MOCK TEST PAPER – 2

FINAL (OLD) COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

*Question No. **1** is compulsory.*

*Attempt any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Wherever necessary, suitable assumption(s) may be made by the candidates.

1. (a) The Chief Accountant of Shreyas Limited gives the following data regarding its six segments:

Rs. in lakhs

Particulars	A	B	C	D	E	F	Total
Segment Assets	20	40	15	10	10	5	100
Segment Results	25	(95)	5	5	(5)	15	(50)
Segment Revenue	150	310	40	30	40	30	600

The Chief accountant is of the opinion that segments "A" and "B" alone should be reported. Is he justified in his view? Discuss.

(b) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2019 on Weighted Average Basis.

Details of Purchases:

Date of purchase	*Unit (Nos.)*	*Purchase cost per unit (Rs.)*
01-03-2019	20	108
08-03-2019	15	107
17-03-2019	30	109
25-03-2019	15	107

Details of issue of Inventory:

Date of Issue	*Unit (Nos.)*
03-03-2019	10
12-03-2019	20
18-03-2019	10
24-03-2019	20

Net realizable value of inventory as on 31st March, 2019 is Rs. 107.75 per unit. What will be the value of Inventory as per AS 2?

(c) Briefly explain the treatment of following items as per relevant accounting standards:

- The accountant of Priyansh Limited valued the Goodwill of the company at Rs. 50 lakhs and showed the same as Intangible Asset in Balance Sheet. The corresponding credit was given to Reserves.
- An expense of Rs. 5 crores was incurred on a Machine towards its Repairs and Maintenance. The accountant wants to capitalize the same considering the significance of amount spent.

- A plant was ready for commercial production on 01.04.2018 but could commence actual production only on 01.06.2018. The company incurred Rs. 50 lakhs as administrative expenditure during the period of which 20% was allocable to the plant. The accountant added Rs. 10 lakhs to the cost of plant.

(d) Brijesh Ltd., has been successful jewellers for the past 100 years and sales are against cash only. The company diversified into apparels. A young senior executive was put in charge of Apparels business and sales increased 5 times. One of the conditions for sales is that dealers can return the unsold stocks within one month of the end of season. Sales return for the year was 25% of sales. Suggest a suitable Revenue Recognition Policy, with reference to AS 9.

(4 x 5 marks each = 20 Marks)

2. (a) You are provided with the following details in respect of PQR Limited:

(i) 10,000 equity shares of nominal value of Rs. 10 each were issued on 31st March, 2016;

(ii) Exercise price of equity shares granted under ESOP was Rs. 160 per share;

(iii) Market price of share was Rs. 400 each on the date of the grant;

(iv) Vesting of shares was in the ratio of 30%, 60% and 100% after 1 year, 2 year and 3 year respectively from the date of grant;

(v) Vested options can be exercised up to 1 year from the date of vesting;

(vi) The number of shares expired and exercised are as under:

	Years ending		
Particulars	**31.03.2017**	**31.03.2018**	**31.03.2019**
Vested Options Lapsed during the year	-	200	600
Unvested Options Lapsed during the year	400	600	1,000
Options Exercised during the year		2,500	2,000

Estimated unvested options lapsed were same as actual lapses of unvested options.

From the above details you are required to calculate:

(i) Employee Compensation Expense for the year ending 31st March, 2017, 31st March, 2018 and 31st March, 2019

(ii) Balance of Employee Stock Option Outstanding Account as on 31st March, 2017, 31st March, 2018 and 31st March, 2019

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

Particulars	**Details**
Date of Security Deposit (Starting Date)	1-Apr-2014
Date of Security Deposit (Finishing Date)	31-Mar-2019
Description	Lease
Total Lease Period	5 years
Discount rate	12.00%
Security deposit	10,00,000
Present value annuity factor	0.567427

(10 + 6 = 16 Marks)

3. The Balance Sheet of Ankit Ltd. as on 31st March, 2019 was summarized as follows:

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Share Capital:		Land & Building	75,00,000
Equity Shares of Rs. 50 each, fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of Rs. 10 each, fully paid up	40,00,000	Trade Investment	16,50,000
		Inventories	9,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Trade Receivable	18,00,000
8% Debentures	17,00,000	Cash and Bank Balances	3,60,000
Trade Payables	6,00,000	Profit & Loss	
Provision for Tax	75,000	Account (loss)	2,15,000
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

(1) The equity shareholders agreed to receive in lieu of their present holding of Rs. 1,20,000 shares of Rs. 50 each as under:

  (a) New fully paid equity shares of Rs. 10 each equal to 2/3rd of their total number of shares.

  (b) 9% preference shares of Rs. 8 each to the extent of 25% of the above new equity share capital.

  (c) Rs. 2,80,000, 10% debentures of Rs. 80 each.

(2) The preference shareholders agreed that their Rs. 10 shares should be reduced to Rs. 8 by cancellation of Rs. 2 per share. They also agreed to subscribe for two new equity shares of Rs. 10 each for every five preference shares held.

(3) The taxation liability of the company is settled at Rs. 66,000 and the same is paid immediately.

(4) One of the trade creditors of the company to whom the company owes Rs. 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of Rs. 10 each in full satisfaction of his balance claim.

(5) Other trade creditors of Rs. 5,00,000 are given option of either to accept fully paid 9% preference shares of Rs. 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for Rs. 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

(6) Company's contractual commitments amounting to Rs. 6,50,000 have been settled by paying 4% penalty of contract value.

(7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.

(8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debentures of Rs. 50 each and agreed to accept 10% debentures of Rs. 80 each for every two debentures held by them.

(9) The land and building to be depreciated by 5%.

(10) The debit balance of profit and loss account is to be eliminated.

(11) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of Ankit Ltd. as per Schedule III to the Companies Act, 2013. ***(16 Marks)***

4. The Balance Sheets of A Ltd. and its subsidiaries B Ltd. and C Ltd. as on 31.3.2018 were as follows:

			Rs. in lakhs
	A Ltd.	*B Ltd.*	*C Ltd.*
Investments:			
1,00,000 shares in B Ltd.	100	---	---
80,000 shares in C Ltd.	200	---	---
Other Assets	700	600	500
	1,000	600	500
Share Capital:			
Shares of Rs. 100 each	400	100	100
Reserves and Surplus	400	300	200
Liabilities	200	200	200
	1,000	600	500

A Ltd. acquired shares in B Ltd. in April 2015 when B Ltd. was formed with share capital of Rs. 100 lakhs.

A Ltd. acquired shares in C Ltd. in April 2015 when C Ltd. had share capital of Rs. 100 lakhs and reserves and surplus of Rs. 100 lakhs.

The group amortises goodwill on consolidation on a SLM basis over a period of 5 years. A full year's amortization is provided if the goodwill exists for more than 6 months.

On 1st April, 2018, A Ltd. sold 40,000 shares of C Ltd. for cash consideration of Rs. 150 lakhs. The Balance Sheets of the companies for the year 2018-2019 were as follows:

(1) Balance Sheet as on 31-3-2019 Rs. in lakhs

	A Ltd.	*B Ltd.*	*C Ltd.*
Investments at cost:			
1,00,000 shares in B Ltd.	100		
40,000 shares in C Ltd.	100		
Other Assets	1,000	800	700
	1,200	800	700
Share Capital	400	100	100
Reserves and Surplus	550	420	280
Liabilities	250	280	320
	1200	800	700

(2) Profit and Loss A/c for the year ended 31-3-2019 Rs. in lakhs

	A Ltd.	*B Ltd.*	*C Ltd.*
Profit before tax	150	180	120
Extraordinary items	50		
	200	180	120
Tax	(50)	(60)	(40)
Profit after tax	150	120	80
Reserves & Surplus Opening	400	300	200
Reserves & Surplus-Closing	550	420	280

Prepare for A Ltd., group Balance Sheets as on 31-3-2018 and as on 31-3-2019. ***(16 Marks)***

5. (a) A Mutual Fund raised 100 lakh on April 1, 2019 by issue of 10 lakh units of Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 90 lakhs. The initial expenses amounted to Rs. 7 lakhs. During April, 2019, the fund sold certain securities of cost Rs. 38 lakhs for Rs. 40 lakhs and purchased certain other securities for Rs. 28.20 lakhs. The fund management expenses for the month amounted to Rs. 4.50 lakhs of which Rs. 0.25 lakh was in arrears. The dividend earned was Rs. 1.20 lakhs. 75% of the realized earnings were distributed. The market value of the portfolio on 30.04.2019 was Rs. 101.90 lakhs. Determine NAV per unit.

(b) On the basis of the following Profit and Loss Account of Rahul Limited and the supplementary information provided thereafter, prepare Gross Value Added Statement of the company for the year ended 31st March, 2019.

Profit and Loss Account of Rahul Limited for the year ended 31st March, 2019.

	Amount (Rs. in lakhs)	Amount (Rs. in lakhs)
Income		
Sales		10,020
Other Income		260
		10,280
Expenditure		
Production and Operational Expenses	7,100	
Administrative Expenses	370	
Interest	470	
Depreciation	740	(8,680)
Profit before Taxation		1,600
Provision for Taxation		(560)
Profit after Taxation		1,040
Credit Balance as per last Balance Sheet		80
		1,120
Appropriations		
Transfer to General Reserve		200
Preference Dividend		200
Equity Dividend		600
Balance carried to Balance Sheet		120
		1,120
Supplementary Information		
Production and Operational Expenses consist of:		
Raw Materials and Stores consumed		3,800
Wages, Salaries and Bonus		1,220
Local Taxes including Cess		440
Other Manufacturing Expenses		1,640
		7,100
Administrative Expenses consist of:		
Salaries and Commission to Directors		120

Audit Fee			48
Provision for Bad and Doubtful Debts			40
Other Administrative Expenses			162
			370
Interest is on:			
Loan from Bank for Working Capital			70
Debentures			400
			470

(6 + 10 = 16 Marks)

6. The Balance Sheet of D Ltd. on 31st March, 2019 is as under:

Liabilities	Rs.	Assets	Rs.
1,25,000 shares of Rs. 100 each fully paid up	1,25,00,000	Building	80,00,000
Bank overdraft	46,50,000	Machinery	70,00,000
Trade Payables	52,75,000	Inventory	80,00,000
Provision for taxation	12,75,000	Trade receivables (all considered good)	50,00,000
Profit and loss account	43,00,000		
	2,80,00,000		2,80,00,000

In 2010, when the company started its activities the paid up capital was the same. The Profit/Loss for the last five years is as follows:

2014-2015: Loss (13,75,000), 2015-2016: Profit Rs. 24,55,000, 2016-2017: Profit Rs. 29,25,000, 2017-2018: Profit Rs. 36,25,000, 2018-2019: Profit Rs. 42,50,000.

Income-tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate. From 2018-2019, the rate of income-tax should be taken at 45%. 10% dividend in 2015-2016, 2016-2017 and 15% dividend in 2017-2018 and 2018-2019 has been paid. Market price of this share on 31st March, 2019 is Rs. 125. With effect from 1st April, 2019, the Managing Directors remuneration will be Rs. 20,00,000 instead of Rs. 15,00,000. The company has secured a contract from which it can earn an additional Rs. 10,00,000 per annum for the next five years.

Calculate the value of goodwill at 3 years purchase of super profit. (For calculation of future maintainable profits weighted average is to be taken). ***(16 Marks)***

7. Answer any **four** of the following:

(a) What are the five steps of Revenue Recognition as per Ind AS 115?

(b) A company had imported raw materials worth US Dollars 6,00,000 on 5th January, 2019, when the exchange rate was Rs. 63 per US Dollar. The company had recorded the transaction in the books at the above mentioned rate. The payment for the import transaction was made on 5th April, 2019 when the exchange rate was Rs. 67 per US Dollar. However, on 31st March, 2019, the rate of exchange was Rs. 68 per US Dollar. The company passed an entry on 31st March, 2019 adjusting the cost of raw materials consumed for the difference between Rs. 67 and Rs. 63 per US Dollar.

In the background of the relevant accounting standard, is the company's accounting treatment correct? Discuss.

(c) From the given information, you are required to compute the deferred tax assets and deferred tax liability for Anil Limited as on 31st March 2019. The tax rate applicable is 35%.

(i) The company has charged depreciation of Rs. 7,42,900 in its books of accounts while as per income-tax computation, the depreciation available to the company is Rs. 8,65,400.

(ii) The company has made provision for doubtful debts for Rs. 54,300 during the year.

(iii) The company has debited share issue expenses of Rs. 6,23,500 which will be available for deduction under the Income-tax Act from the next year.

(iv) The expense of Rs. 7,84,500 has been charged to profit and loss account which are disallowed under the Income-tax Act.

(v) The company has made donation of Rs. 2,00,000 which has been debited to profit and loss account and only 50% thereof will be allowed as deduction as per Income-tax law.

(d) Progress Bank has a criterion that it will give loans to companies that have an "Economic Value Added" greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals Rs. 25,00,000 per year for the last three years.

(ii) Average total assets over the last three years equals Rs. 75,00,000.

(iii) Weighted average cost of capital appropriate for the company is 10% which is applicable for all three years.

(iv) The company's average current liabilities over the last three years are Rs. 15,00,000.

Does the company meet the bank's criterion for a positive economic value added?

(e) Mountain Ltd. sold goods for Rs. 90 lakhs to Hill Ltd. during financial year ended 31-3-2019. The Managing Director of Mountain Ltd. own 100% of Hill Ltd. The sales were made to Hill Ltd. at normal selling prices followed by Mountain Ltd. The Chief accountant of Mountain Ltd. contends that these sales need not require a different treatment from the other sales made by the company and hence no disclosure is necessary as per the accounting standard. Is the Chief Accountant correct? ***(4 x 4 = 16 Marks)***