

MOCK TEST PAPER - 1
FINAL (OLD): GROUP – I
PAPER – 1: FINANCIAL REPORTING

Question No. 1 is compulsory.

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

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: 3 hours)

(Maximum Marks: 100)

1. (a) A company has a scheme for payment of settlement allowance to retiring employees. Under the scheme, retiring employees are entitled to reimbursement of certain travel expenses for class they are entitled to as per company rule and to a lump-sum payment to cover expenses on food and stay during the travel. Alternatively, employees can claim a lump sum amount equal to one month pay last drawn.

The company's contentions in this matter are:

- (i) Settlement allowance does not depend upon the length of service of employee. It is restricted to employee's eligibility under the Travel rule of the company or where option for lump-sum payment is exercised, equal to the last pay drawn.
- (ii) Since it is not related to the length of service of the employees, it is accounted for on claim basis.

State whether the contentions of the company are correct as per relevant Accounting Standard. Give reasons in support of your answer.

- (b) Primit Ltd. is having the following Fixed Deposit Receipts:

| | Date of FDR | Maturity Date | Amount (₹) |
|----------------------|---------------------------------|--------------------------------|------------|
| Axis Bank Limited | 1 st January, 2021 | 30 th April, 2022 | 50,00,000 |
| Punjab National Bank | 1 st January, 2021 | 30 th June, 2021 | 65,00,000 |
| State Bank of India | 28 th February, 2021 | 30 th May, 2021 | 70,00,000 |
| ICICI Bank | 31 st January, 2020 | 31 st January, 2022 | 40,00,000 |

Prepare 'Notes to accounts' showing the above deposits in accordance with the requirements of Division I of Schedule III for the year ended 31st March, 2021.

- (c) ABC Pvt. Ltd. is engaged in the business of manufacturing of PP Fabrics. The company had imported 16 second hand machineries on 8th January, 2020 for \$ 4,40,000. The company had paid the full amount due to the vendor on the next day and gain arising from the same is capitalized in the books of accounts.

On 9th January, 2020, the company borrowed 60% (i.e. \$ 2,64,000 @ ₹ 63.5 per \$) of the amount due by way of buyer's credit, payable on 9th July, 2020. Total interest for the borrowing period was \$ 3,056.

Upto 31st March, 2020, out of the 16 machines only 8 machines were put to use by the company. The company capitalized the interest cost of 16 machines as per the provisions of AS 16 "Borrowing Costs". The company opted to exercise para 46A of AS 11 wherein it capitalizes the exchange differences. The company had booked notional loss as on

31st March, 2020 on the buyer's credit amounting to ₹ 4,43,520 [i.e. 2,64,000 x (65.18 - 63.5)] and the company had recognized the same in the statement of profit & loss.

Further, the company has incurred actual loss as at 3rd July, 2020 on account of rollover of such buyer's credit.

Whether the treatment given by company on 31st March, 2020 is as per AS 11?

If not, what is the treatment of notional loss of ₹ 4,43,520 in the books of accounts?

Whether the company is required to capitalise the notional gain / loss of ₹ 4,43,520 proportionately as at 31st March, 2020 for 8 Machines which were not put to use as at 31st March, 2020?

Whether the company need to capitalize the actual loss incurred in the financial year 2020-2021 for 8 machines which were not put to use?

- (d) A Ltd. has carried out certain works on various machines in their engineering plant, which manufactures high quality metal patterns and templates for use in industry.

Determine in each case whether the costs of the improvements can be added to the existing carrying value of the assets concerned?

1. The cost of an annual machine overhaul which will maintain the originally assessed standard of performance of the machine for the coming 12 months.
2. The cost of repairs to a press machine, which was damaged by the emergency services while trying to extricate the arm of a worker who had been trapped in the press.
3. Modifications to a cutting machine which will increase its rate of output from 500 to 560 patterns per shift.
4. Modifications to a lathe which will replace the current water-cooling system with an oil-based system, thereby extending the life of the lathe by a forecast 2 years.
5. The upgrading of a cutting machine with new software which will improve the accuracy of its measurement and cutting tolerances by several microns, thereby raising the quality of output.
6. Alterations to a production line which will allow automatic feeding from a machine to the next one in the production process, thereby removing the need for an employee to manually load the second machine.

(4 x 5 = 20 Marks)

2. The following are the summarized Balance Sheets of Sun Ltd., Earth Ltd. and Moon Ltd. as on 31.3.2019:

| Particulars | ₹ in '000 | | |
|-----------------------------------|---------------|--------------|--------------|
| | Sun Ltd. | Earth Ltd. | Moon Ltd. |
| Equity and Liabilities | | | |
| Equity Share Capital (₹ 100 each) | 8,000 | 4,000 | 1,600 |
| General Reserve | 1,600 | 280 | - |
| Profit and Loss Account | 1,360 | 960 | (640) |
| Current Liabilities | <u>1,280</u> | <u>3,000</u> | <u>1,120</u> |
| Total | <u>12,240</u> | <u>8,240</u> | <u>2,080</u> |
| Assets | | | |
| Investments: | | | |
| 32,000, shares in Earth Ltd. | 4,800 | - | - |

| | | | |
|-----------------------------|---------------|--------------|--------------|
| 4,000, shares in Moon Ltd. | 200 | - | - |
| 12,000, shares in Moon Ltd. | - | 720 | - |
| Current Assets | <u>7,240</u> | <u>7,520</u> | <u>2,080</u> |
| Total | <u>12,240</u> | <u>8,240</u> | <u>2,080</u> |

From the following information, prepare Consolidated Balance Sheet of Sun Ltd. and its subsidiaries as on 31.3.2021:

- (i) Earth Ltd. has advanced ₹ 8,00,000 to Moon Ltd.
- (ii) Current Liabilities of Sun Ltd. includes ₹ 4,00,000 due to Moon Ltd.
- (iii) Earth Ltd. and Moon Ltd. have not paid any dividend.
- (iv) Sun Ltd. acquired its investments on 1.4.2020 from Earth Ltd. and then amount standing to credit of General Reserve and Profit and Loss account were ₹ 2,80,000 and ₹ 5,20,000 respectively.
- (v) Sun Ltd. acquired investments in Moon Ltd. on 1.4.2020, when the debit balance in Profit and Loss account in books of Moon Ltd. was ₹ 4,80,000.
- (vi) Earth Ltd. acquired its investments in Moon Ltd. on 1.4.2018 and then the debit balance in Profit and Loss account was ₹ 1,60,000.
- (vii) Earth Ltd.'s inventory includes inventory worth ₹ 4,80,000 which was invoiced by Sun Ltd. at 20% above cost.

(16 Marks)

3. Following is the summarized Balance Sheet of Sipan Ltd. as on 31st March, 2021:

| Liabilities | ₹ | Assets | ₹ |
|--|------------------|---------------------|------------------|
| 50,000 Equity shares of ₹ 10 each | 5,00,000 | Building | 3,50,000 |
| 2,500, 12% Preference shares of ₹ 100 each | 2,50,000 | Plant and Machinery | 4,30,000 |
| Reserves and Surplus - Profit & Loss A/c | 2,20,000 | Patents | 80,000 |
| 15% Debentures | 1,20,000 | Trade Receivables | 2,00,000 |
| General Reserve | 1,80,000 | Stock in trade | 2,90,000 |
| Trade Payables | <u>1,50,000</u> | Cash at Bank | <u>70,000</u> |
| | <u>14,20,000</u> | | <u>14,20,000</u> |

Buildings & Plant and Machinery were acquired many years ago and should be considered as worth of ₹ 5,00,000 and ₹ 6,30,000 respectively.

The Profits for the last five years were as follows:

| Year | Profit (before tax) ₹ |
|-----------|-----------------------|
| 2016-2017 | 1,80,000 |
| 2017-2018 | 2,50,000 |
| 2018-2019 | 60,000 |
| 2019-2020 | 3,00,000 |
| 2020-2021 | 3,50,000 |

The company paid a remuneration of ₹ 50,000 p.a. to the managerial personnel, but in future it will be paying ₹ 75,000, the increase having been sanctioned by the Government. During 2018-2019, there was a prolonged strike, resulting in low profits. There has been no substantial change in the capital employed. The company has paid a dividend of 12 percent on equity shares

consistently and proposes to stick to this rate in the foreseeable future. In the class of business to which the company belongs, the dividend rates have been fluctuating and the asset backing of an equity share is about 2 times. Equity shares with an average dividend of 15% sell at par. The company is anxious to provide funds for replacement of assets when due, for which it is proposed to make 20% provision on PAT. Assume future tax rate to be 40%. Calculate the value of an equity share of Sipan Ltd. on yield basis. **(16 Marks)**

4. (a) At the beginning of year 1, an enterprise grants 300 stock options to each of its 1,000 employees, conditional upon the employees remaining in the employment of the enterprise for two years. The fair value of the stock options, at the date of grant, is ₹ 10 per option and the exercise price is ₹ 50 per share. The other relevant terms of the grant and assumptions are as below:
- The number of employees expected to complete two years vesting period, at the beginning of the plan, is 900. 50 employees are expected to leave during the each of the year 1 and year 2 and, consequently, the options granted to them are expected to be forfeited.
 - Actual forfeitures, during the vesting period, are equal to the expected forfeitures and 900 employees have actually completed two-years vesting period.
 - The profit of the enterprise for the year 1 and year 2, before amortisation of compensation cost on account of ESOPs, is ₹ 25,00,000 and ₹ 28,00,000 respectively.
 - The fair value of shares for these years was ₹ 57 and ₹60 respectively.
 - The enterprise has 5,00,000 shares of ₹ 10 each outstanding at the end of year 1 and year 2.

Compute the Basic and Diluted EPS, ignoring tax impacts, for the year 1 and year 2.

- (b) On 1st April, 2020, QA Ltd. purchased 10 Lakhs options to acquire shares in KS Ltd., a listed entity. The Company paid ₹ 0.25 per option which allows the Company to purchase shares in KS Ltd. for a price of ₹ 2 per share. The exercise date for the option was 31st December, 2020. On 31st December, 2020, when the market value of a share in KS Ltd. was ₹ 2.6 per share, the Company exercised all its options to acquire shares in KS Ltd.

In addition to the purchase price, the Company has also incurred directly attributable cost of ₹ 1,00,000 for purchase of 10 lakhs shares in KS Ltd. The Company has classified these shares as trading portfolio. However, the Company has not disposed of any of the shares in KS Ltd. between 31st December, 2020 to 31st March, 2021.

The market value of the shares of KS Ltd. as on 31st March, 2021 is ₹ 2.90 per share.

Suggest the accounting treatment in the books of QA Ltd. on the above arrangement and transaction of acquisition of shares in KS Ltd. **(10 + 6 = 16 Marks)**

5. (a) BSP Rock is a SEBI Registered Mutual Fund which made its maiden N.F.O (New Fund Offer) on 10th April, 2020 of ₹ 10 face value per unit. Subscription was received for 90 lakhs units. An underwriting arrangement was also entered into with Stable Capital Markets Ltd., that agreed to underwrite the entire NFO of 100 lakh units on a commission of 1.5%.

Out of the monies received, ₹ 892.50 lakhs was invested in various capital market instruments. The marketing expenses for the N.F.O amounted to ₹ 11.25 lakhs. During the financial year ended March 2021 the Fund sold securities having cost of ₹ 127.25 lakh (FV ₹ 54.36 lakhs) for ₹ 141.25 lakhs. The fund in turn purchased securities for ₹ 130 lakhs. The management expenses of the fund are regulated by SEBI stipulations which state that the same shall not exceed 0.25% of the average funds invested during the year. The actual amount spent towards management expenses was ₹ 2.47 lakhs of which ₹ 47,000 was in arrear. The

dividends earned on the investments held amounted to ₹ 2.51 lakhs of which a sum of ₹ 25,000 is yet to be collected. The fund distributed 80% of realized earnings. The closing market value of the portfolio was ₹ 1120.23 lakhs

You are required to determine the closing per unit NAV of the fund.

(b) Following information is provided in respect of Parv Ltd. as on 31st March, 2021:

| | (₹ in lakh) |
|--|-------------|
| Turnover (including discounts and returns worth ₹ 35 lakh) | 2,500 |
| Plant and machinery (net) | 785 |
| Depreciation on plant and machinery | 132 |
| Debtors | 205 |
| Dividend to ordinary shareholders | 85 |
| Creditors | 180 |
| <u>Stock (net) of all raw materials, WIP, finished goods</u> | |
| Opening stock | 180 |
| Closing stock | 240 |
| Raw material purchased | 714 |
| Cash at bank | 98 |
| Printing and stationery | 24 |
| Auditor's remuneration | 15 |
| Retained profit (opening balance) | 998 |
| Transfer to reserve | 120 |
| Retained profit for the year | 445 |
| Rent paid | 172 |
| Other expenses | 88 |
| Ordinary share capital (₹ 100 each) | 1700 |
| Interest on borrowings | 40 |
| Income tax for the year | 280 |
| Wages and salaries | 352 |
| Employees state insurance | 32 |
| Provident fund contribution | 26 |

You are required to:

(i) Prepare Value Added Statement and its application for the period 31.3.2021.

(ii) Value Added per Employee (If 87 employees work in Parv Ltd.)

(iii) Average Earnings per Employee (If 87 employees work in Parv Ltd.)

(iv) Sales per Employee (If 87 employees work in Parv Ltd.) **(8 + 8 = 16 Marks)**

6. A Ltd. and B Ltd. were amalgamated on and from 1st April, 2021. A new company C Ltd. was formed to take over the business of the existing companies. The summarized Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2021 are given below:

| Liabilities | ₹ in lakhs) | | Assets | ₹ in lakhs) | |
|-------------------------------------|--------------|--------------|------------------------------------|--------------|--------------|
| | A Ltd. | B Ltd. | | A Ltd. | B Ltd. |
| Share Capital | | | | | |
| Equity Shares of ₹ 100 each | 800 | 750 | Land and Building | 550 | 400 |
| 12% Preference shares of ₹ 100 each | 300 | 200 | Plant and Machinery | 350 | 250 |
| Reserves and Surplus | | | Investments | 150 | 50 |
| Revaluation Reserve | 150 | 100 | Current Assets, Loans and Advances | | |
| General Reserve | 170 | 150 | Inventory | 350 | 250 |
| Investment Allowance Reserve | 50 | 50 | Trade receivables | 300 | 350 |
| Profit and Loss Account | 50 | 30 | Cash and Bank | 300 | 200 |
| Secured Loans | | | | | |
| 10% Debentures (₹ 100 each) | 60 | 30 | | | |
| Current Liabilities and Provisions | | | | | |
| Trade payables | <u>420</u> | <u>190</u> | | | |
| | <u>2,000</u> | <u>1,500</u> | | <u>2,000</u> | <u>1,500</u> |

Additional Information:

- (1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).
- (3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.
- (4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2021 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. **(16 Marks)**

7. Answer any four of the following:

- (a) From the following information, determine the possible value of brand as per potential earning model:

| Particulars | | ₹ in lakhs |
|-------------|--|------------|
| (i) | Profit After Tax (PAT) | 2,500 |
| (ii) | Property, plant and equipment | 10,000 |
| (iii) | Identifiable intangible other than brand | 1,500 |
| (iv) | Weighted average cost of capital (%) | 14% |
| (v) | Expected normal return on tangible assets [weighted average cost (14%) + normal spread 4%] | 18% |
| (vi) | Appropriate capitalization factor for intangibles | 25% |

- (b) While closing its books of account on 31st March, 2021 a Non-Banking Finance Company has its advances classified as follows:

| | <i>₹ in lakhs</i> |
|--------------------------------------|-------------------|
| Standard assets | 16,800 |
| Sub-standard assets | 1,340 |
| Secured portions of doubtful debts: | |
| – upto one year | 320 |
| – one year to three years | 90 |
| – more than three years | 30 |
| Unsecured portions of doubtful debts | 97 |
| Loss assets | 48 |

Calculate the amount of provision, which must be made against the advances as per the Non-Banking Financial Company – Non-Systemically Important Non-Deposit taking Company (Reserve Bank) Directions, 2016.

- (c) A company has a capital base of ₹ 1 crore and has earned profits to the tune of ₹ 11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by ₹ 2.5 lakhs over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

- (d) Company X entered into an operating lease over a property several years ago. The property is now surplus to requirements and Company X has vacated it. The lease has three years to run with an associated expense of ₹ 10,000 per year.

Company X believes it may be able to find a tenant to take a sublease of the property, but that it might only receive ₹ 8,000 per year from the sublease. Alternatively, the landlord is prepared to terminate the lease and forgive the future rentals of ₹ 30,000, if Company X makes a termination payment of ₹ 5,500.

What, if any, provision should Company X recognise in relation to the operating lease?

- (e) What are the components of interim financial statements (condensed or complete)?

(4 x 4 =16 Marks)