J.K. SHAH TEST SERIES
Evaluate Learn Succeed

CA FINAL – May 19

SUBJECT- FR

Test Code – FNJ 7057 N

(Date :)

(Marks - 100)

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

Question 1:

Fixed production overheads for the financial year are Rs. 9,600. Normal expected production for the year, after considering planned maintenance and normal breakdown, also considering the future demand of the product 2,400 MT. It is considered that there are no quarterly/seasonal variations. Therefore, the normal expected production for each quarter is 600 MT and the fixed production overheads for the quarter are Rs. 2,400. Actual production achieved

First quarter	500 MT
Second quarter	700 MT
Third quarter	400 MT
Fourth quarter	700 MT

Required:

(i) Presuming that there is no quarterly/seasonal variation, calculate the allocation of fixed production overheads for all the four quarters as per Ind AS-34 read with Ind AS-2.

(ii) In case there are quarterly and seasonal variation how the estimate of normal capacity to be made as per Ind AS-34 read with Ind AS-2. **(12 Marks)**

(B)

QA Ltd. is in the process of computation of the deferred taxes as per applicable Ind AS. QA Ltd. had acquired 40% shares in GK Ltd. for an aggregate amount of Rs. 45 crores. The shareholding gives QA Ltd. significant influence over GK Ltd. but not control and therefore the said interest in GK Ltd. is accounted using the equity method. Under the equity method, the carrying value of investment in GK Ltd. was Rs. 70 crores on 31st March, 2017 and Rs. 75 crores as on 31st March, 2018. As per the applicable tax laws, profits recognised under the equity method are taxed if and when they are distributed as dividend or the relevant investment is disposed of.

QA Ltd. wants you to compute the deferred tax liability as on 31st March, 2018 and the charge to the Statement of Profit for the same. Consider the tax rate at 20%.

(4 marks)

(C)

State whether any unspent amount of CSR expenditure (any shortfall in the amount that was expected to be spent as per the provisions of the Companies Act on CSR activities) at the reporting date shall be provided for? Also state in case the excess amount has been spent (ie more than what is required as per the provisions of the Companies Act on CSR activities), can it be carry forward to set-off against future CSR expenditure. **(4 marks)**

Question 2:

(A) On 1st April 2015 F Ltd had an inventory of cut seasoning timber which had cost Rs. 12 million two year ago. Due to shortage of this quality of timber its value at 1st April 2015 had risen to Rs. 20 million. On 1st April 2015. F Ltd. entered into an arrangement to sell the timber to Bank of India for Rs. 15 million. F Ltd has an option to buy back the timber at any time within the next three years at a cost of Rs. 15 million plus accumulated interest at 2% per annum above the base rate. This will be charged from the date of the original sale. The base rate for the period of the transactions is expected to be 8%. F Ltd. bought back the timber on 31st March 2018 and sold it the same day for an expected price of Rs. 25 million.

Required :

Assuming the above transaction take place as expected, prepare extracts to reflect the transactions in profit or loss for the years to 31st March 2016, 2017 and 2018 and the statement of financial position (ignore cash) at those year ends.

(i) If F Ltd. treated the transactions in their legal form and

(ii) If the substance of the transactions is recorded. **(10 marks)**

(B) X Ltd holds a foreign currency denominated payable amounting the USD 10,000 recognized at USD 1 = Rs. 62.20. The entity has entered into a 9 – month currency forward at USD 1 = Rs. 62.40 As on the reporting date 31st March 2015, closing exchange rate was USD 1 = Rs. 62.40. The remaining term of currency forward is 6 months. The bank quotes 6 month USD forward rate similar rated company at USD 1 = Rs. 62.55.

As on 30th June 2015 exchange rate was USD 1 = Rs. 63.67, bank quotation for 3 – month forward USD 1 = 63.75.

As on 30th Sep 2015, exchange rate was USD 1 = Rs. 64.10.

How should the company recognize the hedged item and hedging instruments? Appropriate risk – free rate is 8%. **(5 marks)**

(C) XYZ Ltd. has fabricated energy saving equipment (Wind mill towers) during 2017 – 18 as per design and drawing 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 suspend the production of remaining items. 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 31/03/2018 are given below. :

i.	Sundry Debtors Balance (windmill Towers)	75 lakhs
ii.	Windmill Towers (finished goods)	120 lakhs
iii.	Windmill Towers (WIP)	97 lakhs

The petition for winding up against the customer has been filed during 2017 – 2018 by XYZ Ltd. The Auditors of XYZ Ltd. have qualified the accounts stating non –

provision of Rs. 292 lakhs included in Sundry Debtors, finished goods and work – in – progress (WIP). **Whether the qualification of Auditors is correct. Comment with explanation.** **(5 Marks)**

Question 3:

(A)

In March 2018, Pharma Ltd. acquires Dorman Ltd. in a business combination for a total cost of Rs. 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

Item	**Rs. in lakhs**
Assets	
Cash	780
Receivables (net)	5,200
Plant and equipment	7,000
Deferred tax asset	360
Liabilities	
Payables	1,050
Borrowings	4,900
Employee entitlement liabilities	900
Deferred tax liability	300

The plant and equipment has a fair value of Rs. 8,000 lakhs and a tax written down value of Rs. 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of Rs. 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of Rs. 4.300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

You are required to:

(i) Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)

(ii) Calculate the goodwill that should be accounted on consolidation.

(10 marks)

(B) The Value Added Statements of Value Ltd. for the last 5 years are furnished below:

(Rs. In lakhs)

	2011 – 12	**2012 – 13**	**2013 – 14**	**2014 – 15**	**2015 – 16**
Sales	6,000	8,000	10,000	12,000	14,000
Cost of bought in material, Services and Expenses	2,960	4,400	5,800	7,200	8,400
Value Added	3,040	3,600	4,200	4,800	5,600
Applied Towards					
Employee Costs	1,368	1,584	1,680	1,968	2,240
Director Remuneration	30	44	40	48	50
Government for tax etc.	640	760	840	1,000	1,120
Providers of Capital	250	336	440	512	630
Maintenance and Expansion	752	876	1,200	1,272	1,560
Total	**3,040**	**3,600**	**4,200**	**4,800**	**5,600**

The Employee Costs included Annual Incentive that were decided and paid after negotiations with Labour Unions as : 100; 108; 118; 130; 150.

From 2016 – 17 onwards it was agreed to introduce a Value Added Incentive Scheme (VAIS) that would enable employees to have the opportunity to earn better incentives in case of enhanced performances. The salient features of VAIS are as under :

(i) The highest Contribution of the last 5 years shall be the Target Index.

(ii) 50% of the excess of actual contribution in 2016 – 17 over target shall be paid to employees as incentive.

(iii) CONTRIBUTION shall mean the Value Added for the year reduced by Employee costs before incentive and expressed as a percentage of Turnover for the year. The result so obtained is to be rounded off to the nearest whole number.

The Profit & Loss account Summary for 2016 – 17 is given below from which **<u>you are required to :</u>**

(i) Calculate the amount of Incentive payable to the employees

(ii) Prepare Statement of Application of Value Added for the year 2016 – 17 after payment of the incentive

Summarized profit & Loss account of Value Ltd. for the year ended 31.3.2017

(Rs. In Lakhs)

Sales		17,250
Less :		
Material and Services Consumed	6,400	
Wages	1,200	
Production Salaries	400	
Production Expenditure	1,600	
Deprecation on Machinery	1,000	
Administrative Salaries	600	
Administrative Expenses	700	

Director Remuneration	60	
Administration Depreciation	350	
Interest on Debentures	80	
Advertisement & Sales promotion	600	
Salaries to Sales team	125	
Selling Expenses	150	
Sales dept. Deprecation	120	13,385
Profit Before Taxes		3,865
Taxes	1,190	
Dividends proposed	800	
Balance C/o		1,875

(10 marks)

Question 4:

(A)

A Ltd., whose functional currency is Indian Rupee, had a balance of cash and cash equivalents of Rs. 2,00,000, but there are no trade receivables or trade payables balances as on 1st April, 2017. During the year 2017-2018, the entity entered into the following foreign currency transactions:

- A Ltd. purchased goods for resale from Europe for €2,00,000 when the exchange rate was €1 = Rs. 50. This balance is still unpaid at 31st March, 2018 when the exchange rate is €1 = Rs. 45. An exchange gain on retranslation of the trade payable of Rs. 5,00,000 is recorded in profit or loss.
- A Ltd. sold the goods to an American client for $ 1,50,000 when the exchange rate was $1 = Rs. 40. This amount was settled when the exchange rate was $1 = Rs.
  42. A further exchange gain regarding the trade receivable is recorded in the statement of profit or loss.
- A Ltd. also borrowed €1,00,000 under a long-term loan agreement when the exchange rate was €1 = Rs. 50 and immediately converted it to Rs. 50,00,000. The loan was retranslated at 31st March, 2018 @ Rs. 45, with a further exchange gain recorded in the statement of profit or loss.
- A Ltd. therefore records a cumulative exchange gain of Rs. 18,00,000 (10,00,000
  + 3,00,000 + 5,00,000) in arriving at its profit for the year.
- In addition, A Ltd. records a gross profit of Rs. 10,00,000 (Rs. 60,00,000 – Rs. 50,00,000) on the sale of the goods.
- Ignore taxation.

How cash flows arising from the above transactions would be reported in the statement of cash flows of A Ltd. under indirect method? **(8 marks)**

(B)

UK Ltd. has purchased a new head office property for Rs. 10 crores. The new office building has 10 floors and the organisation structure of UK Ltd. is as follows:

Floor	**1st**	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**	**9th**	**10th**
Use	Waiting Area	Admin	HR	Accounts	Inspection	MD Office	Canteen	Vacant		

Since UK Ltd. did not need the floors 8, 9 and 10 for its business needs, it has leased out the same to a restaurant on a long-term lease basis. The terms of the lease agreement are as follows:

- Tenure of Lease Agreement - 5 Years
- Non-Cancellable Period - 3 years
- Lease Rental-annual lease rental receivable from these floors are Rs. 10,00,000 per floor with an escalation of 5% every year.

Based on the certificate from its architect, UK Ltd. has estimated the cost of the 3 top floors as approximately Rs. 3 crores. The remaining cost of Rs. 7 crores can be allocated as 25% towards Land and 75% towards Building.

As on 31st March, 2018, UK Ltd. obtained a valuation report from an independent valuer who has estimated the fair value of the property at Rs. 15 crores. UK Ltd. wishes to use the cost model for measuring Property, Plant & Equipment and the fair value model for measuring the Investment Property. UK Ltd. depreciates the building over an estimated useful life of 50 years, with no estimated residual value.

Advise UK Ltd. on the accounting and disclosures for the above as per the applicable Ind AS. **(8 marks)**

(C)

Z Ltd. has no foreign currency cash flow for the year 2017. It holds some deposit in a bank in the USA. The balances as on 31.12.2017 and 31.12.2018 were US$ 100,000 and US$ 102,000 respectively. The exchange rate on December 31, 2017 was US$1 = Rs. 45. The same on 31.12.2018 was US$1 = Rs. 50. The increase in the balance was on account of interest credited on 31.12.2018. Thus, the deposit was reported atRs. 45,00,000 in the balance sheet as on December 31, 2017. It was reported at Rs. 51,00,000 in the balance sheet as on 31.12.2018. **How these transactions should be presented in cash flow for the year ended 31.12.2018 as per Ind AS 7?** **(4 marks)**

Question 5:

(A)

The following information relates to the results of the parent and subsidiary (jointly) and the investment in associate and joint venture: (All figures are in rupees)

Summarised Balance Sheet as at 31.3.20X1

	Holding and subsidiary	**Associate**	**Joint Venture**
Equity and Liabilities			
Called up equity shares of Rs.1 each	1,00,000	40,000	10,000
General reserve	40,000		-
Profit and loss account	37,000	27,000	83,000
Minority Interest	20,000	-	-
Current Liabilities			
Trade payables -Creditors	20,000	32,000	6,000
Provision for tax	19,000	11,000	11,000
	2,36,000	1,10,000	1,10,000
Assets			
Non-current assets			
Fixed assets- Tangible assets	1,95,000	74,000	41,000
Investments:			
8,000 shares in Associate	15,000	-	-
5,000 shares in Joint Venture	5,000	-	-
Current assets	21,000	36,000	69,000
	2,36,000	1,10,000	1,10,000

Details of Profit and Loss account for the year ended 31.3.20X1

	Holding and subsidiary	**Associate**	**Joint Venture**
Retained profit for the year	15,000	11,000	23,000
Add: Retained profit brought forward	22,000	17,000	60,000
Retained profit carried forward	37,000	28,000	83,000

You are given the following additional information:

(a) The parent company purchased its investment in the associate two years ago when the balance on the profit and loss account was Rs. 17,000. There are no signs of impairment of the goodwill.

(b) The parent company entered into a joint venture to access a lucrative market in the former East Germany. It set up a company two years ago and has 50 per cent of the voting rights of the company set up for this joint venture.

Prepare the consolidated balance sheet for the Group as per relevant Accounting Standards for the year ended 31.3.20X1. **(16 marks)**

(B) What is the IIRC integrated reporting framework? **(4 marks)**

Question 6:

(A)

Rely Industries issued share-based option to one of its key management personal which can be exercised either in cash or equity and it has following features:

Option I			**Period**	**INR**
No of cash settled shares				74,000
Service condition			3 years	
Option II				
No of equity settled shares				90,000
Conditions:				
Service			3 years	
Restriction to sell			2 years	
Fair values				
Equity price with a restriction of sale for 2 years				115
Fair value grant date				135
Fair value as on 31st March		2016		138
		2017		140
		2018		147

Pass the Journal entries? **(10 marks)**

(B)

On 1st April, 2014, S 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 S Ltd. at a conversion price of Rs. 105 per share. Interest is payable annually in cash. At the date of issue, S Ltd. could have issued non-convertible debentures with a 5 year term bearing a coupon interest rate of 12%. On 1st April, 2017, the convertible debentures have a fair value of Rs. 5,25,000. S 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, S Ltd. could have issued non-convertible debt with a 2 year term bearing a coupon interest rate of 9%.

Examine the accounting treatment in the books of S Ltd., by passing appropriate journal entries, for recording of equity and liability component:

(1) At the time of initial recognition and

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

The following present values of Re. 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

(10 marks)