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TEST SERIES

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SUGGESTED ANSWERS

CA FINAL

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Answers

Q.1

(a)

WN – 1 – Calculation of Intrinsic Value For The Purpose Of Swap Ratio		
	AO	BO
a. Value of business	11,000	14,000
b. No. of ES	600	700
c. Intrinsic Value (IV) = a/b	18.33	20

(1 Mark)

STEP – 1 - Identify the Acquirer			
	Working	No. of ES	% of Stake
AO	$(600 \times 18.33) / ₹10$	1,100 shares	44%
BO	$(700 \times 20) / ₹10$	1,400 shares	56%
		2,500 shares	100%
Assume shares of ABO = ₹10			
Legal Acquirer - ABO ltd			
Accounting Acquirer - BO ltd			
Accounting Acquiree - AO ltd			
Since Accounting Acquirer and Legal Acquirer therefore question relates to concept of REVERSE ACQUISITION			

(1 Mark)

STEP – 2 – Date of Acquisition
1.1.02

(0.5 Mark)

STEP – 3 – Calculation of Net Identifiable Asset of AO ltd (Acquiree)	
PPE	9,500
Investments	1,050
Inventory	1,300
Trade Receivable	1,800
Cash	450
Non – Current Liability	(3,000)
Trade Payables	(1,000)
	10,100

(3.5 Marks)

STEP – 4 – PC to AO limited	
Fair Value of ES issued of ABO = 1,100 shares of ₹10	11,000

(1 Mark)

STEP – 5 – Calculation of Goodwill or Gain on Bargain Purchase	
Net Assets Acquired	10,100
Less : PC	11,000
GOODWILL	900

(1 Mark)

STEP – 6 – In the books ABO				
			Dr.	Cr.
Entry – 1				
PPE	A/c	Dr	7,500	
Inventory	A/c	Dr	2,750	
Trade Receivable	A/c	Dr	4,000	
Cash	A/c	Dr	400	
To Non Current Liab		A/c		4000
To Trade Payable		A/c		1,500
To Other Equity		A/c		3,000
To Equity		A/c		7,000
(being acquirer BO's Balance Sheet recognised at Book Value)				
Entry – 2				
PPE	A/c	Dr	9,500	
Goodwill	A/c	Dr	900	
Investment	A/c	Dr	1,050	
Inventory	A/c	Dr	1,300	
Trade Receivable	A/c	Dr	1,800	
Cash	A/c	Dr	450	
To Non-Current Liab		A/c		3,000
To Trade Payables		A/c		1,000
To Vendor		A/c		11,000
(Being Acquiree AO's net Asset recognised at fair value)				
Entry – 3				
Vendor	A/c	Dr	11,000	
To Equity		A/c		11,000
(being PC settled)				

(3 Marks)

Balance Sheet		
PPE	9500 + 7500	17,000
Goodwill		900
Financial Asset - Investment	1050 + 850	1,900
Inventory	2750 + 1300	4,050
Trade Receivable	4000 + 1800	5,800
Cash	400 + 450	850
		30,500
Equity	7000 + 11000	18,000
Other equity		3,000
Non –Current Liability	3000 + 4000	7,000
Trade Payables	1000 + 1500	2500
		30,500

(4 Mark)

(b)

As per Ind AS 24, Related Party Disclosures, “Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.”

Hence, independent director Mr. Atul and non-executive director Mr. Naveen are covered under the definition of KMP in accordance with Ind AS. (1 Mark)

Also as per Ind AS 19, ‘Employee Benefits’, an employee may provide services to an entity on a full-time, part-time, permanent, casual or temporary basis. For the purpose of the Standard, Employees include directors and other management personnel.

Therefore, contention of the Accountant is wrong that they are not employees of X Ltd. (1 Mark)

Ind AS requires disclosure about employee benefits for key management personnel. Therefore, an entity shall disclose key management personnel compensation in total i.e. disclosure of directors’ fee of (Rs.10,00,000 + Rs. 7,50,000) Rs. 17,50,000 is to be made as employees benefits (under various categories). (1 Mark)

Since short-term employee benefits are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, the sitting fee paid to directors will fall under it (as per Ind AS 19) and is required to be disclosed in accordance with the Ind AS 24. (1 Mark)

Q.2

(a)

PPE (3 Marks)		
Date	Particulars	Amount
1.4.01	Cost	1,20,000
31.3.04	Depreciation = $(1,20,000 / 40 \text{ years}) \times 3 \text{ years}$	(9,000)
31.3.04	Carrying Amount	1,11,000
31.3.04	Revaluation Surplus	15,600
1.4.04	Carrying Amount	1,26,600
31.3.05	Depreciation ($1,26,600 / 37 \text{ years remaining}$)	(3,420)
31.3.05	Carrying Amount	1,23,180
31.3.05	Revaluation Loss (balancing Figure)	(8,980)
1.4.05	Carrying Amount	1,14,200
DSR (2 Marks)		
Date	Particulars	Amount
1.4.01	Provision for DSR	10,000
31.3.01	Interest Unwind @ 5% for 3 years	1,600
1.4.04	Carrying Amount	11,600
31.3.05	Interest unwind @ 5%	600
31.3.05	Carrying Amount	12,200
31.3.05	Decrease in DSR	(5,000)
1.4.05	Carrying Amount	7,200
(2 Marks)		
Date	Particulars	Amount
31.3.04	Fair Value of PPE	1,15,000
	DSR	11,600
	Therefore Revalued Amount	1,26,600
31.3.05	Fair Value of PPE	1,07,000
	DSR	7,200
	Therefore Revalued Amount	1,14,200

31.3.05		Dr.	Cr.
Entry – 1			
Depreciation A/c	Dr.	3,420	
To PPE A/c			3,420
Entry – 2			
Finance Cost A/c	Dr.	600	
To DSR A/c			600
Entry – 3			
Revaluation Reserve (OCI) A/c	Dr.	8,980	
To PPE A/c			8,980
Entry – 4			
Provision for DSR A/c	Dr.	5,000	
To Revaluation Reserve A/c			5,000

(3 Marks)

(b) - I

As per Ind AS 101 (**1/2 marks**) such MAT credit of 8.5 crores and 9.75 crores should now be disclosed as DTA (**1/2 marks**) under Non-Current Asset

(0.5 Mark)

Change in DTA from (MAT) from 8.5 crores to 9.75 crores = 1.25 crores

(0.5 Mark)

Journal Entry

DTA A/c Dr. 1.25
 To PorL A/c 1.25

(2 Marks)

(b) - II

	31.3.16	31.3.17	
CA	40	45	
TB	22	20.75 (22 – 1.25 dep)	
Taxable TD	18	24.25	
TR	20%	20%	
Closing DTL	3.6	4.85	
		DTL	DTA
		5	0.15
Less Opening DTL	-	3.6	-
	3.6	1.4	0.15
	OCI	OCI	DTA
	To DTL	To DTL	To PorL

DTL – DTA = Net DTL

DTL – 0.15 = 4.85 (DTA Of 0.15 is because of Depreciation 2- 1.25 = 7.5
7.5 x tax rate of 20% = 0.15)

DTL = 5

OR

DTL due to Revaluation = 40 – 2 dep= 38 but revalued to 45 therefore 45 -38 = 7
= 7 x 20% = 1.4

DTA due to Depreciation = 2 -1.25 = .75 x 20% = 0.15

Marks

(For calculation of 1.4 and 0.15 is 1.5 marks each)

(For each journal entry is 1 mark therefore 3 marks)

(Total marks 3 for calculation and 3 for journal = 6 marks)

Q.3

(a)

Step 1: cash flows					
Yo	Y1	Y2	Y3	Y4	Y5
+ 50 lac	-2.5 lac	-2.5 lac	-2.5 lac	-2.5 lac	-2.5 lac
					-50 lacs

Step 2: EIR = 12%

Step 3: Calculation of Fair Value of Loan

(0.5 Mark)

$$2,50,000 \times \text{PVAF} (5 \text{ yrs @ } 12\%) + 50,00,000 \times \text{PVDF} (5^{\text{th}} \text{ year @ } 12\%)$$

$$37,38,200$$

Step 4: Amount of Grant

$$50 \text{ lacs} - 37,38,200 = 12,61,800$$

(0.5 Mark)

Step 5: Amortisation table

Date	Opening	Interest @12%	Instalment	Closing balance
1	37,38,00	4,48,584	250,000	39,36,784
2	39,36,784	472,414	250,000	41,59,198
3	41,59,198	479,104	250,000	44,08,302
4	44,08,302	528,996	250,000	46,87,298
5	46,87,298	567,702 (bal fig)	5250,000	0

(3.5 Marks)

Step 6: Accounting

Bank A/c	Dr.	50,00,000	
To FL A/c			37,38,200
To GG A/c			12,61,800

(1 Mark)

12,61,800 is to be recognised in PorL on a systematic basis over the period in which i.e in the ratio of depreciation

(0.5 Mark)

(b) either**If Market A is the principal market (1 mark)**

If Market A is the principal market for the asset (i.e., the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs.

Fair Value will be

	₹
Price receivable	26
Less: Transportation cost	<u>(2)</u>
Fair value of the asset	<u>24</u>

If neither of the market is the principal market (1 Mark)

If neither of the market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (i.e., the net amount that would be received in the respective markets).

	₹	₹
	Market	Market
Price receivable	26	25
Less: Transaction cost	(3)	(1)
Less: Transportation cost	<u>(2)</u>	<u>(2)</u>
Fair value of the asset	<u>21</u>	<u>22</u>

Since the entity would maximise the net amount that would be received for the asset in Market B i.e. ₹ 22, the fair value of the asset would be measured using the price in Market B. (1 Mark)

Fair value

	₹
Price receivable	25
Less: Transportation cost	<u>(2)</u>
Fair value of the asset	<u>23</u>

(1 Mark)

(b) OR

	31.3.17 (2 Marks)	31.3.18 (2 Marks)
Carrying amount	70	75
Tax base	45	45
Taxable TD	25	30
Tax rate	20%	20%
Closing DTL	5	6
Opening DTL	-	(5)
Current year	5	1
	PorL 5 To DTL 5	PorL 1 To DTL 1

(c)

Step 1: lease liability			
Year	Lease payments (year-end)	DF @ 5%	PV
1	10,000	0.9524	9524
2	10,000	0.9070	9070
3	15,000	0.8638	12956
			31,550

(1 Mark)

Step 2: Right to Use (RTU)	
PV of Lease Liability	31,550
Initial direct cost	3,000
Incentive	(1,000)
	33,550

(0.5 Mark)

Step 3: lease liability table						
Year	Op. balance	Int @ 5%	Instalment	cl. balance	CL	NCL
1	31550	1578	10,000	23128	8844	14284
2	23128	1156	10000	14248	14248	-
3	14248	716	10000	-	-	-

(2 Marks)

Step – RTU amortisation table			
Year	Op. balance	Amortisation (RTU / 3 yrs)	cl. balance
1	33550	11183	22367
2	22367	11183	11184
3	11184	11184	

(0.5 Mark)

Step 5: Accounting

Yo RTU A/c Dr. 34550
 To lease Liability A/c 31550
 To Bank A/c 3000

Bank A/c Dr 1000
 To RTUA/c 1000

(1 Mark)

Journal Entry (2 Marks)	Y1	Y2	Y3
Finance Cost (PorL)	1578	1156	716
To Lease Liability	1578	1156	716
Lease Liability	10000	10000	15000
To Bank	10,000	10000	15000
Amortisation	11183	11183	11184
To RTU	11183	11183	11184
SPL (1 Mark)			
PorL – Finance Cost	1578	1156	716
Amortisation	11183	11183	11184
Balance Sheet (2 Marks)			
Non – Current Asset – RTU	22367	11184	
Non – Current Liability – lease liability	14248		
Current Liability – lease liability	8844	14248	

Q.4

(a)

Step 1: Cash Flows -					
Date	Op Bal	Interest		Instalment	Cl bal
31.12.01	10,00,000	7% x 6 lac +4% x 4 lac	58,000	258000	800000
31.12.02	8,00,000	7% x 4 lac +4% x 4 lac	44000	244000	600000
31.12.03	600000	7% x 2 lac +4% x 4 lac	30000	230000	400000
31.12.04	400000	4% x 4 lac	16000	216000	200000
31.12.05	200000	4% x 2 lac	8000	208000	-

(3 Marks)

1.1.02	31.12.01	31.12.02	31.12.03	31.12.04	31.12.05
-10 lac	+258000	+244000	+230000	+216000	+208000
Revised		+200000	216,000	208000	

Step 2: EIR = 12%

Step 3: Calculation of FV			
Year	Cash flows	DF@12%	PV
1	258000	.8929	230368
2	244000	.7972	194517
3	230000	.7118	163714
4	216000	.6355	137268
5	208000	.5674	118019
			843886

(1 Mark)

Step 4: Difference	
Transaction value	10,00,000
Fair Value	8.43,000
Employee Cost	1,56,114

(1 Mark)

Step 5: amortisation table upto Date of Modification (DOM)				
Year	Op balance	Interest @12%	Instalment	cl. balance
31.12.01	843886	101266	258000	687152
31.12.02	687152	82452	244000	525610

2 lac is paid

Extra here

Step 6: Revised CFs

31.12.03	31.12.04
216000	208000

Step 7: PV of revised CFs as on DOM

Year	Instalment	DF @ 12%	PV
31.12.03	216000	.8929	192866
31.12.04	208000	.7972	165818
			358684

(1 Mark)

Step 8: treatment of Modification

Carrying amount as on DOM 525610

Carrying amount as per Revised CFs 385684Decrease by 166296

Therefore out of 2 lac, 166296 is paid towards loan and remaining 2lac – 166296 = 33074 is paid towards employee cost

(3 Marks)

Step 9: revised amortisation table -

Year	Op balance	Int @ 12%	Instalment	cl. bal
31.12.01	843886	101266	258000	687152
31.12.02	687152	82452	244000	525610
31.12.03	358684	43042	216000	185276
31.12.04	185276	22274	208000	-

(2 Marks)

Step 10: accounting

1.1.01 Financial Asset (FA) A/c Dr. 843886 (1 Mark)

Employee Cost(EC) A/c Dr. 156114

To Bank A/c 10,00,000

(2 Marks)

	31.12.01	31.12.02	31.12.03	31.12.04
FA	101266	82458	43042	22274
To Interest				
Bank	258000	244000	216000	208000
FA				
PorL	31223	31223	30297	30297
To EC				
(156114/5)				

			(156114 – 31223 – 31223 -33074) / 2 yrs = 30297	
Bank		2,00,000		
To FA		166296		
To EC		33074		
(1 Mark)				

(b)

CB A/c	Dr.	255	
To loan A/c			250
To PorL A/c			5
CIA A/c	Dr.	30	
To FL A/c			30
PorL A/c	Dr.	0.5	
To FL A/c			0.5
PorL A/c	Dr.	2	
To FL A/c			2
FL A/c	Dr.	30	
To CIA A/c			30
FL A/c	Dr.	2	
PorL A/c	Dr.	5.5	
To CB A/c			7.5

(0.8 Mark for each entry)

Q.5**(a)****In solution amount is considered as figures in '000**

Step 1: PVDBO A/c		(2 Marks)	
To bank	4200	By balance b/d	60,000
To bank	7500	By Interest	3000
To gain on settlement	500	(5% of 60,000)	
		By CSC	6200
		By PSC	1500
		By Actuarial Loss	9500
		(bal fig)	
To bal c/d	68000		
Step 2: Plan Asset		(2 Marks)	
To balance b/d	52000	By benefit	4200
To interest	2600	By benefit	7500
(5% of 52000)			
To Contribution	7000		
To actuarial Gain	61600		
		By balance c/d	56,000
Step 3: Net Finance Cost		(2 Marks)	
Interest on PVDBO		3000	
Interest on plan Asset		(2,600)	
		400	
Step 4: Remeasurements		(1 Mark)	
Actuarial Loss on PVDBO		9500	
Actuarial Gain on plan Assets		(6160)	
		3,400	
Step 5: Balance Sheet		(1 Mark)	
Net Defined Liability			
PVDBO		68000	
Plan Asset		(56000)	12000

Step 6: SPL		(2 Marks)
PorL		
CSC	6200	
PSC	1500	
Finance cost	400	
Gain on settlement	500	
OCI		
Remeasurement	3400	

(b)

Step 1: value of points (VOP)			(0.5 Mark)
Sale	Points	VOP	
₹500	10	0.5 x 10 point = ₹5	
Step 2: ratio			(0.5 Mark)
Sale	VOP		
500	5		
10	1		

Step 3: sales			
a.	CB A/c	Dr.	10,00,000
	To sales A/c		99099
	To liab under LP A/c		9901
	(10 lac in 10:1)		
	LP = loyalty point		
			(1 Mark)
b.	CB	Dr.	5000,00,000
2017-18	To Sales A/c		4950,49,505
	To Liab under LP A/c		49,50,495
	(5000 lac in 10 :1)		
			(1 Mark)
No of loyalty points = $(10/500) \times 5000 \text{ lac} = 100 \text{ lac points}$			
Redeemable = 82 lac and not redeemable = $100 - 82 = 18 \text{ lac}$			
Step 4: revenue recognised for points redeemed			

2017- 18	Liab under LP A/c	Dr.	42,11,002
(2.5 Marks)	To PorL A/c		42,11,002
<u>Actual Points redeemed till date</u> x VOP – Revenue Recognised Earlier Expected to be redeemed			
82 lac _____ x 49,50,495 – 0 = 42,11,002			
82 lac + 80% of 18 lac			
2018-19	Liab under LP A/c	Dr.	5,54,620
(2.5 Marks)	To PorL A/c		5,54,620
82 lac + 60% of 18 lac _____ x 49,50,495 – 42,11,002 = 5,54,620			
82 lac + 80% of 18 lac			
2019-20	Liab under LP A/c	Dr.	1,84,873
(2 Marks)	To PorL A/c		1,84,873
Balance of liab under LP = 49,50,495 – 42,11,002 – 5,54,620 = 1,84,873			

Q.6

(a)

Calculation of Expense		(2.5 Marks of each year)		
	Y1	Y2	Y3	
a. No. of employees	100 -20% = 80	100 -7 – 5 -3 = 85	100 -7 -5 -2 = 86	
b. No of option	200	300	300	
c. FV	20	20	20	
d. Factor	1/3	2/3	3/3	
Total exp = axbxcxd	106667	340000	504000	
Exp recognised earlier	-	(106667)	(340000)	
Exp of CY	106667	233333	176000	
Journal		(2 Mark for each year)		
EB Exp	106667	233333	176000	
To SBP Reserve	106667	233333	176000	
PorL	106667	233333	176000	
To EB Exp	106667	233333	176000	
SBP Reserve			504000	
To Equity			504000	
			(1.5 Mark)	

(b)

2018-19		
Forex loss = \$1000 x (70 -75)	(1 Mark)	5000
Adjustment of borrowing cost	(3 Mark)	(2950)
Interest on loan if taken from India \$1000 x 65 x 11%	7150	
Actual Interest on foreign loan \$1000 x 6% x 70	(4200)	
Difference	2950	
Forex Loss		2050
Total borrowing cost = 4200 + 2950	(1 Mark)	7150