CA FINAL

Test Code – JK-FR-22

(Date:23-09-2020)

(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 A Co., B Co. and C. Co at 31st March 2020 are as follows

	A.co		**B.co**		**C.co**	
	₹	₹	₹	₹	₹	₹
Assets						
Non- current Assets						
Freehold property		1,00,000		1,00,000		
Plant and machinery		2,10,000		80,000		3,000
		310,000		1,80,000		3,000
Investments in subsidiaries						
Shares, at cost	1,10,000		6,200			-
		1,10,000		6,200		3,000
Current assets						
Inventories	1,70,000		20,500		15,000	
Receivables	1,50,000		66,000		1,000	
Cash at bank	60,000		16,500		4,000	
		3,80,000		1,03,000		20,000
		8,00,000		2,89,200		23,000
Equity and liabilities						
Equity						
Share capital	2,00,000		1,00,000		10,000	
Retained earnings	3,79,600		1,29,200		(1,000)	

		5,79,600		2,29,200		9,000
Current liabilities						
Trade payables	1,60,400		53,000		14,000	
Tax	60,000		7,000		-	
			-		-	
		2,20,400		60,000		14,000
		8,00,000		**2,89,200**		**23,000**

A Co. acquired 75% of the shares of B Co. in 2017 when the credit balance on the retained earnings of that company was ₹ 40,000. No dividends have been paid since that date.

B Co. acquired 80% of the shares in C Co. in 2018 when there was a debit balance on the retained earnings of that company of ₹ 2500.

During the year to 31st March 2020 B Co. purchased inventory from A Co. for ₹20,000 which included a profit mark-up of ₹ 4,000 for A Co.

On 31st March 2020 one half of this amount was still held in the inventories of B Co.

Prepare Consolidated Balance Sheet of A Co. at 31st March 2020.

Notes:

(a) Assume no impairment of goodwill.

(b) Measure the non-controlling interest at its proportionate share of the fair value of the subsidary's assets.

(c) Follow Indirect Method (Based on Effective Holding)

(16 Marks)

(b) Entity X enters into a contract for a period of ten years with a logistics company, Entity Y, for use of the latter's trucks. As per the contract terms, Entity Y has a large pool of similar trucks, any one or more of which can be used to fulfil the requirements of the contract. Entity Y provides trucks and drivers as part of the contract.

Whether the arrangement contains a lease of trucks?

(4 Marks)

Q.2 (a) Sigma Ltd Issue 10,000, 3-year maturity 10% convertible debentures of ₹ 100 each as on 1st April 2015. 10 convertible debentures can be converted into 2 equity shares (Face value ₹10 per share) of the company. In case a holder does not opt for conversion, he will get redemption price of ₹ 100. How the convertible debenture amount received should be segregated into debt and equity component? Current market yield of similarly rated 3-year non- convertible debentures (Which has equivalent terms as of the convertible debentures except conversion option) is 12%.

Show the accounting entries for all the years, assuming all holders select conversion option. Discounting factor cumulative for 3 years is 2.402 & for third year is 0.712.

(8 Marks)

(b) Company A sells a photocopier machine for ₹1,00,000 with a contractual understanding that it will also do maintenance for five years. In certain other transactions where the Company A has sold photocopier machines without maintenance, the value is ₹80,000. If the maintenance contract is taken separately for 5 years, its value is ₹30,000. How should the revenue be recognized in such a situation?

(6 Marks)

(c) An entity recognised a material amount of expenditure on development of an intangible item as an expense in its financial statements for the year ended 31 March 2018. During the financial year 2018-19, the management discovers that the expenditure should have been capitalised. The error occurred as the management inadvertently failed to use certain reliable (and relevant) information that was available when financial statements for the year ended 31 March 2018 were approved for issue and that ought to have been taken into account in preparation of those financial statements.

The management intends to correct prior period error by restating the comparative amounts for the year ended 31 March 2018. However, it notes that in Ind AS 38, Intangible Assets, prohibits an entity from subsequently recognising an expenditure on an intangible item that was initially recognised as an expense as part of the cost of an intangible asset.

Whether the requirements of Ind AS 38 would override Ind AS 8?

(6 Marks)

Q.3 (a) Entity AB Ltd. enters into a three-year service contract with a customer CD Ltd. for ₹4,50,000 (₹1,50,000 per year). The standalone selling price for one year of service at inception of the contract is ₹1,50,000 per year. AB Ltd. accounts for the contract as a series of distinct services. At the beginning of the third year, the parties agree to modify the contract as follows:

(i) the fee for the third year is reduced to ₹1,20,000; and

(ii) CD Ltd. agrees to extend the contract for another three years for₹3,00,000 (₹1,00,000 per year).

The standalone selling price for one year of service at the time of modification is ₹1,20,000. How should AB Ltd. account for themodification?

(7 Marks)

(b) An entity issues 2,000 convertible bonds at the beginning of Year 1. The bonds have a three-year term, and are issued at par with a face value of ₹ 1,000 per bond, giving total proceeds of ₹ 2,000,000. Interest is payable annually in arrears at a nominal annual interest rate of 6%. Each bond is convertible at any time up to maturity into 250 ordinary shares. The entity has an option to settle the principal amount of the convertible bonds in ordinary shares or in cash.

When the bonds are issued, the prevailing market interest rate for similar debt without a conversion option is 9%. Income tax is Ignored.

Total Comprehensive Income for the given period is 12,00,000 , consisting OCI income of 2,00,000

Particulars	**Nos.**
Ordinary shares outstanding	12,00,000
Convertible bonds outstanding	2,000

Calculate the Basic and Diluted EPS.

(7 Marks)

(c) X Limited manufacturer of ceramic tiles has shown a net profit of ₹15,00,000 for the first quarter of 2018-2019. Following adjustments were made while computing the net profit:

(i) Bad debts of₹ 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of ₹ 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of₹3,50,000 resulting from the change in the method of depreciation has been taken into consideration to the extent of 25 %.

(iv) Extra-ordinary loss of₹1,36,000 incurred during the quarter has been recognized in this quarter to the extent of 50 %.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors.

(6 Marks)

Q.4 (a) Company X enters into an agreement on January 1, 2018 with a customer for renovation of hospital and install new air-conditioners for total consideration of₹50,00,000. The promised renovation service, including the installation of new air-conditioners is a single performance obligation satisfied over time.

Total expected costs are ₹40,00,000 including ₹10,00,000 for the airconditioners.

Company X determines that it acts as a principal because it obtains control of the air conditioners before they are transferred to the customer. The customer obtains control of the air conditioners when they are delivered to the hospital premises.

Company X uses an input method based on costs incurred to measure its progress towards complete satisfaction of the performance obligation.

As at March 31, 2018, other costs incurred excluding the air conditioners are ₹6,00,000.

Whether Company X should include cost of the air conditioners in measure of its progress of performance obligation? How should revenue be recognised for the year ended March 2018?

(6 Marks)

(b) On 1 January 2015, entity A grants an award of 1,000 options to each of its 60 employees, on condition that the recipients remain in the entity's employment for three years. The grant date fair value of each option is₹5.

Towards the end of 2015, entity A's share price dropped; so, on 1 January 2016, management chose to reduce the exercise price of the options.

At the date of the re-pricing, the fair value of each of the original share options granted was ₹ 1; and the fair value of each re-priced option was ₹3. Thus, the incremental fair value of each modified option was ₹2.

At the date of the award, management estimated that 10% of employees would leave the entity before the end of three years (that is, 54 awards would vest). During 2016, it became apparent that fewer employees than expected were leaving; so, management revised its estimate of the number of leavers to only 5% (that is 57 awards would vest). At the end of 2017, awards to 55 employees actually vested. Calculate amount of expenses for each year.

(6 Marks)

(c) On 1 January 2009, Entity X Ltd. issued a 10% convertible debenture with a face value of ₹ 1,000 maturing on 31 December 2018. The debenture is convertible in to equity shares of Entity A at a conversion price of ₹ 25 per share. Interest is payables half-yearly in cash. At the date of issue, Entity X Ltd could have issuednon-convertible debt with a ten-year term bearing a coupon interest rate of 11%.

On 1 January 2014 the convertible debenture has a fair value of ₹ 1,700 X Ltd. makes a tender offer to the holder of the debenture to repurchase the debenture for ₹1,700, which the holder accepts. At the date of repurchase X Ltd. could have issued non-convertible debt with a five-year term bearing a coupon interest rate of 8%.

How does X Ltd. account for the repurchases?

(8 Marks)

Q.5 (a) A Ltd produces chemical, X which has following production cost per unit

Raw Material = ₹ 5

Direct Labour = ₹ 2

Direct Expenses = ₹ 3

Normal capacity = 5,000 units per annum

Actual production = 4,000 units (As Governments have enforced lockdowns due to COVID 19) otherwise actual production would have reached to 5000 units.

Fixed production Overhead = ₹ 20,000 per annum

The company has 2,000 units of unsold stock lying with it at the end of year. You required to value the closing stock.

(4 Marks)

(b)

	Current value (Amt. In ₹)	**Tax Base (Amt. In ₹)**
Non- current assets		
Assets subjective to investment relief	63,000	
Land	2,00,000	
Plant and Equipment	1,00,000	90,000
Receivable		
Trade receivables	73,000	
Interest receivables	1,000	
Payables		
Fine	10,000	10,000
Interest payables	3,300	

Additional information:

1. The asset having carrying value of ₹ 63,000 cost to company ₹ 70,000 at the start of the year. It is being depreciated on a 10% straight line basis for accounting purposes. Company's tax advisers have said that the company can claim ₹ 42,000 as a taxable expense in this year's tax computation.

2. The land has been revalued during the year in accordance with Ind AS-I 6, Property, Plant and Equipment. It originally cost ₹ 1,50,000. Land is not subject to depreciation under Ind. AS.

3. The balances in respect of plant and equipment are after allowing for accounting depreciation of ₹ 12,000 and tax allowable deprecation of ₹ 10,000 respectively.

4. The trade receivables balance in the accounts is made up of the following:

Balances	₹ 80,000
Allowances	₹ (7,000)
	₹ 73,000

5. The balance on the deferred taxation Liability account on 1st January 2017 was ₹ 3,600

6. The applicable tax rate is 30%

7. Interest is allowable/taxable on cash basis.

Required

a) Identify the tax base item listed and then identify the temporary difference.

b) Calculate the deferred tax provision required at 31st December 2017 and the charge to profit or loss (Separately Disclosing to OCI) in respect of deferred taxation for the year

(12 Marks)

(c) Company X purchased 100 sheep at an auction ₹ 60,000, on 31st December, 2015. The transportation cost amounting to be ₹ 1500 and the auctioneer's fees amounted to be 1% of sales price. At what value would the sheep be measured in the Balance sheet and what gain/loss would be shown in the statement of profit and loss?

Suppose the fair value of the sheep rises to ₹ 70,000 on 30th June 2016. At what would the sheep be measured in the balance sheet and what gain/loss would be recognized in the statement of profit and loss?

(4 Marks)

Q.6 (a) X has litigation pending. Legal advice is that X will lose the case and costs of ₹1200 crore in two years' time are estimated. The liability is recognized on a discounted basis. The discount rate at which the liability has been discounted is the nominal risk free rate which is 4.5% and will not change. How should management calculate the amount of borrowing costs recognized on the unwinding of a discount?

(5 Marks)

(b) An entity acquires an equipment and a patent in exchange for INR 1,000 crores cash and land. The fair value of the land is INR 400 crores and its carrying value is INR 100 crores. The fair values of the equipment and patent are estimated to be INR 500 crores and INR 1,000 crores, respectively. The equipment and patent relate to a product that has just recently been commercialised. The market for this product is still developing. Assume the entity incurred no transaction costs. For ease of convenience, the tax consequences on the gain have been ignored. How should the transaction be accounted for?

(4 Marks)

(c) Entity XYZ acquired a 10% interest in entity ABC for ₹ 100,000 at 1 June 2017. The investment in entity ABC was accounted for as equity investment (not held for trading) for which irrevocable option has been availed of routing the changes in fair value through other comprehensive income and related FVOCI reserve.

Entity XYZ recognised an increase in fair value of ₹ 60,000 in other comprehensive income for the year ended 31 March 2018.

Entity XYZ acquired an additional 25% interest in entity ABC for ₹ 4,00,000 at 1 April 2018 and achieved significant influence. The fair value of entity ABC's net assets was ₹ 500,000 at June 2017 and had increased to ₹ 800,000 at 1 April 2018.

Entity ABC recorded profits after dividends of ₹ 200,000 between 1 June 2017 and 1 April 2018.

How should an entity account for an investment in an investee on account of piece-meal acquisition when such investment provides it significant influence over the investee?

(6 Marks)

(d) Makers Ltd. acquired 65% of shares on 1st June, 2018 in D Limited which is engaged in production of components of machinery. D Limited has 1,00,000 equity shares of ₹ 10 each. The quoted market price of shares of D Limited was ₹12 on the date of acquisition. The fair value of D Limited's identifiable net assets as on 1st June, 2018 was ₹ 80,00,000.

Makers Limited wired ₹50,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of Makers Limited on the date of issue is ₹ 25 per share.

Makers Limited also agrees to pay additional consideration of ₹ 15,00,000, if the cumulative profit earned by D Limited exceeds ₹ 1 crore over the next three years. On the date of acquisition, D Limited assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is ₹ 9,80,000. D Limited incurred ₹ 1,50,000 in relation to the acquisition. It measures Non-controlling interest at fair value

(5 Marks)