CA FINAL

Test Code – JKN_FR_21

(Date :16/08/2020)

(Marks -100)

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

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

Working notes should form part of your answers

Q.1 (a)

The Balance Sheet of David Ltd. and Parker Ltd. as of 31st March, 2019 is given below:

(Rs. in lakh)

Assets	**David Ltd.**	**Parker Ltd.**
Non-current assets:		
Property, plant and equipment	400	600
Investment	300	200
Current assets:		
Inventories	300	100
Financial assets		
Trade receivables	400	200
Cash and cash equivalents	150	200
Others	300	300
Total	1,850	1,600
Equity and Liabilities		
Equity		
Share capital - Equity shares of Rs. 100 each for Parker Ltd. & Rs. 10 each for David Limited	500	400
Other Equity	700	275
Non-current liabilities:		
Long term borrowings	200	300
Long term provisions	100	80
Deferred tax	20	55
Current liabilities:		
Short term borrowings	130	170
Trade payables	200	320
Total	1,850	1,600

Other Information :

(i) David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019·by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was Rs. 50 per share.

(ii) The fair value exercise resulted in the following :

(1) Fair value of property, plant and equipment (PPE) on 1st April, 2019 was Rs. 450 lakh.

(2) David Ltd. agreed to pay an additional payment as consideration that is higher of Rs. 30 lakh and 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker

Ltd. This additional amount will be due after 3 years. Parker Ltd. has earned Rs. 20 lakh profit in the preceding year and expects to earn another Rs. 10 lakh.

(3) In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of Rs. 25 lakh provided he stays with the Company for two years after the acquisition.

(4) Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term, the vesting period was 4 years and as of the acquisition date the employees of Parker 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:

Original award - Rs. 6 lakh
Replacement award - Rs. 9 lakh

(5) Parker Ltd. had a lawsuit pending with a customer who had made a claim of Rs. 35 lakh. Management reliably estimated the fair value of the liability to be Rs. 10 lakh.

(6) The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%.

(16 Marks)

(b)

Ashim company distributes 0.03% of its net profit to each of its workers who serve throughout the year. The payment is being made in the next year. The company had 104 workers at the end of the year. During the year 10 employees joined, out of which 6 employees left. Total number of employees left during the year is 11. The net profit of the company before charging the profit sharing bonus is Rs. 51.5 lakh. Show accounting entries to record profit sharing bonus plan.

(4 Marks)

Q.2 (a)

On 1st January,20X0, entity A issued a 10% convertible debenture with the face value of Rs.1000 maturing on 31st December , 20X9.The debenture is convertible into ordinary shares of entity A @ a conversion price of Rs.25 Per share. Interest is payable half yearly in cash. At the date of issue, entity A could have issued non convertible debt with a 10 year term bearing a coupon interest rate of 11%. On 1st January,20X5, the convertible debentures have a fair value of Rs.1600.entity A makes a tender offer to the holder of the debentures to repurchase the debentures for Rs.1600,which the holder accepts. At the date of repurchase, entity A could have issued non convertible debt with a 5 year term bearing a coupon interest rate of 8%.

(14 Marks)

(b)

Vedika Ltd. issued 80,000 8% convertible debentures of Rs. 100 each on 1st April, 2015. The debentures are due for redemption on 31st March, 2019 at a premium of 20%, convertible into equity shares to the extent of 50% and balance to be settled in cash to the debenture holders. The interest rate on equivalent debentures without conversion right was 12%. The conversion to equity qualifies as fixed for fixed

<u>You are required to separate the debt and equity components at the time of issue and show the accounting entries in Vedika Ltd.'s books at initial recognition only.</u>

The following present values of Rupee 1 at 8% and 12% are provided for a period of 5 years.

Interest rate	Year 1	Year 2	Year 3	Year 4	Years 5
8%	0.923	0.853	0.789	0.731	0.677
12%	0.887	0.788	0.701	0.625	0.557

(6 Marks)

Q.3 (a)

In 2018 an entity has accounting profit in its own jurisdiction (country A) of Rs. 1,500 (in 2017 Rs. 2,000) and in Country B of Rs. 1500 (in 2017 Rs. 500)

The tax rate in country A is 30t and tax rate is 20% in country B.

In Country A, expenses of Rs. 100 (2017 Rs. 200) are not deductible for tax purposes. These are permanent disallowances. Calculate current tax and show reconciliation.

(4 Marks)

(b)

The following is relevant information for an entity :

- Full capacity is 10,000 labour hours in a year.
- Normal capacity is 7,500 labour hours in a year.
- Actual labour hours for current period are 6,500 hours.
- Total fixed production overhead is Rs. 1,500.
- Total variable production overhead is Rs. 2,600.
- Total opening inventory is 2,500 units.
- Total units produced in a year are 6,500 units.
- Total units sold in a year are 6,700 units.
- The cost of inventories is assigned by using FIFO cost formula.

<u>How overhead costs are to be allocated to cost of goods sold and closing inventory?</u>

(8 Marks)

(c)

On 1st April, 20X1, Makers Ltd. raised a long term loan from foreign investors. The investors subscribed for 6 million Foreign Currency (FCY) loan notes at par. It incurred incremental issue costs of FCY 2,00,000. Interest of FCY 6,00,000 is payable annually on 31st March, starting from 31st March, 20X2. The loan is repayable in FCY on 31st March, 20X7 at a premium and the effective annual interest rate implicit in the loan is 12%. The appropriate measurement basis for this loan is amortised cost. Relevant exchange rates are as follows:

- 1st April, 20X1 - FCY 1 = Rs. 2.50.
- 31st March, 20X2 – FCY 1 = Rs. 2.75.

- Average rate for the year ended 31st Match, 20X2 – FCY 1 = Rs. 2.42. The functional currency of the group is Indian Rupee.

What would be the appropriate accounting treatment for the foreign currency loan in the books of Makers Ltd. for the FY 20X1-20X2? Calculate the initial measurement amount for the loan, finance cost for the year, closing balance and exchange gain / loss.

(8 Marks)

Q.4 (a)

A Ltd. is in the business of the infrastructure and has two divisions under the same; (I) Toll Roads and (II) Wind Power. The brief details of these business and underlying project details are as follows:

I. Bhilwara-Jabalpur Toll Project - The Company has commenced the construction of the project in the current year and has incurred total expenses aggregating to Rs. 50 crore as on 31st December, 20X1. Under IGAAP, the Company has 'recorded such expenses as Intangible Assets in the books of account. The brief details of the Concession Agreement are as follows:

1. Total expenses estimated to be incurred on the project – Rs. 100 crore
2. Fair value of the construction services is Rs. 110 crore
3. Total Cash Flow guaranteed by the Government under the concession agreement is Rs. 200 crore.
4. Finance revenue over the period of operation phase is Rs. 15 crore.
5. Other income relates to the services provided during the operation phase.

II. Kolhapur- Nagpur Expressway - The Company has also entered into another concession agreement with Government of Maharashtra in the current year. The construction cost for the said project will be Rs. 110 crore. The fair value of such construction cost is approximately Rs. 200 crore. The said concession agreement is Toll based project and the Company needs to collect the toll from the users of the expressway. Under IGAAP, UK Ltd. has recorded the expenses incurred on the said project as an Intangible Asset.

Required

(i) What would be the classification of Bhilwara-Jabalpur Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

(ii) What would be the classification of Kolhapur-Nagpur Expressway Toll Project as per applicable Ind AS? Give brief reasoning for your choice.

(iii) Also, suggest suitable accounting treatment for preparation of financial statements as per Ind AS for the above 2 projects

(12 Marks)

(b)

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?

(8 Marks)

Q.5 (a)

Company EFG enters into a property lease with Entity H. The initial term of the lease is 10 years with a 5- year renewal option. The economic life of the property is 40 years and the fair value of the leased property is Rs.50 Lacs. Company EFG has an option to purchase the property at the end of the lease term for Rs.30 lacs. Lease is paid at the beginning of the year. The first annual payment is Rs.5 lacs with an increase of 3% every year thereafter. The implicit rate of interest is 9.04%. Entity H gives Company EFG an incentive of Rs. 2 lacs (payable at the beginning of year 2), which is to be used for normal tenant improvement.

Company EFG is reasonably certain to exercise that purchase option. How would EFG measure the right-of-use asset and lease liability over the lease term?

(12 Marks)

(b)

Company X performed a revaluation of all of its plant and machinery at the beginning of 20X1. 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 4 years.

How should the Company account for revaluation of plant and machinery and depreciation subsequent to revaluation? Support your answer with journal entries.

(8 Marks)

Q.6 (a)

While preparing its financial statements for the year ended 31st March, 20X1, XYZ Ltd.made a general provision for bad debts @ 5% of its debtors. In the last week of February, 20X1 a debtor for Rs. 2 lakhs had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. Considering the event of earthquake, XYZ Ltd. made a

provision @ 50% of the amount receivable from that debtor apart from the general provision of 5% on remaining debtors. In April, 20X1 the debtor became bankrupt. **Can XYZ Ltd. provide for the full loss arising out of insolvency of the debtor in the financial statements for the year ended 31st March, 20X1?**

Would the answer be different if earthquake had taken place after 31st March, 20X1, and therefore, XYZ Ltd. did not make any specific provision in context that debtor and made only general provision for bad debts @ 5% on total debtors?

(8 Marks)

(b)

While preparing the financial statements for the year ended 31st March, 20X3, Alpha Limited has observed two issues in the previous year Ind AS financial statements (i.e. 31st March, 20X2) which are as follows:

Issue 1:

The company had presented certain material liabilities as non-current in its financial statements for periods as on 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, management discovers that these liabilities should have been classified as current. The management intends to restate the comparative amounts for the prior period presented (i.e., as at 31 st March, 20X2).

Issue 2:

The company had charged off certain expenses as finance costs in the year ended 31st March, 20X2. While preparing annual financial statements for the year ended 31st March, 20X3, it was discovered that these expenses should have been classified as

other expenses instead of finance costs. The error occurred because the management inadvertently misinterpreted certain facts. The entity intends to restate the comparative amounts for the prior period presented in which the error occurred (i.e., year ended 31st March, 20X2).

What is your analysis and recommendation in respect of the issues noted with the previously presented set of financial statements for the year ended 31st March, 20X2?

(8 Marks)

(c)

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

Required financial details of the following financial years are as follows: (Rs. in crore)

	March 31, 20X4 (Current year) projected	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 ABC Ltd. has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year? **(4 Marks)**

OR

(c)

Calculate EPS, when

	20X0	20X1	20X2
Profit attributable to ordinary equity holders of the parent entity	Rs. 1,100	Rs. 1,500	Rs. 1,800

Shares outstanding before rights issue	500 shares
Rights issue	One new share for each five outstanding shares
Exercise price	Rs. 5.00
Date of rights issue	1 January 20X1
Last date to exercise rights	1 March 20X1
Market price of one ordinary share immediately before exercise on 1 March 20X1:	Rs. 11.00
Reporting date	31 December

(4 Marks)