CA FINAL

SUBJECT- FINANCIAL REPORTING

Test Code – FNJ 7413

(Date :)

(Marks -100)

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

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

Working notes should form part of the answers.

QUESTION 1(A) **(16 MARKS)**

Hold Limited acquired 100% ordinary shares of Rs. 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:

	Particulars	Hold Limited (Rs.)	Sub Limited (Rs.)
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 Rs. 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 Rs. 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 Rs. 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

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

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

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

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

QUESTION 1(B) **(4 MARKS)**

An entity uses the weighted average cost formula to assign costs to inventories and cost of goods sold for financial reporting purposes, but the reports provided to the chief operating decision maker use the First-In, First-Out (FIFO) method for evaluating the performance of segment operations. **Which cost formula should be used for Ind AS 108 disclosure purposes?**

QUESTION 2(A) **(5 MARKS)**

Company X purchased 100 sheep at an auction for Rs. 60,000 on 31st December 2015. The transportation cost amounting to be Rs. 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 Rs. 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 ?**

QUESTION 2(B) **(3 MARKS)**

Scenario A:

Customer XYZ enters into a ten-year contract with Supplier ABC for the right to transport oil from India to Bangladesh through Supplier ABC's pipeline. The contract provides that Customer XYZ will have the right to use of 95% of the pipeline's capacity throughout the term of the arrangement.

Whether there is an identified asset?

Scenario B:

Assume the same facts as in Scenario A, except that Customer XYZ has the right to use 65% of the pipeline's capacity throughout the term of the arrangement.

Whether there is an identified asset?

QUESTION 2(C) (4 MARKS)

A parent grants 200 share options to each of 100 employees of its subsidiary, conditional upon the completion of two years' service with the subsidiary. The fair value of the share options on grant date is ` 30 each. At grant date, the subsidiary estimates that 80 percent of the employees will complete the two-year service period. This estimate does not change during the vesting period. At the end of the vesting period, 81 employees complete the required two years of service. The parent does not require the subsidiary to pay for the shares needed to settle the grant of share options.

Pass the necessary journal entries for giving effect to the above arrangement.

QUESTION 2(D) (5 MARKS)

Consider the situation where an adverse movement on the foreign exchange rate after year end an entity had the effect that the exchange differences arising on the retranslation of the bank overdraft since the balance sheet date exceed the profit for the period under review. **How should this be reflected in the financial statements ?**

QUESTION 2(E) (3 MARKS)

ABC Ltd enters into a contract with XYZ Ltd, which grants ABC Ltd exclusive rights to use a specific grain storage facility over a five-year period in the months of May and June. During these months, ABC Ltd has the right to decide which crops are placed in storage and when to remove them. XYZ Ltd provides the loading and unloading services for the warehouse activities. During the other ten months each year, XYZ Ltd has the right to determine how the warehouse will be used.

Which party has the right to control the use of the identified asset during the period of use?

QUESTION 3(A) (12 MARKS)

KP Ltd manufactures and operates a fleet of small aircraft. It draws up its financial statements to 31st March each year. The company has recently finished manufacturing a fleet of five aircraft to a new design. These aircraft are intended for use in its own fleet for domestic carriage purposes. The company commenced construction of the assets on 01/04/2012 and wishes to recognise them as non-current tangible assets as at 31/03/2014.

KP Ltd had taken out a three year loan of Rs. 2 crores to finance the aircraft on 01/04/2012. Interest is payable at 10% per annum but is to be rolled over and paid at the end of the three year period together with the capital outstanding. KP Ltd capitalizes on manufactured assets in accordance with the rules in Ind AS-23 Borrowing Costs.

The aircraft were competed on 01/01/2014 but their exterior painting was delayed until 31/03/2014. The costs (excluding finance costs) of manufacturing the aircraft were Rs. 2.80 crores.

During the construction of the aircraft, certain computerized components used in the manufacture fell dramatically in price. The company estimated that at 31/03/2014 the recoverable amount of the aircraft was Rs. 3 crores.

The engines used in the aircraft have a three year life and the body parts have an eight year life; KP Ltd has decided to depreciate the engines and the body parts over their different useful lives on the straight line basis. The engine costs represent 30% of the total cost of manufacture. The engine will be replaced on 31/03/2017 at an estimated cost of Rs. 1.50 crores

The company has decided to revalue the aircraft annually on the basis of their value.

On 31/03/2015, the aircraft have a market value of Rs. 2.10 crores.

On 31/03/2016, the aircraft have a market value of Rs. 1.96 crores

Revaluation surpluses or deficit are apportioned between the engines and the body parts on the basis of their year-end values before the revaluation.

Required: Show the accounting treatment of the aircraft fleet in the financial statements on the basis of the above scenario for the financial year endings:

(a) 31/03/2014;

(b) 31/03/2015 & 31/03/2016

(c) 31/03/2017 before revaluation

QUESTION 3(B) **(8 MARKS)**

An entity enters into a contract with a customer for two intellectual property licences (Licences A and B), which the entity determines to represent two performance obligations each satisfied at a point in time. The stand-alone selling prices of Licences A and B are Rs. 1,600,000 and Rs. 2,000,000, respectively. The entity transfers Licence B at inception of the contract and transfers Licence A one month later.

Case A—Variable consideration allocated entirely to one performance obligation

The price stated in the contract for Licence A is a fixed amount of Rs. 1,600,000 and for Licence B the consideration is three per cent of the customer's future sales of products that use Licence B. For purposes of allocation, the entity estimates its sales-based royalties (ie the variable consideration) to be Rs. 2,000,000. Allocate the transaction price.

Case B—Variable consideration allocated on the basis of stand-alone selling prices

The price stated in the contract for Licence A is a fixed amount of Rs. 600,000 and for Licence B the consideration is five per cent of the customer's future sales of products that use Licence B. The entity's estimate of the sales-based royalties (ie the variable consideration) is Rs. 3,000,000. **Allocate the transaction price and determine the revenue to be recognised for each licence and the contract liability**, if any.

QUESTION 4 **(20 MARKS)**

(a) H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:

Date	Equity stake purchased	Remarks
1st November, 2016	15%	The shares were purchased based on the quoted price on the stock exchange on the relevant dates.
1st January, 2017	45%	

Both the above-mentioned companies have INR as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 2017.

Following is the Balance Sheet of S Ltd. as on that date:

Particulars	Carrying value (Rs. in crore)	Fair value (Rs. in crore)
ASSETS:		
Non-current assets		
(a) Property, plant and equipment	40.0	90.0
(b) Intangible assets	20.0	30.0
(c) Financial assets	100.0	350.0
- Investments		
Current assets		
(a) Inventories	20.0	20.0
(b) Financial assets		
- Trade receivables	20.0	20.0
- Cash held in functional currency	4.0	4.5
(c) Other current assets		
Non-current asset held for sale	4.0	4.5
TOTAL ASSETS	208	
EQUITY AND LIABILITIES:		
Equity		
(a) Share capital (face value Rs.100)	12.0	50.4
(b) Other equity	141.0	Not applicable
Non-current liabilities		
(a) Financial liabilities - Borrowings	20.0	20.0
Current liabilities		
(a) Financial liabilities - Trade payables	28.0	28.0
(b) Provision for warranties	3.0	3.0
(c) Current tax liabilities	4.0	4.0
TOTAL EQUITY AND LIABILITIES	208.0	

Other information:

Property, plant and equipment in the above Balance Sheet include leasehold motor vehicles having carrying value of Rs. 1 crore and fair value of Rs. 1.2 crore. The date of inception of the lease was 1st April, 2010. On the inception of the lease, S Ltd. had correctly classified the lease as a finance lease. Following is the statement of contingent liabilities of S Ltd. as on 1st January, 2017:

Particulars	Fair value (Rs. in crore)	Remarks
Law suit filed by a customer for a claim of Rs. 2 crore	0.5	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. Any amount which would be paid in respect of law suit will be tax deductible.
Income tax demand of Rs. 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court.	2.0	It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of Rs. 1 crore.

Rs. 1 crore represents the acquisition date fair value of the indemnification undertaking.

Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

Carrying value of non-current asset held for sale of Rs. 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on 1st January, 2017, it has issued to the selling shareholders of S Ltd. 1 equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on 1st January, 2017 is Rs. 10,000 per share.

On 1st January, 2017, H Ltd. has paid Rs. 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31st March, 2019, H Ltd. will pay Rs. 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31st March, 2019 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on 1st January, 2017 and 31st March, 2017 as Rs. 22 crore and Rs. 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.

Quoted price of equity shares of S Ltd. as on various dates is as follows:

As on November, 2016	Rs. 350 per share
As on 1st January, 2017	Rs. 395 per share
As on 31st March, 2017	Rs. 420 per share

On 31st May, 2017, H Ltd. learned that certain customer relationships existing as on 1st January, 2017, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 2017. The fair value of such customer relationships as on 1st January, 2017 was Rs. 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 2017 itself, H Ltd. further learned that due to additional customer relationships being developed during the period 1st January, 2017 to 31st March, 2017, the fair value of such customer relationships has increased to Rs. 4 crore as on 31st March, 2017.

On 31st December, 2017, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are **required** to provide your detailed responses to the following, along with reasoning and computation notes:

(a) What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 2017. For this purpose, measure non- controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

(b) Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 2017? If yes, provide relevant journal entries.
What should be the accounting treatment of the contingent consideration as on 31st March, 2017?

QUESTION 5(A) **(6 MARKS)**

PQR Ltd., a manufacturing company, prepares consolidated financial statements to 31st March each year. During the year ended 31st March, 2018, the following events affected the tax position of the group:

- QPR Ltd., a wholly owned subsidiary of PQR Ltd., incurred a loss adjusted for tax purposes of Rs. 30,00,000. QPR Ltd. is unable to utilise this loss against previous tax liabilities. Income-tax Act does not allow QPR Ltd. to transfer the tax loss to other group companies. However, it allows QPR Ltd. to carry the loss forward and utilise it against company's future taxable profits. The directors of PQR Ltd. do not consider that QPR Ltd. will make taxable profits in the foreseeable future.

- During the year ended 31st March, 2018, PQR Ltd. capitalised development costs which satisfied the criteria as per Ind AS 38 'Intangible Assets'. The total amount capitalised was Rs. 16,00,000. The development project began to generate economic benefits for PQR Ltd. from 1st January, 2018. The directors of PQR Ltd. estimated that the project would generate economic benefits for five years from that date. The development expenditure was fully deductible against taxable profits for the year ended 31st March, 2018.

- On 1st April, 2017, PQR Ltd. borrowed Rs. 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was Rs. 2,00,000 and this cost qualified for a tax deduction on 1st April 2017. The loan was for a three-year period. No interest was payable on the loan but the amount repayable on 31st March 2020 will be Rs. 1,30,43,800. This equates to an effective annual interest rate of 10%. As per the Income-tax Act, a further tax deduction of Rs. 30,43,800 will be claimable when the loan is repaid on 31st March, 2020.

Explain and show how each of these events would affect the deferred tax assets / liabilities in the consolidated balance sheet of PQR Ltd. group at 31st March, 2018 as per Ind AS. The rate of corporate income tax is 30%.

QUESTION 5(B) (4 MARKS)

Ind AS-105 'Non-current Asset Held for sale and Discontinued Operations' deals with the measurements and reporting of assets or groups of assets that are intended to be sold or otherwise disposed of.

Required:
State the criteria that need to be satisfied before an asset or disposal group is classified as held for sale under Ind AS-105

QUESTION 5(C) (3 MARKS)

An entity has a 100% owned foreign subsidiary, which it carries at its original cost of $2 million. It sells the subsidiary on March 31,20X7, for €5 million. As of March 31,20X7, the balance on the exchange reserve was $300,000 credit. The functional currency of the entity is the dollar, and the exchange rate on March 31, 20X7, is $1 = €2. The net asset value of the subsidiary at the date of disposal was $2.4 million.

Discuss the treatment of the disposal of the foreign subsidiary.

QUESTION 5(D) (3 MARKS)

Earth Infra Ltd has two cash-generating units, X and Y. There is no goodwill within the units' carrying values. The carrying values of the CGUs are CGU A for Rs. 20 million and CGU B for Rs. 30 million. The company has an office building which it is using as an office headquarter and has not been included in the above values and can be allocated to the units on the basis of their carrying values.

The office building has a carrying value of Rs. 10 million. The recoverable amounts are based on value-in-use of Rs. 18 million for CGU A and Rs. 38 million for CGU B.

Required: Determine whether the carrying values of CGU A and B are impaired.

QUESTION 5(E) (4 MARKS)

Whether statement of cash flows should be prepared only for annual reporting period?

QUESTION 6(A) (6 MARKS)

On 1-1-2018 Induga Ltd. had 500,000 shares outstanding. On 1-3-2018, it issued 1 new share for each 5 shares outstanding at RS. 15. Fair value of 1 ordinary share immediately before the right issue was Rs. 21. Profit for the year 2017 was Rs. 11,00,000 and for 2018 Rs. 15,00,000. **Calculate the basic EPS for 2018 restated EPS for 2017.**

QUESTION 6(B) **(8 MARKS)**

(i) When an entity is required to form a CSR committee?

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

The previous year's financials state: (INR in Crores)

	March 31, 20X4 (Current year)	**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 the Company have an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

QUESTION 6(C) **(6 MARKS)**

On 01/01/2014, T & Co Ltd issued redeemable preference shares worth Rs. 400,000, the transaction costs directly attributable to the issue are Rs. 20,000. The rate of interest is 6% payable annually and the shares will be redeemed on 31.12.2017 for Rs. 4,85,000. The effective interest rate is 12%

(i) Are the redeemable preference shares, debt or equity as per Ind AS-32

(ii) At what value the preference shares will be recognized initially as per Ind AS-109

(iii) Calculate the carrying amount of the preference shares at the end of each year up to its redemption at amortized cost.