CA FINAL

Test Code – JK-FR-21

(Date: 02-08-2020)

(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) A0 Ltd and B0 Ltd are amalgamated on and from 1st January 2002. A new company AB0 Ltd was formed to take over the business of existing companies

	A0 Ltd	**B0 Ltd**
Non-current Asset		
Property, Plant and Equipment	8,500	7,500
Financial Asset – Investment	1,050	850
Current Asset		
Inventory	1,250	2,750
Trade Receivable	1,800	4,000
Cash and Cash Equivalent	450	400
	13,050	**15,200**
Equity and Liabilities		
Equity share capital of ₹10 each	6,000	7,000
Other equity	3,050	3,000
Non-Current Liabilities		
Financial Liabilities – Borrowings	3,000	4,000
Current Liabilities		
Trade Payables	1,000	1,500
	13,050	**15,200**

AB0 transfers requisites number of shares to discharge the claims of the equity shareholder of transferor companies

Fair Value of net assets is as under

	A0 Ltd	**B0 Ltd**
Fixed asset	9,500	1,000
Inventory	1,300	2,900
Fair Value of business	11,000	14,000

You are required to

a. Prepare a note showing calculation of PC

b. Pass necessary journal entries in the books of ABO

c. Draft Balance Sheet of AB0 Ltd

(16 Marks)

(b) Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of ₹.2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul. Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged ₹. 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS? **(4 Marks)**

Q.2 (a) An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on April 1, 2015. The plant has a useful life of 40 years. Its initial cost was ₹. 1, 20,000. This included an amount for decommissioning costs of ₹. 10,000, which represented ₹. 70,400 in estimated cash flows payable in 40 years discounted at a risk-adjusted rate of 5 per cent. The entity's financial year ends on March 31. Assume that a market-based discounted cash flow valuation of ₹. 1, 15,000 is obtained at March 31, 2018. It includes an allowance of ₹. 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On March 31, 2019, the entity estimates that, as a result of technological advances, the present value of the decommissioning liability has decreased by ₹. 5,000. The entity decides that a full valuation of the asset is needed at March 31, 2019, in order to ensure that the carrying amount does not differ materially from fair value. The asset is now valued at ₹. 1,07,000, which is net of an allowance for the reduced decommissioning obligation.

How the entity will account for the above changes in decommissioning liability if it adopts revaluation model?

(10 Marks)

(b) 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 ₹. 8.5 crores and as on 31st March, 2017 is ₹. 9.75 crores;

II. The Company measures its head office property using the revaluation model. The property is revalued every year as on 31st March. On 31st March, 2016, the carrying value of the property (after revaluation) was ₹. 40 crores whereas its tax base was ₹. 22 crores. During the year ended 31st March, 2017, the Company charged depreciation in its Statement of Profit and Loss of ₹. 2 crores and claimed a tax deduction for tax depreciation of ₹. 1.25 crores. On 31st March, 2017, the property was revalued to ₹.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 compute the deferred tax liability as on 31st 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%.

(10 Marks)

Q.3 (a) A Limited received from the government a loan of ₹.50,00,000 @ 5% payable after 5 years in a bulleted payment. The prevailing market rate of interest is 12%. Interest is payable regularly at the end of each year. Calculate the amount of government grant and Pass necessary journal entry. Also examine how the Government grant be realized. Also state how the grant will be recognized in the statement of profit or loss assuming that the loan is to finance a depreciable asset.

(6 Marks)

(b) Either

An asset is sold in 2 different active markets (a market in which transaction for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis) at different prices.

An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date.

In Market A:

The sale price of the asset is ₹. 26, transaction cost is ₹. 3 and the cost to transport the asset to Market A is ₹. 2 (i.e., the net amount that would be received is ₹. 21).

In Market B:

The sale price of the asset is ₹. 25, transaction cost is Re. 1 and the cost to transport the asset to Market B is ₹. 2 (i.e., the net amount that would be received is ₹. 22).

Determine the fair value of the asset by supporting your answer with proper reason. **(4 Marks)**

Or

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 ₹. 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 ₹. 70 crores on 31st March, 2017 and ₹. 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) On 1 January 20X1, Dynamic entered into a two year lease for a lorry. The contract contains an option to extend the lease term for a further year. Dynamic believes that it is reasonably certain to exercise this option.

Lorries have a useful economic life of ten years.

Lease payments are ₹10,000 per year for the initial term and ₹15,000 per year for the option period. All payments are due at the end of the year. To obtain the lease, Dynamic incurs initial direct costs of ₹3,000. The lessor reimburses ₹1,000 of these costs.

The interest rate within the lease is not readily determinable. Dynamic's incremental rate of borrowing is 5%.

Required:

I. Calculate the initial carrying amount of the lease liability and the right-of-use asset

II. Provide the double entries needed to record these amounts in Dynamic's financial records

III. Show relevant extracts of financial statements

(10 Marks)

Q.4 (a) Wheel Co. Limited has a policy of providing subsidized loans to its employees for the purpose of buying or building houses. Mr. X, who's executive assistant to the CEO of Wheel Co. Limited, took a loan from the Company on the following terms:

- Principal amount : 1,000,000
- Interest rate : 4% for the first 400,000 & 7% for the next 600,000
- Start date : 1 January 20X1 for 5 years
- The principal amount of loan shall be recovered in 5 equal annual instalments and will be first applied to 7% interest bearing principal
- The accrued interest shall be paid on an annual basis
- Mr. X must remain in service till the term of the loan ends

The market rate of a comparable loan available to Mr. X, is 12% p a

Mr. S, pre-pays ₹ 200,000 on 31 December 20X2, reducing the outstanding principal as at that date to ₹ 400,000.

Show Accounting in the books of Wheel Co.

(15 Marks)

(b) Loan receivable is of ₹250 lacs. Company has transferred 100% of such loan to ta factor for ₹255 lacs and company continues to guarantee credit default upto 12% of the amount transferred. The Fair Value of guarantee is ₹2 lac. All amount is received except ₹7.5 lacs

Journalise **(5 Marks)**

Q.5 (a) A Ltd. prepares its financial statements to 31st March each year. It operates a defined benefit retirement benefits plan on behalf of current and former employees. A Ltd. receives advice from actuaries regarding contribution levels and overall liabilities of the plan to pay benefits. On 1st April, 2017, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,00,00,000. On the same date, the fair value of the assets of the defined benefit plan was ₹ 5,20,00,000. On 1st April, 2017, the annual market yield on government bonds was 5%. During the year ended 31st March, 2018, A Ltd. made contributions of ₹ 70,00,000 into the plan and the plan paid out benefits of ₹ 42,00,000 to retired members. Both these payments were made on 31st March, 2018.

The actuaries advised that the current service cost for the year ended 31st March, 2018 was ₹ 62,00,000. On 28th February, 2018, the rules of the plan were amended with retrospective effect. These amendments meant that the present value of the defined benefit obligation was increased by ₹ 15,00,000 from that date.

During the year ended 31st March, 2018, A Ltd. was in negotiation with employee representatives regarding planned redundancies. The negotiations were completed shortly before the year end and redundancy packages were agreed. The impact of these redundancies was to reduce the present value of the defined benefit obligation by ₹ 80,00,000. Before 31st March, 2018, A Ltd. made payments of ₹ 75,00,000 to the employees affected by the redundancies in compensation for the curtailment of their benefits. These payments were made out of the assets of the retirement benefits plan.

On 31st March, 2018, the actuaries advised that the present value of the defined benefit obligation was ₹ 6,80,00,000. On the same date, the fair value of the assets of the defined benefit plan were ₹ 5,60,00,000.

Examine and present how the above event would be reported in the financial statements of A Ltd. for the year ended 31st March, 2018 as per Ind AS

(10 Marks)

(b) KK limited runs a departmental store which awards 10 points for every purchase of ₹500 which can be discounted by the customers for further shopping with the same merchant. Unutilised points will lapse on expiry of two years from the date of credit. Value of each point is 0.50. During the accounting period 2017-2018, the entity awarded 1,00,00,000 points to various customers of which 18,00,000 points remained undiscounted. The management expects only 80% will be discounted in future. (to be redeemed till 31.3.2020)

The company has approached your firm with the following quarries and has asked you to suggest the accounting treatment (journal entries) under the applicable Ind AS for these awarded points:

a.	How should the recognition be done for the sale of goods worth ₹10,00,000 on a particular day ?
b.	How should the redemption transaction be recorded in the year 2017-2018? Company has requested you to present the sale of goods and redemption as independent transaction. Total sales of the entity is ₹5000 lacs
c.	How much of the deferred revenue should be recognised at the year-end (2017-2018) because of the estimation that only 80% of the outstanding points will be redeemed?
d.	In the next year 2018-2019, 60% of the outstanding points were discounted balance 40% of the outstanding points of 2017-2018 still remained outstanding. How much of the deferred revenue should merchant recognise in the year 2018-2019 and what will be the amount of balance deferred revenue ?
e.	How much revenue will the merchant recognise in the year 2019-2020, if 3,00,000 points are redeemed in the year 2019-2020 ?

(10 Marks)

Q.6 (a) At the beginning of year 1, an enterprise grants stock options to each of its 100 employees working in the sales department. The stock options will vest at the end of year 3, provided that the employees remain in the employment of the enterprise, and provided that the volume of sales of a particular product increases by at least an average of 5 per cent per year.

- If the volume of sales of the product increases by an average of between 5 per cent and 10 per cent per year, each employee will receive 100 stock options.

- If the volume of sales increases by an average of between 10 per cent and 15 per cent each year, each employee will receive 200 stock options.
- If the volume of sales increases by an average of 15 per cent or more, each employee will receive 300 stock options.

On the grant date, the enterprise estimates that the stock options have a fair value of ₹. 20 per option. The enterprise also estimates that the volume of sales of the product will increase by an average of between 10 per cent and 15 per cent per year, and therefore expects that, for each employee who remains in service until the end of year 3, 200 stock options will vest. The enterprise also estimates, on the basis of a weighted average probability, 20 per cent of employees will leave before the end of year 3.

By the end of year 1, seven employees have left and the enterprise still expects that a total of 20 employees will leave by the end of year 3. Hence, the enterprise expects that 80 employees will remain in service for the three-year period. Product sales have increased by 12 per cent and the enterprise expects this rate of increase to continue over the next 2 years.

By the end of year 2, a further five employees have left, bringing the total to 12 to date. The enterprise now expects that only three more employees will leave during year 3, and therefore expects that a total of 15 employees will have left during the three-year period, and hence 85 employees are expected to remain. Product sales have increased by 18 per cent, resulting in an average of 15 per cent over the two years to date. The enterprise now expects that sales increase will average 15 per cent or more over the three-year period, and hence expects each sales employee to receive 300 stock options at the end of year 3.

By the end of year 3, a further two employees have left. Hence, 14 employees have left during the three-year period, and 86 employees remain. The sales of the enterprise have increased by an average of 16 per cent over the three years. Therefore, each of the 86 employees receives 300 stock options.

Pass journal entries **(15 Marks)**

(b) Loan taken on 1.4.2018, $1000 from Ted Inc. in USA (exchange rate 1$ = ₹65) at 6% per annum interest.

On 31.3.2019 interest was paid for full year and exchange rate 1$ = ₹70.

Similar loan in India could be raised at 11%

Show treatment as per Ind AS 23 on borrowing cost **(5 Marks)**