CA FINAL NOV'19

SUBJECT- FINANCIAL REPORTING

Test Code – FNJ 7317

(Date :)

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TOPIC: FULL FINANCIAL REPORTING

QUESTION 1(A) **(15 MARKS)**

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below:

Amounts Rs. in lakh

	Usha Ltd.	Nisha Ltd.	Sandhya Ltd.
Equity and Liabilities			
Shareholder's Equity			
Share capital (Rs. 10 per share)	300	200	160
Reserves	90	50	40
Retained earnings	80	25	30
Current Liabilities			
Trade Payables	235	115	90
Bills Payable			
Usha Ltd.	-	35	-
Sandhya Ltd.	15	-	-
	720	425	320
Assets			
Non-Current Assets			
Tangible assets	160	180	150
Investment:			
16 lakh shares in Nisha Ltd.	170	-	-
12 lakh shares in Sandhya Ltd.	-	140	-
Current Assets			
Cash in hand and at Bank	114	20	20
Bills Receivable	36	-	15
Trade Receivables	130	50	110
Inventories	110	35	25
	720	425	320

The following additional information is available:

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

Rs. in lakh

	Nisha Limited	Sandhya Limited
Reserves	40	30
Retained earnings	10	15

(iv) Rs. 5 Lakh included in the inventory figure of Nisha Limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.

(v) The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

(vi) The capital profit preferably is to be adjusted against cost of control.

Note: Analysis of profits and notes to accounts must be a part of your answer.

QUESTION 1(B) (5 MARKS)

In 2017-18, Diana Ltd. has around 3,000 employees in the company. As per the company policy, the employees are given 30 days of Privilege Leave (PL), 12 days of Sick Leave (SL) and 12 days of Casual Leave. Out of the total PL and SL, 10 PL and 5 SL can be carried forward to next year. On the basis of past trends, it has been noted that 1,000 employees will take 5 days of PL and 2 days of SL and 2,000 employees will avail 10 as PL and 5 as SL. Also the company has been incurring profits since incorporation. It has been decided in 2017-18 to distribute profits to its employees @ 8% during the year. However, due to the employee turnover in the organisation, the expected pay-out of the Diana Ltd. is to be around 7%. The profits earned during 2017-18 is Rs. 12,000 lakh.

Diana Ltd. also has a post-employment benefit plan available which is in the nature of defined contribution plan where contribution to this fund amounts to Rs. 500 lakh which will fall due within 12 months from the end of accounting period. The company has paid Rs. 120 lakh to its employees in 2017-18.

What is the treatment for the short-term compensating absences, profit-sharing plan and the defined contribution plan by Diana Ltd. as per the provisions of relevant Ind AS?

QUESTION 2(A) (7 MARKS)

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 to Rs. 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.

QUESTION 2(B) (6 MARKS)

A Ltd. purchased some Property, Plant and Equipment on 1st April, 20X1, and estimated their useful lives for the purpose of financial statements prepared on the basis of Ind AS: Following were the original cost, and useful life of the various components of property, plant, and equipment assessed on 1st April, 20X1:

Property, Plant and Equipment	Original Cost	Estimated useful life
Buildings	Rs. 15,000,000	15 years
Plant and machinery	Rs. 10,000,000	10 years
Furniture and fixtures	Rs. 3,500,000	7 years

A Ltd. uses the straight-line method of depreciation. On 1st April, 20X4, the entity reviewed the following useful lives of the property, plant, and equipment through an external valuation expert:

Buildings	10 years
Plant and machinery	7 years
Furniture and fixtures	5 years

There were no salvage values for the three components of the property, plant, and equipment either initially or at the time the useful lives were revised.

Compute the impact of revaluation of useful life on the Statement of Profit and Loss for the year ending 31st March, 20X4.

QUESTION 2(C) (7 MARKS)

(a) A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to remedy, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. As this is the first year that the warranty has been available, there is no data from the firm to indicate whether there will be claim under the warranties. However, industry research suggests that it is likely that such claims will be forthcoming. **Should the manufacturer recognize a provision in accordance with the requirements of Ind AS 37. Why or why not?**

(b) Assume that the firm has not been operating its warranty for five years, and reliable data exists to suggest the following:

- If minor defects occur in all products sold, repair costs of Rs. 20,00,000 would result.
- If major defects are detected in all products, costs of Rs. 50,00,000 would result.
- The manufacturer's past experience and future expectations indicate that each year 80% of the goods sold will have no defects. 15% of the goods sold will have minor defects, and 5% of the goods sold will have major defects.

Calculate the expected value of the cost of repairs in accordance with the requirements of Ind AS 37, if any. Ignore both income tax and the effect of discounting.

QUESTION 3(A) (8 MARKS)

Deepak Ltd., an automobile group acquires 25% of the voting ordinary shares of Shaun Ltd., another automobile business, by paying, Rs. 4,320 crore on 01.04.2017. Deepak Ltd. accounts its investment in Shaun Ltd. using equity method as prescribed under Ind AS 28. At 31.03.2018, Deepak Ltd. recognised its share of the net asset changes of Shaun Ltd. using equity accounting as follows:

	(Rs. in crore)
Share of Profit or Loss	378
Share of Exchange difference in OCI	54
Share of Revaluation Reserve of PPE in OCI	27

The carrying amount of the investment in the associate on 31.03.2018 was therefore Rs. 4,779 crore (4,320 + 378 + 54 + 27).

On 01.04.2018, Deepak Ltd. acquired remaining 75% of Shaun Ltd. for cash Rs. 13,500 crore. Fair value of the 25% interest already owned was Rs. 4,860 crore and fair value of Shaun Ltd.' s identifiable net assets was Rs. 16,200 crore as on 01.04.2018.

How should such business combination be accounted for in accordance with the applicable Ind AS?

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

What are the provisions of section 135 of the Companies Act, 2013 regarding constitution of a Corporate Social Responsibility (CSR) Committee. Also explain the role of Corporate Social Responsibility (CSR) Committee and Board.

XYZ Limited is a company which has net worth of Rs. 250 crore. It manufactures parts for automobiles. The sales of the company are affected due to low demand of the products.

The previous year's financial state of company are as below: **(Rs. in crore)**

	31st March 2018 (Current Year)	**31st March 2017**	**31st March 2016**	**31st March 2015**
Net Profit	4.25	8.00	3.50	3.25
Turnover	500.00	900.00	400.00	350.00

Examine, **whether the company has an obligation to form a CSR committee** since the applicability criteria is not satisfied in the current financial year.

QUESTION 3(C) **(4 MARKS)**

Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018: (Rs.)

(a)	Re-measurement of defined benefit plans	1,54,200
(b)	Current service cost	1,05,000
(c)	Changes in revaluation surplus	75,000
(d)	Gains and losses arising from translating the monetary assets in foreign currency	45,000
(e)	Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f)	Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g)	Income tax expenses	21,000
(h)	Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1.

QUESTION 4(A) **(15 MARKS)**

An entity is finalising its financial statements for the year ended 31st March, 20X2. Before 31st March, 20X2, the government announced that the tax rate was to be amended from 40 per cent to 45 per cent of taxable profit from 30th June, 20X2.

The legislation to amend the tax rate has not yet been approved by the legislature. However, the government has a significant majority and it is usual, in the tax jurisdiction concerned, to regard an announcement of a change in the tax rate as having the substantive effect of actual enactment (i.e. it is substantively enacted).

After performing the income tax calculations at the rate of 40 per cent, the entity has the following deferred tax asset and deferred tax liability balances:

Deferred tax asset	Rs. 80,000
Deferred tax liability	Rs. 60,000

Of the deferred tax asset balance, Rs. 28,000 related to a temporary difference. This deferred tax asset had previously been recognized in OCI and accumulated in equity as a revaluation surplus.

The entity reviewed the carrying amount of the asset in accordance with para 56 of Ind AS 12 and determined that it was probable that sufficient taxable profit to allow utilization of the deferred tax asset would be available in the future.

Show the revised amount of Deferred tax asset & Deferred tax liability and **present the necessary journal entries.**

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

CARP Ltd. is engaged in developing computer software. The expenditures incurred by CARP Ltd. in pursuance of its development of software is given below:

(i) Paid Rs. 1,50,000 towards salaries of the program designers.
(ii) Incurred Rs. 3,00,00 0 towards other cost of completion of program design.
(iii) Incurred Rs. 80,000 towards cost of coding and establishing technical feasibility.
(iv) Paid Rs. 3,00,000 for other direct cost after establishment of technical feasibility.
(v) Incurred Rs. 90,000 towards other testing costs.
(vi) A focus group of other software develop ers was invited to a conference for the introduction of this new software. Cost of the conference aggregated to Rs. 60,000.
(vii) On March 15, 2018, the development phase was completed and a cash flow budget was prepared.

Net profit for the year 2017-18 was estimated to be equal Rs. 30,00,000.

How CARP Ltd. should account for the above mentioned cost as per relevant Ind AS?

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

Perfect Ltd. issued 50,000 Compulsory Cumulative Convertible Preference Shares (CCCPS) as on 1st April, 2017 @ Rs. 180 each. The rate of dividend is 10% payable at the end of every year. The preference shares are convertible into 12,500 equity shares (Face value Rs. 10 each) of the company at the end of 5th year from the date of allotment. When the CCCPS are issued, the prevailing market interest rate for similar debt without conversion option is 15% per annum.

Transaction cost on the date of issuance is 2% of the value of the proceeds. Effective Interest Rate is 15.86%. (Round off the figures to the nearest multiple of Rupee)

Discounting Factor @ 15%

Year	1	2	3	4	5
Discount Factor	0.8696	0.7561	0.6575	0.5718	0.4971

<u>You are required to compute Liability and Equity Component</u> and **<u>Pass Journal Entries</u>** for entire term of arrangement i.e. from the issue of Preference Shares till their conversion into Equity Shares. Keeping in view the provisions of relevant Ind AS.

QUESTION 5(B) (8 MARKS)

Jeevan India Limited is in the business of development of smart city. For development of smart city, Jeevan India Limited allots its land to customer on 99 years of lease. The customer is required to pay lease premium at the time of execution of lease deed and lease rent on annual basis over a period of 99 years.

The lease premium amount is the market value of land and lease rent is nominal amount say Rs. 1 per square metre per year. The lease premium is non-refundable. As per the lease terms, on completion of 99 years, the lease is renewable at mutual consent of lessor and lessee.

<u>How would income in respect of lease premium collected by Jeevan India Limited</u> (which is the market value of land and is not refundable) at the time of execution of lease deed be recognised as per Ind AS, if for subsequent years, only nominal lease rent is collected.

QUESTION 6(A) (5 MARKS)

Mediquick Ltd. has received the following grants from the Central Government for its newly started pharmaceutical business:

- Rs. 50 lakh received for immediate start-up of business without any condition.
- Rs. 70 lakh received for research and development of drugs required for the treatment of cardiovascular diseases with following conditions:
  - (i) That drugs should be available to the public at 20% cheaper from current market price and
  - (ii) The drugs should be in accordance with quality prescribed by the Govt. Drug Control department.
- Three acres of land (fair value: Rs. 20 lakh) received for set up of plant.
- Rs. 4 lakh received for purchase of machinery of Rs. 10 lakh. Useful life of machinery is 4 years.Depreciation on this machinery is to be charged on straight-line basis.

<u>How should Mediquick Ltd. recognize the government grants</u> in its books of accounts as per relevant Ind AS?

QUESTION 6(B) (5 MARKS)

Orange Ltd. contracts to renovate a five star hotel including the installation of new elevators on 01.10.2017. Orange Ltd. estimates the transaction price of Rs. 480 lakh. The expected cost of elevators is Rs. 144 lakh and expected other costs is Rs. 240 lakh. Orange Ltd. purchases elevators and they are delivered to the site six months before they will be installed. Orange Ltd. uses an input method based on cost to measure progress towards completion. The entity has incurred actual other costs of Rs. 48 lakh by 31.03.2018.

<u>How much revenue will be recognised as per relevant Ind AS 115</u> for the year ended 31st March, 2018, if performance obligation is met over a period of time?

QUESTION 6(C) **(5 MARKS)**

An entity reports quarterly, earns Rs. 1,50,000 pre-tax profit in the first quarter but expects to incur losses of Rs. 50,000 in each of the three remaining quarters. The entity operates in a jurisdiction in which its estimated average annual income tax rate is 30%.

The management believes that since the entity has zero income for the year, its income-tax expense for the year will be zero. **State whether the management's views are correct. If not, then calculate the tax expense for each quarter as well as for the year as per Ind AS 34.**

QUESTION 6(D) **(5 MARKS)**

XYZ Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of XYZ Info. (Euro).

The following is the statement of financial position of XYZ Global Ltd. prior to translation :

	USD	Euro
Property, plant and equipment	60,000	
Receivables	9,00,000	
Total assets	9,60,000	
Issued capital	40,000	25,000
Opening retained earnings	25,000	15,000
Profit for the year	22,000	
Accounts payable	8,15,000	
Accrued liabilities	58,000	
Total equity and liabilities	9,60,000	

Additional information:

Relevant exchange rates are:

Rate at the beginning of the year - Euro 1 = USD 1.25

Average rate for the year - Euro 1 = USD 1.20

Rate at the end of the year - Euro 1 = USD 1.15

You are required to :

(i) Translate the statement of financial position of XYZ Global Ltd. into Euro which is ready for consolidation by XYZ Info. (Share capital and opening retained earnings have been pre- calculated.)

(ii) Prepare a working of the cumulative balance of the foreign currency translation reserve as per relevant Ind AS.