CA-FINAL
GROUP I – PAPER 1
FINANCIAL REPORTING
SERIES - 3 (May 2020)

Roll No. ……………………………….. | ***Date : 24.03.2020***
Time Allowed: - 3 Hours | **Maximum Marks: 100**

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Question No. 1 is compulsory.
Attempt any Four questions from the rest.

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1(a) Hold Limited acquired 100% ordinary shares of ₹ 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below: **16**

Particulars	Hold Limited (₹)	Sub Limited (₹)
I. Assets		
(1) Non-current Assets		
(i) Property, Plant & Equipment		
(a) Land & Building	30,00,000	36,00,000
(b) Plant & machinery	48,00,000	27,00,000
(ii) Investment in Sub Limited	68,00,000	
(2) Current Assets		
(i) Inventory	24,00,000	7,28,000
(ii) Financial Assets		
(a) Trade Receivables	11,96,000	8,00,000
(b) Cash & Cash Equivalents	2,90,000	1,60,000
Total	**1,84,86,000**	**79,88,000**
II Equity and Liabilities		
(1) Equity		
(i) Equity Share Capital (Shares of ₹ 100 each fully paid)	1,00,00,000	40,00,000
(ii) Other Equity		
(a) Other Reserves	48,00,000	20,00,000
(b) Retained Earnings	11,44,000	16,40,000
(2) Current Liabilities		
Financial Liabilities		
(a) Bank Overdraft	16,00,000	-
(b) Trade Payable	9,42,000	3,48,000
Total	**1,84,86,000**	**79,88,000**

The retained earnings of Sub Limited showed a credit balance of ₹ 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

(i) Fair value of Plant and Machinery was ₹ 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

(ii) Land and Building appreciated by ₹ 20,00,000.

(iii) Inventories increased by ₹ 3,00,000.

(iv) Trade payable increased by ₹ 2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant lnd AS and Schedule III of the Companies Act, 2013.

1(b) A Limited received from the government a loan of ₹ 1,00,00,000 @ 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. **4**

2(a) An entity regularly sells Products X, Y and Z individually, thereby establishing the following stand-alone selling prices: **10**

Product	**Stand-alone selling price**
	₹
Product X	50,000
Product Y	25,000
Product Z	45,000
Total	**1,20,000**

In addition, the entity regularly sells Products Y and Z together for ₹ 50,000

Case A—Allocating a discount to one or more performance obligations

The entity enters into a contract with a customer to sell Products X, Y and Z in exchange for ₹ 100,000. The entity will satisfy the performance obligations for each of the products at different points in time; or Product Y and Z at same point of time. Determine the allocation of transaction price to Product Y and Z.

Case B—Residual approach is appropriate

The entity enters into a contract with a customer to sell Products X, Y and Z as described in Case A. The contract also includes a promise to transfer Product Alpha. Total consideration in the contract is ₹ 130,000. The stand-alone selling price for Product Alpha is highly variable because the entity sells Product Alpha to different customers for a broad range of amounts (₹ 15,000 – ₹ 45,000). Determine the stand-alone selling price of Products, X, Y, Z and Alpha using the residual approach.

Case C—Residual approach is inappropriate

The same facts as in Case B apply to Case C except the transaction price is ₹ 1,05,000 instead of ₹ 130,000.

2(b) Balance sheet of a trader on 31st March, 20X1 is given below: **10**

Particulars	**₹**
Assets	
Non-current assets	
Property, Plant and Equipment	65,000
Current assets	
Inventories	30,000
Financial assets	
Trade receivables	20,000
Other asset	10,000
Cash and cash equivalents	5,000
	1,30,000
Equity and Liabilities	
Equity	
Share capital	60,000
Other Equity - Profit and Loss Account	25,000
Non-current liabilities	
10% Loan	35,000
Current liabilities	
Financial liabilities	
Trade payables	10,000
	1,30,000

Additional information:

(a) The remaining life of Property, Plant and Equipment is 5 years. The pattern of use of the asset is even. The net realisable value of Property, Plant and Equipment on 31.03.20X2 was ₹ 60,000.

(b) The trader's purchases and sales in 20X1-20X2 amounted to ₹ 4 lakh and ₹ 4.5 lakh respectively.

(c) The cost and net realisable value of inventories on 31.03.20X2 were ₹ 32,000 and ₹ 40,000 respectively.

(d) Employee benefit expenses for the year amounted to ₹ 14,900.

(e) Other asset is written off equally over 4 years.

(f) Trade receivables on 31.03.20X2 is ₹ 25,000, of which ₹ 2,000 is doubtful. Collection of another ₹ 4,000 depends on successful re-installation of certain product supplied to the customer.

(g) Cash balance on 31.03.20X2 is ₹ 37,100 before deduction of interest paid on loan.

(h) There is an early repayment penalty for the loan ₹ 2,500.

The Profit and Loss Accounts and Balance Sheets of the trader are shown below in two cases

(i) assuming going concern (ii) not assuming going concern.

3(a) X Ltd. is operating in coating industry. Its business segment comprise coating and others consisting of chemicals, polymers and related activities. Certain information for financial year 20X1-20X2 is given below: **8**

Segments	External sale	Tax	Other operating income	Result	Asset	Liabilities
Coating	2,00,000	5,000	40,000	10,000	50,000	30,000
Others	70,000	3,000	15,000	4,000	30,000	10,000

Additional information:

1. Unallocated revenue net of expenses is ₹ 30,00,00,000
2. Interest and bank charges is ₹ 20,00,00,000
3. Income tax expenses is ₹ 20,00,00,000 (current tax ₹ 19,50,00,000 and deferred tax ₹ 50,00,000)
4. Investments ₹ 1,00,00,00,000 and unallocated assets ₹ 1,00,00,00,000.
5. Unallocated liabilities, Reserve & surplus and share capital are ₹ 2,00,00,00,000, ₹ 3,00,00,00,000 & ₹ 1,00,00,00,000 respectively.
6. Depreciation amounts for coating & others are ₹ 10,00,00,000 and ₹ 3,00,00,000 respectively.
7. Capital expenditure for coating and others are ₹ 50,00,00,000 and ₹ 20,00,00,000 respectively.
8. Revenue from outside India is ₹ 3,00,00,00,000 and segment asset outside India ₹ 1,00,00,00,000.

Based on the above information, how X Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 20X1-20X2?

(b) 1 QA Ltd. issued 10,00,000 of 8% Long Term bond-A Series of Rs. 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1st April each year. The investors expect an effective interest rate on the loan at 10%. QA Ltd. wants you to suggest the suitable accounting entries for the issue of these bonds as per applicable Ind AS. Consider the discounting factor 3 years, 10% discounting factor is 0.751315 and 3 years cumulative discounting factor is 2.48685 **8**

(i) What is the principal value of the bond at the initial recognition at the time of issue of bond as per applicable Ind AS?

(ii) What is the present value of the interest payment to be recognised as part of the sale price of the bond as per applicable Ind AS?

(iii) What are the proceeds of the sale of the bond to be recognized at the time of initial recognition as per applicable Ind AS?

(iv) What is the accounting entry to be passed at the time of accounting for payment of interest for the first year?

2 QA Ltd. has also issued 10,00,000 of 8% Long Term Bond-B Series of Rs. 1 each on 1st April, 2016. The bond tenure is 3 years. Interest is payable annually on 1 st April each year. However, the bond holders of this series are entitled to convert the bonds to shares of Rs. 1 each on the date of maturity, instead of receiving the principal repayment. Interest rate on the similar bond without conversion option is 10%. QA Ltd. has requested you to suggest the following for this type of instrument:

(a) What is entry to be passed at the date of issuance of the bond as per applicable Ind AS?

(b) What is entry to be passed at the date of conversion of the bond as per applicable Ind AS?

3(c) An asset is sold in 2 different active markets 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. **4**

In Market A:
The price that would be received is ₹ 26, transaction costs in that market are ₹ 3 and the costs to transport the asset to that market are ₹ 2.

In Market B:
The price that would be received is ₹ 25, transaction costs in that market are ₹ 1 and the costs to transport the asset to that market are ₹ 2.

You are required to calculate:
(i) The fair value of the asset, if market A is the principal market, and
(ii) The fair value of the asset, if none of the markets is principal market.

4(a) Preet Pvt. Ltd. has a number of wholly-owned subsidiaries including Stuti Pvt. Ltd. at 31st March, 2018. Preet Pvt. Ltd.'s consolidated balance sheet and the carrying amount of assets and liabilities of Stuti Pvt. Ltd., included in the respective amount of respective grouped assets and liabilities of the consolidated balance sheet as at 31st March, 2018 are as follows: **12**

Particulars	Consolidated balance sheet (Rs. in million)	Carrying amount of asset and liabilities of Stuti Pvt. Ltd. included in the CFS
Assets		
Non-current Assets		
Goodwill	380	180
Buildings	3,240	1,340
Current Assets		
Inventories	140	40
Trade Receivables	1,700	900
Cash and cash equivalents	3,100	1000
Total Assets	**8,560**	**3,460**
Equities & Liabilities		
Equity		
Share Capital	1600	
Other Equity		
Retained Earnings	4,260	
Current liabilities		
Trade Payables	2,700	900
Total Equity & Liabilities	**8,560**	**900**

Prepare Consolidated Balance Sheet after disposal as on 31st March, 2018 when Preet Pvt. Ltd. group sold 100% shares of Stuti Pvt. Ltd. to independent party for Rs. 3,000 millions.

4(b) An entity has a nuclear power plant and a related decommissioning liability. The nuclear power plant started operating on 1st April, 20X1. 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 31st March. Assume that a market-based discounted cash flow valuation of ₹ 1,15,000 is obtained at 31st March, 20X4. This valuation is after deduction of an allowance of ₹ 11,600 for decommissioning costs, which represents no change to the original estimate, after the unwinding of three years' discount. On 31st March, 20X5, 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 31st March, 20X5, 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. **8**

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

5(a) 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%. **12**

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	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

(b) RKA Private Ltd is an old company established in 19XX. The company started with a very small capital base and today it is one of the leading companies in India in its industry. The company has an annual turnover of ₹ 11,000 crores and planning to get listed in the next year. **8**

The company has a large employee base. The company provided a defined benefit plan to its employees. Following is the information relating to the balances of the fund's assets and liabilities as at 1st April, 20X1 and 31st March, 20X2.

Particulars	**1st April, 20X1**	**31st March, 20X2**
Present value of benefit obligation	1,400	1,580
Fair value of plan assets	1,140	1,275

For the financial year ended 31st March, 20X2, service cost was ₹ 55 lacs. The company made a contribution of an amount of ₹ 111 lacs to the plan. No benefits were paid during the year.

Consider a discount rate of 8%. You are required to -

(a) Compute the balance(s) of the company to be included its balance sheet as on 31st March, 20X2 and amounts to be recognized in the statement of profit and loss and other comprehensive income for the year ended 31st March, 20X2.

(b) Give the journal entries in respect of amount(s) to be recognized.

6(a) Infotech Global Ltd. has a functional currency of USD and needs to translate its financial statements into the functional and presentation currency of Infotech Inc. (L$). **8**

The following balances appear in the books of of Infotech Global Ltd. at the year-end prior to translation:

	USD	L$
Property, plant and equipment	50,000	
Receivables	9,35,000	
Total assets	**9,85,000**	
Issued capital	50,000	30,055
Opening retained earnings	28,000	15,274
Profit & Loss A/c (Profit for the year)	20,000	
Accounts payable	8,40,000	
Accrued liabilities	47,000	
Total equity and liabilities	**9,85,000**	

Translate the above balances of Infotech Global Ltd. into L$ ready for consolidation by Infotech Inc. (Share capital and opening retained earnings have been pre-populated.)

Prepare a working of the cumulative balance of the foreign currency translation reserve.

Additional information:

Relevant exchange rates are:

Rate at beginning of the year L$ 1 = USD 1.22

Average rate for the year L$ 1 = USD 1.175

Rate at end of the year L$ 1 = USD 1.13

(b) ABC Ltd. works out translation gain/loss over the years on its investment in foreign subsidiary 2014-15: Rs. 2 lakhs, 2015-16: Rs. 4 lakhs, 2016-17: Rs. 3 lakhs. The foreign subsidiary is sold on 30th June 2017. The translation gain on sale of such investment as on that date is Rs. 2 lakhs. Assuming that deferred tax effect is computed @ 30%. How should the company present the translation gain/loss, deferred taxation and reclassification adjustment in the Profit and loss, other comprehensive income, equity and liabilities? **8**

(c) Company has provided the following information regarding the various assets held by company on 31st March 20X1. Find out, which of the following items will be part of cash and cash equivalents for the purpose of preparation of cash flow statement as per the guidance provided in Ind AS 7: **4**

Sr. No.	Name of the Security	Additional Information
1.	Fixed deposit with SBI	12%, 3 years maturity on 1st Jan 20X4
2.	Fixed deposit with HDFC	10%, original term was for 2 years, but due for maturity on 30.06.20X1
3.	Redeemable Preference shares in ABC ltd	Acquired on 29th January 20X1 and the redemption is due on 30th April 20X1
4.	Cash balances at various banks	All branches of all banks in India
5.	Cash balances at various banks	All international branches of Indian banks
6.	Cash balances at various banks	Branches of foreign banks outside India
7.	Bank overdraft of SBI Fort branch	Temporary overdraft, which is payable on demand
8.	Treasury Bills	90 days maturity