Financial Reporting – Mock Test

Time: 3 hours **100 Marks**

Question NO. 1 is mandatory and write 5 questions out of remaining 6

Question No. 1

a) The balance sheets of Football Ltd. and its subsidiary Hockey Ltd. as on 31st March, 2018 are as under

Liabilities	Football Ltd.	Hockey Ltd.	Assets	Football Ltd.	Hockey Ltd.
Equity shares of ₹ 10 each	48,00,00	20,00,000	Goodwill	4,50,000	3,00,000
10% preference shares of ₹ 10/- each	7,00,000	3,80,000	Plant and machinery	12,00,000	5,00,000
General reserve	5,50,000	4,20,000	Motor vehicles	9,50,000	7,50,000
Retained earnings	10,00,000	6,00,000	Furniture and fittings	6,50,000	4,00,000
Bank overdraft	1,20,000	70,000	Investments	26,00,000	4,50,000
Sundry creditors	4,30,000	4,80,000	Stock	4,50,000	7,20,000
Bills payable	-	1,60,000	Cash at Bank	2,25,000	2,10,000
			Debtors	9,30,000	7,80,000
			Bills receivable	1,45,000	-
	76,00,000	**41,10,000**		**76,00,000**	**41,10,000**

Details of acquisition of shares of Football Ltd. are as under:

Nature of Shares	Nos. acquired	Date of acquisition	Cost of acquisition (₹)
Preference shares	14,250	01.04.2015	3,10,000
Equity Shares	80,000	01.04.2016	9,50,000
Equity Shares	70,000	01.04.2017	8,00,000

Other information

i. On 1.4.2017, Profit and loss A/c and general reserve of Hockey Ltd. had credit balance of ₹ 3,00,000 and ₹ 2,00,000 respectively.
ii. Dividend @ 10% was paid by Hockey Ltd. for the year 2016-2017 out of its Profit and loss A/c balance as on 1.4.2017. Football Ltd. credited its share of dividend to its Profit and loss A/c
iii. Hockey Ltd. allotted bonus shares out of general reserve at the rate of 1 share for every 10 shares held. Accounting thereof has not yet been made.
iv. Bills receivable of Football Ltd. were drawn upon Hockey Ltd.
v. During the year 2017-2018, Football Ltd. purchased goods from Hockey Ltd. for ₹ 1,00,000 at a sale price of ₹ 1,20,000. 40% of these goods remained unsold at close of the year.
vi. On 01.04.2017 machinery of Hockey Ltd. were overvalued by ₹ 1,00,000. Applicable depreciation rate is 20%.
vii. Dividends proposed for the year 2017-18 in the holding and the subsidiary companies are 15% and 10% respectively at the year end.

Prepare consolidated Balance Sheet as on 31st March, 2018 under Ind AS assuming that the fair value of share is ₹ 11 per share. **(16 Marks)**

b) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	₹ ***Per unit***
Cost price including excise duty	200
GST (input credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	
Closing Balance	1200 units
	₹ ***Per unit***
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 2,00,000 on normal capacity of 20,000 units. Calculate the value of the closing stock, when

(i) Net Realizable Value of the Finished Goods Y is ₹ 400.
(ii) Net Realizable Value of the Finished Goods Y is ₹ 300. **(4 Marks)**

Question No. 2

a) X Ltd. began construction of a new building on 1st January, 2007. It obtained ₹ 1 lakh special loan to finance the construction of the building on 1st January, 2007 at an interest rate of 10%.

The company's other outstanding two non-specific loans were:

Amount (₹)	Rate of Interest
5,00,000	11%
9,00,000	13%

The expenditure that was made on the building project was as follows:–

Month	Amount (₹)
Jan-07	2,00,000

Apr-07	2,50,000
Jul-07	4,50,000
Dec-07	1,20,000

Building was completed by 31st December, 2007. Following the principles prescribed in Ind AS 23 'Borrowing Cost,' calculate the amount of interest to be capitalized and pass one Journal Entry for capitalizing the cost and borrowing cost in respect of the building. **(6 Marks)**

b) On 1st January 2018, Sam Co. Ltd. agreed to purchase USD ($) 20,000 from JT Bank in **future** on 31st December 2018 for a rate equal to ₹ 68 per USD. Sam Co. Ltd. did not pay any amount upon entering into the contract. Sam Co Ltd. is a listed company in India and prepares its financial statements on a quarterly basis.

Following the classification principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for each quarter ended till the date of actual purchase of USD.

For the purposes of accounting, please use the following information representing marked to market fair value of forward contracts at each reporting date:

As at 31st March 2018 – ₹ (25,000)

As at 30th June 2018 - ₹ (15,000)

As at 30th September 2018 - ₹ 12,000
Spot rate of USD on 31st December 2018 - ₹ 66 per USD **(6 Marks)**

c) A parent entity provides a guarantee to a bank that has gave a loan to its subsidiary, the subsidiary has obtained a benefit, in that it would pay a lower rate of interest on the loan than it would have otherwise paid for an un-guaranteed loan. How should the **subsidiary account** for the benefit of the intra-group guarantee? **(4 Marks)**

Question No. 3

a) Assume that the firm has not been operating its warranty for five years, and reliable data exists to suggest the following:
- If minor defects occur in all products sold, repair costs of ₹ 20,00,000 would result.
- If major defects are detected in all products, costs of ₹ 50,00,000 would result.
- The manufacturer's past experience and future expectations indicate that each year 80% of the goods sold will have no defects. 15% of the goods sold will have minor defects, and 5% of the goods sold will have major defects.

Calculate the expected value of the cost of repairs in accordance with the requirements of Ind AS 37, if any. Ignore both income tax and the effect of discounting **(4 Marks)**

b) 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 ₹ 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 ₹ 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 ₹ 1,00,00,000. The cost to PQR Ltd. of arranging the borrowing was ₹ 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 ₹ 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 ₹ 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%. (8 marks)

c) Mike Ltd. has undertaken following various transactions in the financial year ended 31.03.2018: (₹)

(a)	Re-measurement of defined benefit plans	1,54,200
(b)	Current service cost	1,05,000
(c)	Changes in revaluation surplus	75,000
(d)	Gains and losses arising from translating the monetary assets in foreign currency	45,000
(e)	Gains and losses arising from translating the financial statements of a foreign operation	39,000
(f)	Gains and losses arising from investments in equity instruments designated at fair value through other comprehensive income	60,000
(g)	Income tax expenses	21,000
(h)	Share based payments cost	2,01,000

Identify and present the transactions in the financial statements as per Ind AS 1. **(4 Marks)**

Question No. 4

a) Sunny Ltd., is developing a new production process. During the financial year ended 31st March 2017, the company has incurred total expenditure of ₹40 lakh on the process. On 1st December, 2016, the process has met the norms to be recognized as 'intangible assets' and the expenditure incurred till that date is ₹16 lakh. During the financial year ending on 31st March

2018, the company has further incurred ₹70 lakh. The recoverable amount as on 31st March 2018 of the process is estimated to be ₹62 lakh. You are required to work out:

(i) Expenditure to be charged to P&L for the FYs 31st March 2017 & 31st March 2018. (ignore depreciation)

(ii) Carrying amount of the 'Intangible asset' as at 31st March 2017 and 31st March 2018. **(6 Marks)**

b) Discuss whether Ind AS 102 is applicable in the following cases

1. Entity B grants 10 shares to its employees provided that they remain in service for the next 12 months.
2. Entity C grants employees a cash bonus equal to C's share price growth provided that they remain in service over the next 12 months.
3. Entity E's share price is ₹120. E awards a cash bonus of ₹120 to employees, payable in one year to those who remain in service during the next 12 months.
4. Entity D awards a cash bonus of 500 to employees, payable in one year to those who remain in service if D's share price exceeds a price of ₹10 per share during the next 12 months.
5. Entity E is developing a new product and purchases a patent from entity F. The parties agree a purchase price of 1,000 of entity E's shares. These will be issued to entity F within 60 days of finalising the legal documentation that transfers the patent from entity F to entity E.
6. An **individual** with a 40% shareholding in entity F awards 2% of his shareholding in entity F to a director of entity F's subsidiary, entity G, in exchange for employment services;
7. Shares, share options, Bonus shares or other equity instruments are granted to **employees** as part of their **remuneration package**, in addition to a cash salary and other employment benefits.
8. Entity F needs a new Plant & Machinery and has arranged to acquire it from an existing shareholder. The purchase price will be settled by the entity issuing 1,500 new shares. For legal purposes, the transaction is considered as an in-kind capital contribution of P & M.
9. Entity H enters into a contract to purchase 10 tonnes of cocoa beans. The purchase price will be **settled in cash** at an amount **equal to the value of 100 of entity H's shares**. But the entity can settle the contract at any time by paying an amount equal to the current market value of ₹100 of its shares less the market value of 10 tonnes of cocoa beans. The entity has entered into the contract as part of its hedging strategy and has no intention of taking physical delivery of the cocoa beans. (Read carefully)
10. The management committee of an entity has initiated a plan to provide some stock options to its employees but there are some terms which are yet to be finalized and the plan is not yet communicated to employees till the year end. Whether this standard should be followed for the current year**?** **(10 Marks)**

Question No. 5

a) Pluto Ltd. has purchased a manufacturing plant for ₹ 6 lakhs on 1st April, 20X1. The useful life of the plant is 10 years. On 30th September, 20X3, Pluto temporarily stops using the manufacturing plant because demand has declined. However, the plant is maintained in a workable condition and it will be used in future when demand picks up.
The accountant of Pluto ltd. decided to treat the plant as held for sale until the demands picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell.

Also, the accountant has also stopped charging the depreciation for the rest of period considering the plant as held for sale. The fair value less cost to sell on 30th September, 20X3 and 31st March, 20X4 was ₹ 4 lakhs and ₹ 3.5 lakhs respectively.

The accountant has performed the following working:

Carrying amount on initial classification as held for sale		
Purchase Price of Plant	6,00,000	
Less: Accumulated dep (6,00,000/ 10 Years) x 2.5 years	(1,50,000)	4,50,000
Fair Value less cost to sell as on 31st March, 20X4		4,00,000
The value will be lower of the above two		4,00,000

Balance Sheet extracts as on 31st March, 20X4

Assets	
Current Assets	
Other Current Assets	
Assets classified as held for sale	3,50,000

Analyse whether the above accounting treatment made by the accountant is in-compliance with the Ind AS. If not, advise the correct treatment along with the necessary workings. **(6 Marks)**

b) ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:

(1) Payment of ₹ 5,000 in two years when the customer obtains control of the asset or

(2) Payment of ₹ 4,000 when the contract is signed.

The customer elects to pay ₹ 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8%, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity

determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

Pass journal entries showing how the entity would account for the significant financing **component** **(6 Marks)**

c) On 1-4-2014 Indra Ltd. bought a machinery for ₹1,00,000. The company followed revaluation model for plant and machinery class and it revalued the machinery to ₹1,50,000 on 31-3-2016. The company follows SLM to depreciate the asset over its remaining useful life of 8 years (i.e. original life is 10 years). Out of the depreciation of ₹18,750 (₹1,50,000/8 years), the company wants to charge only ₹10,000 (i.e. ₹1,00,000/10 years) to P&L and remaining amount of ₹8,750 to revaluation surplus. Do you agree with this accounting? **(4 Marks)**

Question No. 6

a) On 1st April, 20X1, Entity A leases a property for a lease term of 8 years. The lease payments for the first three years have been agreed at ₹100 per year. The lease payments will be reset on 1st April, 20X4 (and, subsequently, on 1st April, 20X7) on the basis of the increase in the Retail Price Index (RPI) for the preceding three years. All lease payments are made at the **end of the relevant year**.
Interest rate implicit in the lease of 5%.
On 1st April, 20X2, 20X3 and 20X4, respectively, the RPI is 103, 107 and 108. On 1st April, 20X7, the RPI is 113. **(10 Marks)**

b) On 1st April 2019, Investor Ltd. acquires 35% interest in another entity, XYZ Ltd. Investor Ltd. determines that it is able to exercise significant influence over XYZ Ltd. Investor Ltd. has paid total consideration of ₹ 47,50,000 for acquisition of its interest in XYZ Ltd. At the date of acquisition, the book value of XYZ Ltd.'s net assets was ₹ 90,00,000 and their fair value was ₹ 1,10,00,000. Investor Ltd. has determined that the difference of ₹ 20,00,000 pertains to an item of property, plant and equipment (PPE) which has remaining useful life of 10 years.

During the year, XYZ Ltd. made a profit of ₹ 8,00,000. XYZ Ltd. paid a dividend of ₹ 12,00,000 on 31st March, 2020. XYZ Ltd. also holds a long-term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and XYZ Ltd. recognized an increase in value of investment by ₹ 2,00,000 in OCI during the year. Ignore deferred tax implications, if any.

Calculate the closing balance of Investor Ltd.'s investment in XYZ Ltd. as at 31st March, 2020 as per the relevant Ind AS. **(6 Marks)**

Question No. 7

a) Shaurya Limited owns Building A which is specifically used for the purpose of earning rentals. The Company has not been using the building A or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building A for the year ending 31 st March, 2020:

Building A was purchased 5 years ago at the cost of ₹10 crore and building life is estimated to be 20 years. The company follows straight line method for depreciation.

During the year, the company has invested in another Building B with the purpose to hold it for capital appreciation. The property was purchased on 1st April, 2019 at the cost of ₹ 2 crore. Expected life of the building is 40 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2019-2020, the company earned / incurred following direct operating expenditure relating to Building A and Building B:

Rental income from Building A	=	₹ 75 lakh
Rental income from Building B	=	₹ 25 lakh
Sales promotion expenses	=	₹ 5 lakh
Fees & Taxes	=	₹ 1 lakh
Ground rent	=	₹ 2.5 lakh
Repairs & Maintenance	=	₹ 1.5 lakh
Legal & Professional	=	₹ 2 lakh

The company does not have any restrictions and contractual obligations against buildings - A and B. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings A and B. The independent valuer has valued the fair value of property as per the valuation model recommended by International valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The other key inputs for valuation are as follows:

The estimated rent per month per square feet for the period is expected to be in the range of ₹ 50 - ₹ 60. It is further expected to grow at the rate of 10% per annum for each of 3 years. The weighted discount rate used is 12% to 13%.

Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 10.50 crore on 31st March, 2020.

What would be the treatment of Building A and Building B in the balance sheet of Shaurya Limited? Provide detailed disclosures and computations in line with relevant Indian accounting standards. Treat it as if you are preparing a separate note or schedule, of the given assets in the balance sheet. **(8 Marks)**

b) Company P holds an asset that is traded in three different markets but it usually buys and sells in Market C. Information about all three markets follows

Particulars	**Market A**	**Market B**	**Market c**
Volume (annual)	30,000	12,000	6,000
Trades per month	30	12	10
Market price	50	48	53
Transportation cost	(3)	(3)	(4)
Possible fair value	**47**	**45**	**49**
Transaction costs	(1)	(2)	(2)

Net proceeds	**46**	**43**	**47**

What is principal and most advantageous market for the company? What is the fair value to be considered in each market? **(4 Marks)**

c) Mr. X has a 100% investment in A Limited. He is also a member of the key management personnel (KMP) of C Limited. B Limited has a 100% investment in C Limited.

Required

(a) Examine related party relationships from the perspective of C Limited for A Limited.

(b) Examine related party relationships from the perspective of C Limited for A Limited if Mr. X is a KMP of B Limited and not C Limited.

(c) Whether the outcome in (a) & (b) would be different if Mr. X has joint control over A Limited.

(d) Whether the outcome in (a) & (b) would be different if Mr. X has significant influence over A Limited.

(e) what would be your answer if Mr. X is just KMP (does not control A Ltd.) from the perspective of C Limited for A Limited. **(4 Marks)**