MOCK TEST PAPER

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) Top-notch Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13.

(i) Long term investments in Company A, costing ₹ 17 lakhs are to be re-classified as current. The company had reduced the value of these investments to ₹13 lakhs to recognize a permanent decline in value. The fair value on date of transfer is ₹13.6 lakhs.

(ii) Long term investments in Company B, costing ₹ 14 lakhs are to be re-classified as current. The fair value on date of transfer is ₹ 16 lakhs and book value is ₹ 14 lakhs.

(iii) Current investment in Company C, costing ₹ 20 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is ₹ 24 lakhs.

(iv) Current investment in Company D, costing ₹ 30 lakhs are to be re-classified as long term. The market value on date of transfer is ₹ 28 lakhs.

Advise the company, as per the guidance given in the standard, on reclassification of its investment and the amount at which the same has to be recognized.

(b) Mobility Ltd. is in the business of manufacture of Passenger cars and commercial vehicles. The company is working on a strategic plan to shift from the Passenger car segment over the coming 5 years. However, no specific plans have been drawn up for sale of neither the division nor its assets. As part of its plan, it will reduce the production of passenger cars by 20% annually. It also plans to commence another new factory for the manufacture of commercial vehicles and transfer its excess employees in a phased manner.

(i) You are required to comment if mere gradual phasing out in itself can be considered as a 'Discontinuing Operation' within the meaning of AS 24.

(ii) If the company passes a resolution to sell some of the assets in the passenger car division and also to transfer few other assets of the passenger car division to the new factory, does this trigger the application of AS 24?

(iii) Would your answer to the above be different if the company resolves to sell the assets of the Passenger Car Division in a phased but time bound manner?

(c) Saheli Publications publishes a monthly magazine on the 15th of every month. It sells advertising space in the magazine to advertisers on the terms of 80% sale value payable in advance and the balance within 30 days of the release of the publication. The sale of space for the March, 2018 issue was made in February, 2018. The magazine was published on its scheduled date. It received ₹2,40,000 on 10.3.2018 and ₹60,000 on 10.4.2018 for the March 2018 issue.

Discuss in the context of AS 9 the amount of revenue to be recognized and the treatment of the amount received from advertisers for the year ending 31.3.2018. What will be the treatment if the publication is delayed till 2.4.2018?

(d) An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are ₹ 3,00,000. The amount will be paid in 3 instalments and at the termination of lease lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is ₹ 40,000. The (internal rate of return) IRR of the investment is 10%. The present value of annuity factor of Re. 1 due at the end of 3rd year at 10% IRR is 2.4868. The present value of Re. 1 due at the end of 3rd year at 10% rate of interest is 0.7513.

(i) State with reason whether the lease constitutes finance lease.

(ii) Calculate unearned finance income. ***(4 x 5 = 20 Marks)***

2. 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, 2017 with an authorised capital of ₹ 40,00,000 in equity shares of ₹ 10 each. The new company plans to commence operations on 1st October, 2017.

From the information given below, and assuming that all transactions are completed by 31st March, 2018, you are required to:

(a) Prepare Projected Statement of Profit & Loss of EF Ltd. for the six months ending 31st March, 2018.

(b) Prepare Projected Balance Sheet of EF Ltd. as on 31st March, 2018.

(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.

The following information is relevant:

	AB Ltd. (₹)	*CD Ltd. (₹)*
Equity Shares of ₹ 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 2017-18 will be at least ₹ 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, 2018. The new shares will not rank for interest/dividend to be paid on 31st March, 2018.

(5) Out of the proceeds of the right issue EF Ltd. will advance ₹ 2,50,000 to AB Ltd. and ₹ 2,00,000 to CD Ltd. on 1st February, 2018 for working capital. These advances will carry interest @ 15% p.a. to be paid monthly.

(6) Preliminary Expenses are estimated at ₹ 8,000 and Administrative Expenses for the half-year ended 31st March, 2018 at ₹ 16,000 but this expenditure will be covered by temporary overdraft facility. It is estimated that Interest on Bank Overdraft cost will be ₹ 1,600 in the first six months.

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

(8) On 31st March, 2018, 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)***

3. Following are the summarized Balance Sheets of A Ltd., B. Ltd. & C Ltd., as on 31.3.2018:

Liabilities	*A Ltd.*	*B Ltd.*	*C Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*	*C Ltd.*
	₹	₹	₹		₹	₹	₹
Share capital of ₹ 10 each	5,00,000	3,00,000	2,00,000	Fixed Assets Investment	2,00,000	1,50,000	1,20,000
General Reserves	80,000	60,000	50,000	24,000 Shares in			
Profit & Loss A/c	1,00,000	80,000	60,000	B Ltd.	2,50,000		
Sundry Creditors B Ltd. Balance	70,000	20,000	30,000 40,000	6,000 Shares in C Ltd.	80,000		
C Ltd. Balance	1,20,000			12,000 shares in C Ltd.		1,60,000	
				Stock in trade	1,00,000	60,000	60,000
				Debtors	1,50,000	40,000	80,000
				C Ltd. Balance		30,000	
				A Ltd. Balance			90,000
				Cash and Bank Balance	90,000	20,000	30,000
	8,70,000	4,60,000	3,80,000		8,70,000	4,60,000	3,80,000

Other Information:

(a) All the investments were made on 1.8.2017 on which date the provisions were as follows:

	B Ltd. (₹)	*C Ltd. (₹)*
General Reserves	30,000	15,000
Profit & Loss Account	50,000	25,000

(b) In December 2017, B Ltd. invoiced goods to A Ltd. for ₹ 80,000 at cost plus 25%. The closing stock of A Ltd. includes such goods valued at ₹ 10,000.

(c) C Ltd. sold to B Ltd. a machinery costing ₹ 27,000 at a profit of 25% on selling price on 31.12.2017. Depreciation at 10% per annum was provided by B Ltd. on this equipment.

(d) Debtors of A Ltd. include ₹ 12,000 being the amount due from B Ltd.

You are required to prepare the Consolidated Balance Sheet of the Group (following direct approach) as on 31.3.2018 as per Schedule III to the Companies Act, 2013. ***(16 Marks)***

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

   (i) 10,000 equity shares of nominal value of ₹ 10 each were issued on 31st March, 2014;

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

   (iii) Market price of share was ₹ 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	**31.03.2015**	**31.03.2016**	**31.03.2017**
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, 2015, 31st March, 2016 and 31st March, 2017

   (ii) Balance of Employee Stock Option Outstanding Account as on 31st March, 2015, 31st March, 2016 and 31st March, 2017

(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-20X1
Date of Security Deposit (Finishing Date)	31-Mar-20X6
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)

5 (a) Calculate the NAV of a Mutual Fund Scheme from the information given below:

At the beginning of the year:

Number of units outstanding	1 Crore units of ₹ 10 each
Investment at cost	₹ 10 crores (Market Value ₹ 16 crores)
Outstanding Liabilities	₹ 5 crores

Other Information:

(1) Additional 20 lakhs units were sold during the year at ₹ 24.

(2) No additional investments were made during the year and as at the year end, 50% of the investment at year beginning were quoted at 80% of the book value.

(3) 10% of the investments had witnessed a permanent fall of 10% below cost.

(4) The balance investments were quoted at ` 13.60 crores.

(5) Outstanding liabilities towards custodian charges, salaries and commission etc. applicable to the scheme were 1 crore.

(b) Synergy Ltd. furnishes the following Profit and Loss A/c:

Profit and Loss A/c for the year ended 31st March, 2018

Income	Notes	₹ ('000)
Turnover	1	29,872
Other Income		1,042
		30,914
Expenditure		
Operating expenses	2	26,741
Interest on 8% Debenture		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 Fixed Assets Replacement Reserve		65
		300
Less: Dividend paid		125
Retained Profit		175

Notes:

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

(2) Salaries, wages and other employee benefits amounting to ₹ 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 ₹ 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, 2018 and reconcile total value added with profit before taxation. ***(8 + 8 = 16 Marks)***

6. Following is the Balance Sheet of Suvarn Ltd. as on 31st March, 2018:

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
Profit & Loss A/c	2,20,000	Patents	80,000
15% Debentures	1,20,000	Sundry debtors	2,00,000
General Reserve	1,80,000	Stock in trade	2,90,000
Creditors	1,50,000	Cash at Bank	70,000
	14,20,000		14,20,000

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) ₹*
2013-14	1,80,000
2014-15	2,50,000
2015-16	60,000
2016-17	3,00,000
2017-18	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 2015-16, 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 Suvarn Ltd. on yield basis.

(16 Marks)

7. Answer any four of the following:

(a) A Ltd. purchased 1,00,000 MT at₹ 100 each of raw material and introduced it in the production process and get 85,000 MT as output. Normal wastage is 5%. In the process, company incurred the following expenses:

Direct Labour	₹ 10,00,000
Direct Variable Overheads	₹ 1,00,000
Direct Fixed Overheads (Including interest ₹ 40,625)	₹ 1,00,000

Of the above 80,000 MT was sold during the year and remaining 5,000 MT remained in closing inventory. Due to fall in demand in market the selling price for the finished goods on the closing day was estimated to be ₹ 105 per MT. Calculate the value of closing inventory.

(b) Happy Ltd. provides you the following data to calculate Economic Value Added (EVA):

30 crores Equity Shares of ₹ 10 each	
1 crores, 15% Preference Shares of ₹ 100 each	
8 crores, 15% Debentures of ₹ 100 each	
Tax Rate	30%
Beta Factor	1.5
Market Rate of Return	15.5%
Equity Market Risk Premium	9%
Financial Leverage	1.5 times
Immovable Property (held as Investment)	₹ 100 crores

(c) ABC Ltd. has set up its business in a designated backward area which entitles the company to receive from the Government of India a subsidy of 20% of the cost of investment. Having fulfilled all the conditions under the scheme, the company on its investment of ₹ 10 crore in capital assets, received ₹ 2 crore from the Government in January, 2018 (accounting period being 2017-2018). The company wants to treat this receipt as an item of revenue and thereby reduce the losses on profit and loss account for the year ended 31st March, 2018.

Keeping in view the relevant Accounting Standard, discuss whether this action is justified or not.

(d) In May, 2004, XYZ Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2018 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 8 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2018 amounted to ₹ 10 lakhs.

Can ₹ 10 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building?

(e) A company with a turnover of ₹ 250 crores and an annual advertising budget of ₹ 2 crore had taken up the marketing of a new product. It was estimated that the company would have a turnover of ₹ 25 crores from the new product. The company had debited to its Profit and Loss account the total expenditure of ₹ 2 crore incurred on extensive special initial advertisement campaign for the new product.

Is the procedure adopted by the company correct? ***(4 x 4 =16 Marks)***