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) A Limited has prepared the following draft balance sheet as on 31st March 20X1:

(₹ in crore)

Particulars	31st March, 20X1	31st March, 20X0
ASSETS		
Cash	250	170
Cash equivalents	70	30
Non-controlling interest's share of profit for the year	160	150
Dividend declared and paid by A Limited	90	70
Accounts receivable	2,300	1,800
Inventory at cost	1,500	1,650
Inventory at fair value less cost to complete and sell	180	130
Investment property	3,100	3,100
Property, plant and equipment (PPE) at cost	5,200	4,700
Total	**12,850**	**11,800**
CLAIMS AGAINST ASSETS		
Long term debt (₹ 500 crore due on 1st January each year)	3,300	3,885
Interest accrued on long term debt (due in less than 12 months)	260	290
Share Capital	1,130	1,050
Retained earnings at the beginning of the year	1,875	1,740
Profit for the year	1,200	830
Non-controlling interest	830	540
Accumulated depreciation on PPE	1,610	1,240
Provision for doubtful receivables	200	65
Trade payables	880	790
Accrued expenses	15	30
Warranty provision (for 12 months from the date of sale)	600	445
Environmental restoration provision (restoration expected in 20X6)	765	640
Provision for accrued leave (due within 12 months)	35	25
Dividend payable	150	230
Total	**12,850**	**11,800**

Prepare a consolidated balance sheet using current and non-current classification in accordance with Ind AS 1. Operating cycle of the entity is 12 months. **(10 Marks)**

(b) Lessee enters into a 10-year lease for 5,000 square metres of office space. The annual lease payments are ₹ 1,00,000 payable at the end of each year. The interest rate implicit in the lease cannot be readily determined. Lessee's incremental borrowing rate at the commencement date is 6% p.a. At the beginning of Year 7, Lessee and Lessor agree to amend the original lease by extending the contractual lease term by four years. The annual lease payments are unchanged (i.e., ₹ 1,00,000 payable at the end of each year from Year 7 to Year 14). Lessee's incremental borrowing rate at the beginning of Year 7 is 7% p.a.

How should the said modification be accounted for? Pass the journal entry for the said modification. **(10 Marks)**

2. (a) On 1st April, 20X1, an entity purchased an office block (building) for ₹ 50,00,000 and paid a non-refundable property transfer tax and direct legal cost of ₹ 2,50,000 and ₹ 50,000 respectively while acquiring the building.

During 20X1, the entity redeveloped the building into two-story building. Expenditures on re-development were:

- ₹ 1,00,000 on Building plan approval;
- ₹ 10,00,000 on construction costs (including ₹ 60,000 refundable purchase taxes); and
- ₹ 40,000 was due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October, 20X1, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account as on 1st October, 20X1?

Also, discuss how the above building will be shown in the consolidated financial statements of the entity as a group and in its separate financial statements as per relevant Ind AS. **(6 Marks)**

(b) (i) Can a Not-for-Profit organisation do the Integrated Reporting as per the Framework?

(ii) Can an Integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports? **(4 Marks)**

(c) X Ltd. is operating in coating industry. Its business segments comprise **Coating** (consisting of decorative, automotive, industrial paints and related activities) and **Others** (consisting of chemicals, polymers and related activities). Certain information for financial year 20X1-20X2 is given below: **(₹ in lakh)**

Segments	External Revenue (including GST)	GST	Other operating income	Result	Assets	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 income 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. Unallocated Investments are ₹ 1,00,00,00,000 and other assets are ₹ 1,00,00,00,000.

5. Unallocated liabilities, Reserves and 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 and 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 ₹ 6,20,00,00,000 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? **(10 Marks)**

3. (a) Two parties structure a joint arrangement in an incorporated entity i.e. Entity A in which each party has a 50% ownership interest. The purpose of the arrangement is to manufacture materials required by the parties for their own, individual manufacturing processes. The arrangement ensures that the parties operate the facility that produces the materials to the quantity and quality specifications of the parties. The legal form of Entity A (an incorporated entity) through which the activities are conducted initially indicates that the assets and liabilities held in Entity A are the assets and liabilities of Entity A. The contractual arrangement between the parties does not specify that the parties have rights to the assets or obligations for the liabilities of Entity A. There are following other relevant facts and circumstances applicable in this case:

- The parties agreed to purchase all the output produced by Entity A in a ratio of 50:50. Entity A cannot sell any of the output to third parties, unless this is approved by the two parties to the arrangement. Because the purpose of the arrangement is to provide the parties with output they require, such sales to third parties are expected to be uncommon and not material.
- The price of the output sold to the parties is set by both parties at a level that is designed to cover the costs of production and administrative expenses incurred by Entity A. Based on this operating model, the arrangement is intended to operate at a break-even level.

Based on the above fact pattern, determine whether the arrangement is a joint operation or a joint venture?

Will your conclusion change in case Entity A sells all its output to third parties instead of its owners?

(6 Marks)

(b) On 1st April, 20X1, Star Limited has advanced a housing loan of ₹ 15 lakh to one of its employees at an interest rate of 6% per annum which is repayable in 5 equal annual installments along with interest at each year end. Employee is not required to give any specific performance against this benefit. The market rate of similar loan for housing finance by banks is 10% per annum.

The accountant of the company has recognized the staff loan in the balance sheet equivalent to the amount of housing loan disbursed i.e. ₹ 15 lakh. The interest income for the year is recognized at the contracted rate in the Statement of Profit and Loss by the company i.e. ₹ 90,000 (6% of ₹ 15 lakh).

Analyze whether the above accounting treatment made by the accountant is in compliance with the relevant Ind AS. If not, advise the correct treatment of housing loan, interest and other expenses in the financial statements of Star Limited for the year 20X1-20X2 along with workings and applicable Ind AS.

You are required to explain how the housing loan should be reflected in the Ind AS compliant Balance Sheet of Star Limited on 31st March, 20X2. Ignore defer tax impact **(14 Marks)**

4. (a) Prepare the consolidated Balance Sheet as on 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below: ₹ in lakh

	P Ltd.	S Ltd.	SS Ltd.
Assets			
Non-Current Assets			
Property, Plant and Equipment	320	360	300
Investment:			
32 lakh shares in S Ltd.	340		
24 lakh shares in SS Ltd.		280	
Current Assets			
Inventories	220	70	50
Financial Assets			
Trade Receivables	260	100	220
Bills Receivables	72	-	30
Cash in hand and at Bank	228	40	40
	1440	850	640
Equity and Liabilities			
Shareholder's Equity			
Share Capital (₹ 10 per share)	600	400	320
Other Equity			
Reserves	180	100	80
Retained earnings	160	50	60
Current Liabilities			
Financial Liabilities			
Trade Payables	470	230	180
Bills Payable			
P Ltd.		70	
SS Ltd.	30	-	-
	1440	**850**	**640**

The following additional information is available:

(i) P Ltd. Holds 80% shares in S Ltd. And S Ltd. Holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.

(ii) The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

(iii) On 1st April, 20X1, the following balances stood in the books of S Ltd. And SS Ltd.

₹ in Lakhs

	S Limited	SS Limited
Reserves	80	60
Retained earnings	20	30

(iv) ₹ 10 lakh included in the inventory figure of S Ltd, is inventory which has been purchased from SS Ltd at cost plus 25%. The sale of goods by SS Ltd. is done after acquisition of shares by S Ltd.

(v) The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of S Ltd and SS Ltd are the same as respective face values. **(16 Marks)**

(b) A contractor enters into a contract with a customer to build an asset for ₹ 1,00,000, with a performance bonus of ₹ 50,000 that will be paid based on the timing of completion. The amount of the performance bonus decreases by 10% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to those of contracts that the contractor has performed previously, and management believes that such experience is predictive for this contract. The contractor concludes that the expected value method is most predictive in this case.

The contractor estimates that there is a 60% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed one week late, and a 10% probability that it will be completed two weeks late.

Determine the transaction price **(4 Marks)**

5. (a) Company A expects to earn ₹ 15,000 pre-tax profit each quarter and has a corporate tax slab of 20 percent on the first ₹ 20,000 of annual earnings and 40 per cent on all additional earnings. Actual earnings match expectations. Calculate the amount of income tax to be shown in each quarter. **(4 Marks)**

(b) T Ltd. enters into a two-year contract for internet services with Customer C. C also buys a modem and a router from T Ltd. and obtains title to the equipment. T Ltd. does not require customers to purchase its modems and routers and will provide internet services to customers using other equipment that is compatible with T Ltd.'s network. There is a secondary market in which modems and routers can be bought or sold for amounts greater than scrap value.

Determine how many performance obligations does the entity T Ltd. have? **(6 Marks)**

(c) Entity sells gym memberships for ₹ 7,500 per year to 100 customers, with an option to renew at a discount in 2nd and 3rd years at ₹ 6,000 per year. Entity estimates an annual attrition rate of 50% each year.

Determine the amount of revenue to be recognised in the first year and the amount of contract liability against the option given to the customer for renewing the membership at discount.

(5 Marks)

(d) Mr. X is a domestic partner of Ms. Y. Mr. X has an investment in A Limited and Ms. Y has an investment in B Limited.

(i) Examine when can a related party relationship is established, from the perspective of A Limited's financial statements.

(ii) Examine when can related party relationship is established, from the perspective of B Limited's financial statements.

(iii) Will A Limited and B Limited be related parties if Mr. X has only significant influence over A Limited and Ms. Y also has significant influence over B Limited. **(5 Marks)**

6. (a) **EITHER**

ABC Ltd. has taken a loan of USD 20,000 on 1st April, 20X1 for constructing a plant (qualifying asset) at an interest rate of 5% per annum payable on annual basis.

On 1st April, 20X1, the exchange rate between the currencies i.e. USD vs Rupees was ₹ 45 per USD. The exchange rate on the reporting date i.e. 31st March, 20X2 is ₹ 48 per USD.

The corresponding amount could have been borrowed by ABC Ltd. from State Bank of India in local currency at an interest rate of 11% per annum as on 1st April, 20X1.

Compute the total borrowing cost to be capitalized for the construction of plant by ABC Ltd. for the period ending 31st March, 20X2. Also explain the accounting treatment of exchange loss incurred in the due process **(6 Marks)**

(a) **OR**

Identify which of the following is a disposal group at 31st March, 20X1:

(1) On 21st March, 20X1, XYZ Ltd. announced the Board's intention to sell its shares in a subsidiary company, Alpha Ltd., contingent upon the approval of Alpha Ltd.'s shareholders. It seems unlikely that approval will be granted in the near future and no specific potential buyer has been identified.

(2) PQR Ltd. has entered into a contract to sell the entire delivery fleet of vehicles operated from its warehouse to a competitor, ABC Ltd., on 14th March, 20X1. The assets will be transferred on 28th April, 20X1 from which date the Group will outsource its delivery activities to another company, LMN Ltd.

(3) On 16th January, 20X1, DEF's management and shareholders approved a plan to sell its retail business in Mumbai and a consultant is hired to manage the sale. As at 31st March, 20X1 heads of agreement had been signed although due diligence and the negotiation of final terms are still in process. The transaction is expected to be completed in April, 20X1. **(6 Marks)**

(b) M Ltd. is engaged in the business of manufacturing of bottles for pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, G Ltd., which is engaged in the business of pharmaceuticals. G Ltd. purchases the pharmaceutical bottles from its parent company. The demand of G Ltd. is very high and hence to cater to its shortfall, G Ltd. also purchases the bottles from other companies. Purchases are made at the competitive prices.

M Ltd. sold pharmaceuticals bottles to G Ltd. for Euro 12 lacs on 1st February, 20X1. The cost of these bottles was ₹ 830 lacs in the books of M Ltd. at the time of sale. At the year-end i.e. 31st March, 20X1, all these bottles were lying as closing stock and payable with G Ltd.

Euro is the functional currency of G Ltd. while Indian Rupees is the functional currency of M Ltd.

Following additional information is available:

Exchange rate on 1st February, 20X1	1 Euro = ₹ 83
Exchange rate on 31st March, 20X1	1 Euro = ₹ 85

Provide the accounting treatment for the above in books of M Ltd. and G Ltd. Also show its impact on consolidated financial statements. Support your answer by Journal entries, wherever necessary, in the books of M Ltd. **(8 Marks)**

(c) On 1st April, 20X1, Sun Ltd. has acquired 100% shares of Earth Ltd. for ₹ 30 lakh. Sun Ltd. has 3 cash-generating units A, B and C with fair value of ₹ 12 lakh, ₹ 8 lakh and ₹ 4 lakh respectively. The company recognizes goodwill of ₹ 6 lakh that relates to CGU 'C' only.

During the financial year 20X2-20X3, the CFO of the company has a view that there is no requirement of any impairment testing for any CGU since their recoverable amount is comparatively higher than the carrying amount and believes there is no indicator of impairment.

Analyse whether the view adopted by the CFO of Sun Ltd. is in compliance with the Ind AS. If not, advise the correct treatment in accordance with relevant Ind AS. **(6 Marks)**