MOCK TEST PAPER

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) How will you disclose following items while preparing Cash Flow Statement of Gagan Ltd. as per AS 3 for the year ended 31st March, 20X2?

(i)	10% Debentures:	As on 01-04-20X1	Rs. 1,10,000
		As on 31-03-20X2	Rs. 77,000

(ii) Debentures were redeemed at 5% premium at the end of the year. Premium was charged to the Profit & Loss Account for the year.

(iii)	Unpaid Interest on Debentures:	As on 01-04-20X1	Rs. 275
		As on 31-03-20X2	Rs. 1,175

(iv) Debtors of Rs. 36,000 were written off against the Provision for Doubtful Debts A/c during the year.

(v)	10% Bonds (Investments):	As on 01-04-20X1	Rs. 3,50,000
		As on 31-03-20X2	Rs. 3,50,000
(vi)	Accrued Interest on Investments:	As on 31-03-20X2	Rs. 10,500

(b) Samvedan Limited is a non-banking finance company. It accepts public deposit and also deals in hire purchase business. It provides you with the following information regarding major hire purchase deals as on 31-03-20X1. Few machines were sold on hire purchase basis. The hire purchase price was set as Rs. 100 lakhs as against the cash price of Rs. 80 lakhs. The amount was payable as Rs. 20 lakhs down payment and balance in 5 equal instalments. The hire vendor collected first instalment as on 31-03-20X2, but could not collect the second instalment which was due on 31-03-20X3. The company was finalising accounts for the year ending 31-03-20X3. Till 15-05-20X3, the date on which the Board of Directors signed the accounts, the second instalment was not collected. Presume IRR to be 10.42%.

Required:

(i) What should be the principal outstanding on 1-4-20X2? Should the company recognize finance charge for the year 20X2-20X3 as income?

(ii) What should be the net book value of assets as on 31-03-20X3 so far Samvedan Ltd. is concerned as per NBFC prudential norms requirement for provisioning?

(iii) What should be the amount of provision to be made as per prudential norms for NBFC laid down by RBI?

(c) From the given information, you are required to compute the deferred tax assets and deferred tax liability for Ramanujam Limited as on 31st March 20X2. 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.

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(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) A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment.

What is the cash-generating unit? ***(4 x 5 Marks each = 20 Marks)***

2. The summarized Balance Sheet of three companies R. Ltd. S Ltd. and T Ltd. as on 31st March are given as below:

	As on 31st March, 20X2 (Rs. in lakhs)		
	R Ltd.	S Ltd.	T Ltd.
Equity and Liabilities			
Shareholder's Funds			
Equity Shares (Rs. 10 each fully paid up)	300	250	200
10% Non-convertible Cumulative Preference Shares (Rs. 100 each fully paid up)	75	60	50
Capital Reserve	600		
General Reserve	125	75	50
Profit & Loss Account	480	170	110
Non-current Liabilities			
Secured Loan:			
12,500, 11% Mortgage Debenture Bonds of Rs. 1,000 each	125	-	-
Bank Loans	765	355	260
Unsecured Loan:			
From S Ltd.	-	-	60
From T Ltd.	75	-	-
Deposit from Public	90	60	15
Current Liabilities:			
Inter-company balances	45	-	-
Other Liabilities & Provision	1,570	625	355
	4,250	1,595	1,100

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Assets			
Non-Current Assets			
Property, Plant and Equipment: Tangible Assets	1,695	625	320
Investment (At Cost):			
15,00,000 shares of S Ltd.	150		
4,00,000 Equity Shares of T Ltd.	40		
8,00,000 Equity Shares of T Ltd.		120	
50,000 Cumulative Preference Shares of R Ltd.			50
7,500 Mortgage Debentures of R Ltd.			70
Current Assets	2,365	850	660
	4,250	1,595	1,100

Additional Information:

(i) R Ltd. subscribed for the shares of S Ltd. and T Ltd. at par at the time of first issue of shares by both the companies.

(ii) S Ltd. subscribed for 4,00,000 shares of T Ltd. at par at the time of first issue and later on it acquired by purchase in the market 4,00,000 shares of T Ltd. at Rs. 20 each when balance in General Reserve and Profit & Loss Account of T Ltd. stood at Rs. 25 lakhs and Rs. 40 lakhs respectively.

(iii) Current assets of S Ltd. and T Ltd. included Rs. 20 lakhs and Rs. 30 lakhs respectively being the current account balance against R Ltd. These accounts remained unreconciled.

Prepare the consolidated balance sheet of the group as on 31st March, 20X2. ***(16 Marks)***

3. AB Ltd. and CD Ltd. two private companies, decide to amalgamate their business into a new holding company EF Ltd., which was incorporated on 1st August, 20X1 with an authorised capital of Rs. 40,00,000 in equity shares of Rs. 10 each. The new company plans to commence operations on 1st October, 20X1.

From the information given below, and assuming that all transactions are completed by 31st March, 20X2, you are required to:

(a) Prepare Projected Statement of Profit & Loss of EF Ltd. for the six months ending 31st March, 20X2.

(b) Prepare Projected Balance Sheet of EF Ltd. as on 31st March, 20X2.

(c) Show the computation of number of shares to be issued to the former shareholders of AB Ltd. and CD Ltd.

Information

(1) EF Ltd. will acquire the whole of the Equity share capital of AB Ltd. and CD Ltd. by issuing its fully paid own shares.

(2) The number of shares to be issued is to be calculated by multiplying the future annual maintainable profits available to the Equity shareholders in each of the two companies by agreed price earnings ratios.

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The following information is relevant:

	AB Ltd. (Rs.)	*CD Ltd. (Rs.)*
Equity Shares of Rs. 10 each fully paid	10,00,000	4,00,000
8% Cumulative Preference shares		1,00,000
10% Debentures	2,00,000	
Future annual maintainable pre-tax profits (before interest/ dividend)	2,30,000	1,12,000
Price Earnings Ratio	10 times	8 times

(3) Shares in the holding company are to be issued to the shareholders in subsidiary companies at a premium of 20% and thereafter these shares will be marketed on the stock exchange.

(4) It is expected that the Group profits of the new company in 20X1-X2 will be at least Rs. 4,50,000 but that will be required as additional working capital to facilitate expansion. Accordingly, it is planned to make a further issue of 37,500 Equity shares to the public for cash at a premium of 30% on 1st February, 20X2. The new shares will not rank for interest/dividend to be paid on 31st March, 20X2.

(5) Out of the proceeds of the right issue EF Ltd. will advance Rs. 2,50,000 to AB Ltd. and Rs. 2,00,000 to CD Ltd. on 1st February, 20X2 for working capital. These advances will carry interest @ 15% p.a. to be paid monthly.

(6) Preliminary Expenses are estimated at Rs. 8,000 and Administrative Expenses for the half-year ended 31st March, 20X2 at Rs. 16,000 but this expenditure will be covered by temporary overdraft facility. It is estimated that Interest on Bank Overdraft cost will be Rs. 1,600 in the first six months.

(7) A provision for Rs. 7,500 should be made for Directors Fee for the half-year.

(8) On 31st March, 20X2, Interim Dividends on Equity Shares, will be paid by AB Ltd. @ 5%, by CD Ltd. @ 4.4% and by EF Ltd. @ 4%.

(9) Income tax is to be taken @ 50% for calculation of number of shares. However, ignore tax effect while preparing Projected Statement of Profit and Loss. ***(16 Marks)***

4. (a) As point of staff welfare measures, Y Co. Ltd. has contracted to lend to its employees sums of money at 5 percent per annum rate of interest. The amounts lent are to be repaid in five equal annual instalments alongwith the interest on the principal amount due. The market rate of interest is 10 per cent per annum.

Y lent Rs. 16,00,000 to its employees on 1st January, 20X1.

Following the principles of recognition and measurement as laid down in Ind AS 109, you are required to record the entries for the year ended 31st December, 20X1 for the transaction and also calculate the value of the loan initially to be recognized and the amortized cost for all the subsequent years.

For purposes of calculation, the following discount factors at interest rate of 10 percent may be adopted.

At the end of year

1	0.909
2	0.827
3	0.751
4	0.683
5	0.620

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(b) Kush Ltd. announced a Share Based Payment Plan for its employees who have completed 3 years of continuous service, on 1st of April, 20X1. The plan is subject to a 3 year vesting period. The following information is supplied to you in this regard:

(i) The eligible employees can either have the option to claim the difference between the exercise price of Rs. 144 per share and the market price in respect of the share on vesting date in respect of 5,000 shares or such employees are entitled to subscribe to 6,000 shares at the exercise price.

(ii) Any shares subscribed to by the employees shall carry a 3 year lock in restriction. All shares carry face value of Rs. 10.

(iii) The Current Fair Value of the shares at (ii) above is Rs. 60 and that in respect of freely tradable shares is higher by 20%.

(iv) The Fair Value of the shares not subjected to lock in restriction at the end of each year increases by a given % from its preceding value as under:

Year	% of Increase
20X1-X2	6
Year 20X2-X3	10
Year 20X3-X4	15

You are required to draw up the following accounts under both options:

(I) Employee Compensation Account,

(II) Provision for Liability Component Account,

(III) ESOP Outstanding Account **(8+8=16 Marks)**

5. (a) Value Added Ltd. furnishes the following Profit and Loss A/c:

Profit and Loss A/c for the year ended 31st March, 20X1

Income	Notes	Rs. ('000)
Turnover	1	29,872
Other Income		1,042
		30,914
Expenditure		
Operating expenses	2	26,741
Interest on 8% Debentures		987
Interest on Cash Credit	3	151
GST		1,952
		29,831
Profit before depreciation		1,083
Less: Depreciation		(342)
Profit before tax		741
Provision for tax	4	376
Profit after tax		365
Less: Transfer to Assets Replacement Reserve		(65)
		300
Less: Dividend paid		(125)
Retained Profit		175

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Notes:

(1) Turnover is based on invoice value and net of sales tax.

(2) Salaries, wages and other employee benefits amounting to Rs. 14,761 ('000) are included in operating expenses.

(3) Cash Credit represents a temporary source of finance. It has not been considered as a part of capital.

(4) Transfer of Rs. 54 ('000) to the credit of deferred tax account is included in provision for tax.

Prepare value added statement for the year ended 31st March, 20X1 and reconcile total value added with profit before taxation.

(b) Prosperous 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? ***(16 Marks)***

6. A Company Q is willing to sell its business. The purchaser has sought professional advice for the valuation of the goodwill of the company. He has the last audited financial statements together with some additional information. Help him to ascertain the correct price for the purpose of purchase:

The extract of the Balance Sheet as on 31.3.20X4 is as under:

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (shares of Rs. 100 each)	9,50,000	Goodwill	2,75,000
8% Preference Share Capital (shares of Rs. 100 each)	2,25,000	Land & Building	5,45,000
Reserves & Surplus	10,25,500	Plant & Machinery	4,55,000
9% Debentures	5,60,000	Investments in shares	4,85,000
Current Liabilities	3,25,640	Inventories	3,80,000
		Trade Receivables (net)	4,25,620
		Cash & Bank balance	5,20,520
	30,86,140		30,86,140

(1) The purchaser wants to acquire all the equity shares of the company.

(2) The Debentures will be redeemed at a discount of 25% of the value in Balance Sheet and investments in shares will be sold at their present market value which is quoted as Rs. 4,95,200. The above will be prior to the purchase of the equity shares.

For the purpose of pricing of Goodwill:

(3) The normal rate of return on net assets for equity shares is 10%.

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(4) Profits after tax for the past three years after debenture interest but before Preference Share Dividend have been as under:

31.3.20X4	Rs. 2,95,000
31.3.20X3	Rs. 4,99,000
31.3.20X2	Rs. 3,25,000

(5) Goodwill is valued at three years purchase of the adjusted average super profit.

(6) In the year 20X3, 20% of the profit mentioned above was due to non-recurring transaction resulting in increase of profit.

(7) The Land & Building has a current rental value of Rs. 62,400 and 8% return is expected from the property.

(8) On 31.3.20X4, 8% of debtors existing on the date had been written as bad and charged to Profit and Loss Account as Provision for Bad debts. The same are now recoverable. Tax is applicable at 35%.

(9) A claim of compensation long contingent of Rs. 25,000 has perspired and is to be accounted for.

(10) No Debenture interest shall be payable in future due to its redemption.

(11) Ignore tax effect on profit on sale of investments and discount on redemption of debentures.

(12) Fair value of assets and liabilities are same as its book values.

(13) Ignore additional depreciation on revaluation of property. ***(16 Marks)***

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

(a) Explain 'Bearer Plant' & 'Biological Asset' as per Ind AS 16 and Ind AS 41. Also state what are excluded from being a bearer plant as per Ind AS 41.

(b) On 1.4.20X1, a mutual fund scheme had 18 lakh units of face value of Rs. 10 each outstanding. The scheme earned Rs. 162 lakhs in 20X1-X2, out of which Rs. 90 lakhs was earned in the first half of the year. On 30.9.20X1, 2 lakh units were sold at a NAV of Rs. 70.

Pass Journal entries for sale of units and distribution of dividend at the end of 20X1-X2.

(c) The closing stock of finished goods at cost of a company amounted to Rs. 4,50,000. The following items were included at cost in the total:

(a) 100 coats, which had cost Rs. 2,200 each and normally sold for Rs. 4,000 each. Owing to a defect in manufacture, they were all sold after the balance sheet date at 50% of their normal selling price.

(b) 200 skirts, which had cost Rs. 50 each. These too were found to be defective. Remedial work in April cost Rs. 2 per skirt, and selling expenses for the batch totaled Rs. 200. They were sold for Rs. 55 each.

(c) Shirts which had cost Rs. 50,000, their net realizable value at Balance sheet date was Rs. 55,000. Commission @ 10% on sales is payable to agents.

What should the inventory value be according to AS 2 after considering the above items?

(d) Shrishti Ltd. contracted with a supplier to purchase machinery which is to be installed in its Department A in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying

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foundations were Rs. 1,41,870. These activities were supervised by a technician during the entire period, who is employed for this purpose of Rs. 45,000 per month. The technician's services were given by Department B to Department A, which billed the services at Rs. 49,500 per month after adding 10% profit margin.

The machine was purchased at Rs. 1,58,34,000 inclusive of IGST @ 12% for which input credit is available to Shrishti Ltd. Rs. 55,770 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of Rs. 30,000 to supervise machinery installation at the factory site.

Also, payment under the invoice was due in 5 months. However, the Company made the payment in 3rd month. The company operates on Bank Overdraft @ 14% p.a.

Ascertain the amount at which the Machinery should be capitalized under AS 10.

(e) Goods worth Rs. 6,62,500 were sold on 31.10.20X2 by X Ltd. to Y Ltd. Y Ltd. requested for a trade discount of 8% which was agreed by X Ltd. The sale was effected and goods were dispatched, However, on receipt of the goods, Y Ltd. found that goods worth Rs. 77,500 were damaged. Consequently, Y Ltd. returned the damaged goods to X Ltd. and made the due payment amounting to Rs. 5,32,000. The accountant of X Ltd. booked the sale for Rs. 5,32,000.

Discuss the above treatment by the accountant with reference to applicable Accounting Standard.

(4 x 4 = 16 Marks)

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