MOCK TEST PAPER 2

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

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.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. (a) On 1st April, 20X1, A Ltd. acquired 80% of the share capital of S Ltd. On acquisition date the share capital and reserves of S Ltd. stood at ₹ 5,00,000 and ₹ 1,25,000 respectively. A Ltd.'s paid initial cash consideration of ₹ 10,00,000. Additionally, A Ltd. issued 2,00,000 equity shares with a nominal value of ₹ 1 per share at current market value of ₹ 1.80 per share.

It was also agreed that A Ltd. would pay a further sum of ₹ 5,00,000 after three years. A Ltd.'s cost of capital is 10%. The appropriate discount factor for ₹ 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited.

Below are the Balance Sheet of A Ltd. and S Ltd. as at 31st March, 20X3:

	A Ltd. (₹ 000)	S Ltd. (₹ 000)
Non-current assets:		
Property, plant & equipment	5,500	1,500
Investment in S Ltd. at cost	1,000	
Current assets:		
Inventory	550	100
Receivables	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

Further information:

(i) On the date of acquisition the fair values of S Ltd.'s plant exceeded its book value by ₹ 2,00,000. The plant had a remaining useful life of five years at this date;

(ii) The consolidated goodwill has been impaired by ₹ 2,58,000; and

(iii) A Ltd. Group values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of 20% non-controlling interest was ₹ 3,80,000.

You are required to prepare Consolidated Balance Sheet of A Ltd. as at 31st March, 20X3. (Notes to Account on Consolidated Balance Sheet is not required). **(15 Marks)**

(b) (i) A Ltd. owns 250 ordinary shares in XYZ Ltd., an unquoted company. XYZ Ltd. has a total share capital of 5,000 shares with nominal value of ₹ 10. XYZ Ltd.'s after-tax maintainable profits are estimated at ₹ 70,000 per year. An appropriate price/earnings ratio determined from published industry data is 15 (before lack of marketability adjustment). A Ltd.'s management estimates that the discount for the lack of marketability of XYZ Ltd.'s shares and restrictions on their transfer is 20%. A Ltd. values its holding in XYZ Ltd.'s shares based on earnings. Determine the fair value of A Ltd.'s investment in XYZ Ltd.'s shares.

(ii) Based on the facts given in the aforementioned part (i), assume that A Ltd. estimates the fair value of the shares it owns in XYZ Ltd. using a net asset valuation technique. The fair value of XYZ Ltd.'s net assets including those recognised in its balance sheet and those that are not recognised is ₹ 8,50,000. Determine the fair value of A Ltd.'s investment in XYZ Ltd.'s shares. **(5 Marks)**

2. (a) ABC Limited supplies plastic buckets to wholesaler customers. As per the contract entered into between ABC Limited and a customer for the financial year 20X1-20X2, the price per plastic bucket will decrease retrospectively as sales volume increases within the stipulated time of one year.

The price applicable for the entire sale will be based on sales volume bracket during the year.

Price per unit (₹)	Sales volume
90	0 - 10,000 units
80	10,001 - 35,000 units
70	35,001 units & above

All transactions are made in cash.

(i) Suggest how revenue is to be recognised in the books of accounts of ABC Limited as per expected value method, considering a probability of 15%, 75% and 10% for sales volumes of 9,000 units, 28,000 units and 36,000 units respectively. For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under expected value method for the financial year 20X1-20X2.

(ii) In case ABC Limited decides to measure revenue, based on most likely method instead of expected value method, determine the revenue to be recognised in the books of accounts of ABC Limited based on above available information assuming that the sales volume of 28,000 units given under the expected value method, with highest probability is the sales estimated under most likely method too For workings, assume that ABC Limited achieved the same number of units of sales to the customer during the year as initially estimated under most likely value method for the financial year 20X1-20X2.

(iii) You are required to pass Journal Entries in the books of ABC Limited if the revenue is accounted for as per expected value method for financial year 20X1-20X2. **(14 Marks)**

(b) From the following transactions taken from a parent company having multiple businesses and multiple segments, identify which transactions will be classified as Operating, Investing and Financing:

Sr. No.	Nature of transaction
1	Issued preference shares
2	Purchased the shares of 100% subsidiary company
3	Dividend received from shares of subsidiaries
4	Dividend received from other companies
5	Bonus shares issued
6	Purchased license for manufacturing of special drugs
7	Royalty received from the goods patented by the company
8	Rent received from the let-out building (letting out is not main business)
9	Interest received from loans and advances given
10	Dividend paid
11	Interest paid on security deposits
12	Purchased goodwill
13	Acquired the assets of a company by issue of equity shares (not parting any cash)
14	Interim dividends paid
15	Dissolved the 100% subsidiary and received the amount in final settlement

(6 Marks)

3. (a) S Ltd purchased a property for ₹ 6,00,000 on 1st April, 20X1. The useful life of the property is 15 years. On 31st March, 20X3, S Ltd classified the property as held for sale. The impairment testing provides the estimated recoverable amount of ₹ 4,70,000.

The fair value less cost to sell on 31st March, 20X3 was ₹ 4,60,000. On 31st March, 20X4 management changed the plan, as property no longer met the criteria of held for sale. The recoverable amount as at 31st March, 20X4 is ₹ 5,00,000.

Provide the accounting treatment of events for the year ending 31st March, 20X3 and 31st March, 20X4 and value the property thereupon. **(8 Marks)**

(b) Analyse whether the following activities fall within the scope of Ind AS 41 with proper reasoning:

- Managing animal-related recreational activities like Zoo
- Fishing in the ocean
- Fish farming
- Development of living organisms such as cells, bacteria and viruses for research purposes
- Growing of plants to be used in the production of drugs
- Purchase of 25 dogs for security purpose of the company's premises. **(6 Marks)**

(c) With respect to Integrated Reporting, state whether following statements are true or false with reason for your answer:

(i) An integrated report is necessarily to be a stand-alone report;

(ii) The framework of Integrated Reporting is written primarily for private companies;

(iii) A report prepared as required by local law containing a management commentary or other report that provides context for its financial statements can serve the purpose of Integrated reporting; and

(iv) An integrated report should include only positive material matters. **(6 Marks)**

4. (a) On 1st April, 20X1, Sun Limited guarantees a ₹ 10,00,000 loan of Subsidiary – Moon Limited, which Bank STDK has provided to Moon Limited for three years at 8%.

Interest payments are made at the end of each year and the principal is repaid at the end of the loan term.

If Sun Limited had not issued a guarantee, Bank STDK would have charged Moon Limited an interest rate of 11%. Sun Limited does not charge Moon Limited for providing the guarantee.

On 31st March, 20X2, there is 1% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

On 31st March, 20X3, there is 3% probability that Moon Limited may default on the loan in the next 12 months. If Moon Limited defaults on the loan, Sun Limited does not expect to recover any amount from Moon Limited.

Provide the accounting treatment of financial guarantee as per Ind AS 109 in the books of Sun Ltd., on initial recognition and in subsequent periods till 31st March, 20X3. **(8 Marks)**

(b) MS Ltd. has acquired a heavy machinery at a cost of ₹ 1,00,00,000 (with no breakdown of the component parts). The estimated useful life is 10 years. At the end of the sixth year, one of the major components, the turbine requires replacement, as further maintenance is uneconomical. The remainder of the machine is perfect and is expected to last for the next four years. The cost of a new turbine is ₹ 45,00,000. The discount rate assumed is 5%. Can the cost of the new turbine be recognised as an asset, and, if so, what treatment should be used? **(7 Marks)**

(c) A Ltd. has made a security deposit whose details are described below. Make necessary journal entries for accounting of the deposit in the first year and last year. Assume market interest rate for a deposit for similar period to be 12% per annum.

Particulars	**Details**
Date of Security Deposit (Starting Date)	1st April , 20X1
Date of Security Deposit (Finishing Date)	31st March, 20X6
Description	Lease
Total Lease Period	5 years
Discount rate	12%
Security deposit (A)	10,00,000
Present value factor at the 5th year	0.567427

(5 Marks)

5. (a) 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.

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. ₹ in lacs

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 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. **(12 Marks)**

(b) On 30th January, 20X1, A Ltd. purchased a machinery for $ 5,000 from USA supplier on credit basis. A Ltd.'s functional currency is Rupees. The exchange rate on the date of transaction is 1 $ = ₹ 60. The fair value of the machinery determined on 31st March, 20X1 is $ 5,500. The exchange rate on 31st March, 20X1 is 1$ = ₹ 65. The payment to overseas supplier done on 31st March 20X2 and the exchange rate on 31st March 20X2 is 1$ = ₹ 67. The fair value of the machinery remain unchanged for the year ended on 31st March 20X2. Prepare the Journal entries for the year ended on 31st March 20X1 and year 20X2 according to Ind AS 21. Tax rate is 30%. A Ltd. follows Revaluation method in respect of Plant & Machinery.

(8 Marks)

6. (a) On 1st January Year 1, Entity Q purchased a machine costing ₹ 2,40,000 with an estimated useful life of 20 years and an estimated zero residual value. Depreciation is computed on straight-line basis. The asset had been revalued on 1st January Year 3 to ₹ 2,50,000, but with no change in useful life at that date. On 1st January Year 4 an impairment review showed the machine's recoverable amount to be ₹ 1,00,000 and its estimated remaining useful life to be 10 years.

Calculate:

(i) The carrying amount of the machine on 31st December Year 2 and the revaluation surplus arising on 1st January Year 3.

(ii) The carrying amount of the machine on 31st December Year 3 (immediately before the impairment).

(iii) The impairment loss recognised in the year to 31st December Year 4 and its treatment thereon

(iv) The depreciation charge in the year to 31st December Year 4.

Note: During the course of utilization of machine, the company did not opt to transfer part of the revaluation surplus to retained earnings. **(8 Marks)**

(b) Evaluate whether the following items are financial assets or not.

S. No.	Particulars
1	Investment in bonds debentures
2	Loans and receivables
3	Deposits given

S. No.	Particulars
4	Trade & other receivables
5	Cash and cash equivalents
6	Bank balance
7	Investments in equity shares
8	Perpetual debt instruments like perpetual bonds, debentures and capital notes.
9	Physical assets like inventories, property, plant and equipment etc.
10	Right to use assets like lease vehicle etc.
11	Intangibles like patents, trademark etc.
12	Prepaid expenses like prepaid insurance, prepaid rent etc.
13	Advance given for goods and services

(7 Marks)

(c) Scenario A

X Ltd. has invested in a joint venture Y Ltd. by holding 50% of its equity share capital. During the year, X Ltd. sold an asset to Y Ltd. at its market value of ₹ 8,00,000. The asset's carrying value in X Ltd.'s books was ₹ 10,00,000.

Determine how should X Ltd. account for the sale transaction in its books.

Scenario B

Assume the same facts as per Scenario A except that the asset is sold by Y Ltd. to X Ltd. instead of X Ltd. selling to Y Ltd.

Determine how should X Ltd. account for the above transaction in its books. **(5 Marks)**