10.

(b) The fair value exercise resulted in the following: (all nos in Lakh)

a. Fair value of PPE on 1st April, 20X2 was Rs. 350 lakhs.

b. P Ltd. also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by D Ltd. This additional amount will be due after 2 years. D Ltd. has earned Rs. 10 lakh profit in the preceding year and expects to earn another Rs. 20 Lakh.

c. In addition to above, P Ltd. also had agreed to pay one of the founder shareholder a payment of Rs. 20 lakh provided he stays with the Company for two year after the acquisition.

d. D Ltd. had certain equity settled share based payment award (original award) which got replaced by the new awards issued by P Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of D Ltd. have already served 2 years of service. As per the replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

i. Original award- Rs. 5 lakh

ii. Replacement award- Rs. 8 lakh.

e. D Ltd had a lawsuit pending with a customer who had made a claim of Rs. 50 lakh. Management reliably estimated the fair value of the liability to be Rs. 5 lakh.

f. The applicable tax rate for both entities is 30%.

You are required to **prepare opening consolidated balance sheet** of P Ltd. as on 1st April, 20X2. Assume 10% discount rate.

QUESTION 2(A) (12 MARKS)

On 1st April, 2017, J Ltd. began to lease a property on a 20-year lease. J Ltd. paid a lease premium of Rs. 30,00,000 on 1st April, 2017. The terms of the lease required J Ltd. to make annual payments of Rs. 500,000 in arrears, the first of which was made on 31st March, 2018. On 1st April, 2017 the fair values of the leasehold interests in the leased property were as follows:

– Land	Rs. 30,00,000.
– Buildings	Rs. 45,00,000.

There is no opportunity to extend the lease term beyond 31st March, 2037. On 1st April, 2017, the estimated useful economic life of the buildings was 20 years.

The annual rate of interest implicit in finance leases can be taken to be 9.2%. The present value of 20 payments of Re. 1 in arrears at a discount rate of 9.2% is Rs. 9.

Required:

Explain the accounting treatment for the above property lease and produce appropriate extracts from the financial statements of J Ltd. for the year ended 31st March, 2018.

QUESTION 2(B) (8 MARKS)

On 5th April, 20X2, fire damaged a consignment of inventory at one of the Jupiter's Ltd.'s warehouse. This inventory had been manufactured prior to 31st March 20X2 costing Rs. 8 lakhs. The net realisable value of the inventory prior to the damage was estimated at Rs. 9.60 lakhs. Because of the damage caused to the consignment of inventory, the company was required to spend an additional amount of Rs. 2 lakhs on repairing and repackaging of the inventory. The inventory was sold on 15th May, 20X2 for proceeds of Rs. 9 lakhs.

The accountant of Jupiter Ltd. treats this event as an adjusting event and adjusted this event of causing the damage to the inventory in its financial statement and accordingly re-measures the inventories as follows: **Rs. lakhs**

Cost	8.00
Net realisable value (9.6 -2)	7.60
Inventories (lower of cost and net realisable value)	7.60

Analyse whether the above accounting treatment made by the accountant in regard to financial year ending on 31.0.20X2 is in compliance of the Ind AS. If not, advise the correct treatment along with working for the same.

QUESTION 3(A) (6 MARKS)

A parent purchased an 80% interest in a subsidiary for Rs. 1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was Rs. 1,75,000. Goodwill of Rs. 20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of Rs. 8,000 was charged in the consolidated financial statements to 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for Rs. 2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was Rs. 2,25,000 (not including goodwill of Rs. 12,000). When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write down was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value.

The parent carried the investment in the subsidiary at cost, as permitted by Ind AS 27.

Calculate gain or loss on disposal of subsidiary in parent's separate and consolidated financial statements as on 31st March 20X4.

Or

QUESTION 3(A) **(6 MARKS)**

Supplier, A Ltd., enters into a contract with a customer, B Ltd., on 1st January, 2018 to deliver goods in exchange for total consideration of USD 50 million and receives an upfront payment of USD 20 million on this date. The functional currency of the supplier is INR. The goods are delivered and revenue is recognised on 31st March, 2018. USD 30 million is received on 1st April, 2018 in full and final settlement of the purchase consideration.

State the date of transaction for advance consideration and recognition of revenue**.** **Also state** the amount of revenue in INR to be recognized on the date of recognition of revenue. The exchange rates on 1st January, 2018 and 31st March, 2018 are Rs. 72 per USD and Rs. 75 per USD respectively.

QUESTION 3(B) **(8 MARKS)**

Company X performed a revaluation of all of its plant and machinery at the beginning of 2018-2019. The following information relates to one of the machinery:

	Amount ('000)
Gross carrying amount	Rs. 200
Accumulated depreciation (straight-line method)	Rs. 80
Net carrying amount	Rs. 120
Fair value	Rs. 150

The useful life of the machinery is 10 years and the company uses Straight line method of depreciation. The revaluation was performed at the end of the 4th year.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation?

QUESTION 3(C) **(6 MARKS)**

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.

The entity applies the requirements in Ind AS 115 to the portfolio of 1,000 contracts because it reasonably expects that, in accordance with paragraph 4, the effects on the financial statements from applying these requirements to the portfolio would not differ materially from applying the requirements to the individual contracts within the portfolio. 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 method (see paragraph 53(a) of Ind AS 115) because it is the method that the entity expects to better predict the amount of consideration to which it will be entitled. 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.

QUESTION 4(A) (5 MARKS)

During the year, QA Ltd. delivered manufactured products to customer K. The products were faulty and on 1st October, 2016 customer K commenced legal action against the Company claiming damages in respect of losses due to the supply of faulty product. Upon investigating the matter, QA Ltd. discovered that the products were faulty due to defective raw material procured from supplier F. Therefore, on 1st December, 2016, the Company commenced legal action against F claiming damages in respect of the supply of defec tive raw materials.

QA Ltd. has estimated that it's probability of success of both legal actions, the action of K against QA Ltd. and action of QA Ltd. against F, is very high.

On 1st October, 2016, QA Ltd. has estimated that the damages it would have to pay K would be Rs. 5 crores. This estimate was revised to Rs. 5.2 crores as on 31st March, 2017 and Rs. 5.25 crores as at 15th May, 2017. This case was eventually settled on 1st June, 2017, when the Company paid damages of Rs. 5.3 crores to K.

On 1st December, 2016, QA Ltd. had estimated that it would receive damages of Rs. 3.5 crores from F. This estimate was revised to Rs. 3.6 crores as at 31st March, 2017 and Rs. 3.7 crores as on 15th May, 2017. This case was eventually settled on 1st June, 2017 when F paid Rs. 3.75 crores to QA Ltd. QA Ltd. had, in its financial statements for the year ended 31 st March, 2017, provided Rs. 3.6 crores as the financial statements were approved by the Board of Directors on 26th April, 2017.

(i) Whether the Company is required to make provision for the claim from customer K as per applicable Ind AS? If yes, please give the rationale for the same.

(ii) If the answer to (a) above is yes, what is the entry to be passed in the books of account as on 31st March, 2017? Give brief reasoning for your choice.

(A)	Statement of Profit and Loss A/c Dr.	Rs. 5.2 crores	Rs. 5.2 crores
	To Current Liability A/c		Rs. 5.2 crores
(B)	Statement of Profit and Loss A/c Dr.	Rs. 5.3 crores	
	To Non-Current Liability A/c		Rs. 5.3 crores
(C)	Statement of Profit and Loss A/c Dr.	Rs. 5.25 crores	
	To Current Liability A/c		Rs. 5.25 crores

What will the accounting treatment of the action of QA Ltd. against supplier F as per applicable Ind AS?

QUESTION 4(B) **(5 MARKS)**

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is Rs. 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

QUESTION 4(C) **(10 MARKS)**

QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS and wants guidance on the tax treatment for the following:

(i) QA Ltd. does not have taxable income as per the applicable tax laws, but pays 'Minimum Alternate Tax' (MAT) based on its books profits. The tax paid under MAT can be carried forward for the next 10 years and as per the Company's projections submitted to its bankers, it is in a position to get credit for the same by the end of eighth year. The Company is recognising the MAT credit as a current asset under IGAAP. The amount of MAT credit as on 31st March, 2016 is Rs. 8.5 crores and as on 31st March, 2017 is Rs. 9.75 crores;

(ii) The Company measures its head office property using the revaluation model. The property is revalued every year as on 31^{st} March. On 31^{st} March, 2016, the carrying value of the property (after revaluation) was Rs. 40 crores whereas its tax base was Rs. 22 crores. During the year ended 31^{st} March, 2017, the Company charged depreciation in its Statement of Profit and Loss of Rs. 2 crores and claimed a tax deduction for tax depreciation of Rs. 1.25 crores. On 31^{st} March, 2017, the property was revalued to Rs.45 crores. As per the tax laws, the revaluation of Property, Plant & Equipment does not affect taxable income at the time of revaluation.

The Company has no other temporary differences other than those indicated above. The Company wants you to **<u>compute the deferred tax liability</u>** as on 31^{st} March, 2017 and the charge/credit to the Statement of Profit and Loss and/or Other Comprehensive Income for the same. Consider the tax rate at 20%.

QUESTION 5(A) **(12 MARKS)**

On 1^{st} April, 2014, Shelter Ltd. issued 5,000, 8% convertible debentures with a face value of Rs. 100 each maturing on 31st March, 2019. The debentures are convertible into equity shares of Shelter Ltd. at a conversion price of Rs. 105 per share. Interest is payable annually in cash. At the date of issue, Shelter Ltd. could have issued non-convertible debt with a 5 year term bearing a coupon interest rate of 12%. On 1^{st} April, 2017, the convertible debentures have a fair value of Rs. 5,25,000. Shelter Ltd. makes a tender offer to debenture holders to repurchase the debentures for Rs.

5,25,000, which the holders accepted. At the date of repurchase, Shelter Ltd. could have issued nonconvertible debt with a 2 year term bearing a coupon interest rate of 9%.

Show accounting entries in the books of Shelter Ltd. for recording of equity and liability component:

(i) At the time of initial recognition and

(ii) At the time of repurchase of the convertible debentures.

The following present values of Rs. 1 at 8%, 9% & 12% are supplied to you:

Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5
8%	0.926	0.857	0.794	0.735	0.681
9%	0.917	0.842	0.772	0.708	0.650
12%	0.893	0.797	0.712	0.636	0.567

QUESTION 5(B) (8 MARKS)

An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are Rs. 1,600,000 and Rs. 2,000,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later.

Case A—Variable consideration allocated entirely to one performance obligation

The price stated in the contract for Licence A is a fixed amount of Rs. 1,600,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be Rs. 2,000,000. Allocate the transaction price.

Case B—Variable consideration allocated on the basis of stand-alone selling prices

The price stated in the contract for Licence A is a fixed amount of Rs. 600,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (ie the variable consideration) is Rs. 3,000,000. **Allocate the transaction price and determine the revenue to be recognised for each licence and the contract liability,** if any.

QUESTION 6(A) (8 MARKS)

(i) When an entity is required to form a CSR committee?

(ii) ABC Ltd. is a company which has a net worth of INR 200 crores, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

The previous year's financials state: **(INR in Crores)**

	March 31, 20X4 (Current year)	March 31, 20X3	March 31, 20X2	March 31, 20X1
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

Does the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

QUESTION 6(B) **(8 MARKS)**

Calculate Subsidiary's and Group's Basic EPS and Diluted EPS, when

Parent:	
Profit attributable to ordinary equity holders of the parent entity	Rs. 12,000 (excluding any earnings of, or dividends paid by, the subsidiary)
Ordinary shares outstanding	10,000
Instruments of subsidiary owned by the parent	800 ordinary shares
	30 warrants exercisable to purchase ordinary shares of subsidiary
	300 convertible preference shares
Subsidiary:	
Profit	Rs. 5,400
Ordinary shares outstanding	1,000
Warrants	150, exercisable to purchase ordinary shares of the subsidiary
Exercise price	Rs. 10
Average market price of one ordinary share	Rs. 20
Convertible preference shares	400, each convertible into one ordinary share
Dividends on preference shares	Re 1 per share
No inter-company eliminations or adjustments were necessary except for dividends.	
Ignore income taxes. Also, ignore classification of the components of convertible financial instruments as liabilities and equity or the classification of related interest and dividends as expenses and equity as required by Ind AS 32.	

QUESTION 6(C) **(4 MARKS)**

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. Which cost formula should be used for Ind AS 108 disclosure purposes?