

Roll No.

NOV 2022

Total No. of Questions – 6

**Final New Syllabus
Paper - 1
Financial Reporting**

Total No. of Printed Pages – 16

Time Allowed – 3 Hours

Maximum Marks – 100

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Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any **FOUR** questions from the remaining **FIVE** questions.

Working Notes should form part of the respective answers.

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1. (a) Given below are the balance sheets of a group of companies comprising X Ltd., Y Ltd. and Z Ltd. as on 31st March, 2022 :

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(₹ in Lakhs)

	X Ltd.	Y Ltd.	Z Ltd.
Assets			
<u>Non-Current Assets</u>			
Property, Plant and Equipment	1,120	1,260	1,050
Investment :			
112 lakh shares in Y Ltd.	1,190		
84 lakh shares in Z Ltd.		980	
<u>Current Assets</u>			
Inventories	770	245	175
Financial Assets :			
Trade Receivables	910	350	770
Bills Receivables	252	-	105
Cash in hand and at Bank	798	140	140
	5,040	2,975	2,240
Equity and Liabilities			
<u>Shareholder's equity</u>			
Share Capital (₹ 10 per share)	2,100	1,400	1,120
Other Equity :			
Reserves	630	350	280
Retained earnings	560	175	210
<u>Current Liabilities</u>			
Financial Liabilities :			
Trade Payables	1,645	805	630
Bills payable			
X Ltd.	-	245	-
Y Ltd.	105	-	-
	5,040	2,975	2,240

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The following additional information is available :

- (i) X Ltd. holds 80% shares in Y Ltd. and Y Ltd. holds 75% shares in Z Ltd. Their holdings were acquired on 30th September, 2021.
- (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, 2021 the following balances stood in the books of Y Ltd. and Z Ltd. (**₹ in Lakhs**)

	Y Limited	Z Limited
Reserve	280	210
Retained earnings	70	105

- (iv) ₹ 35 lakhs included in the inventory figure of Y Ltd. is inventory which has been purchased from Z Ltd. at cost plus 25%.
- (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 that market price of the shares of Y Ltd. and Z Ltd. are the same as their respective face values.
- (vi) Y Ltd. purchased goods from Z Ltd. after acquiring the shares of Z Ltd.

You are required to prepare consolidated balance sheet as on 31st March 2022 of the group of companies X Limited, Y Limited and Z Limited.

- (b) Silver Ltd. is in the process of acquiring shares of Blue Ltd. as a part of business reorganization plan. The projected free cash flow of Blue Ltd. for the next 5 years is as follows :

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(₹ in Crores)

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cash flows	280.65	281.40	182.70	403.50	518.20
Terminal value					5,945

The weighted average cost of capital of Blue Ltd. is 10%. The total debt as on measurement date is ₹ 2,195 crore and the surplus cash and cash equivalent is ₹ 159.21 crore.

The total number of shares of Blue Ltd. as on the measurement date is 12.80 crore.

You are required to determine the value per share of Blue Ltd. as per Income Approach of Ind AS 113.

(Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation)

2. (a) On 1st April, 2021 Mohan Ltd. has sold goods to Hari Ltd. at a consideration of ₹ 7,50,000. The receipt of this is receivable in three equal instalments of ₹ 2,50,000 each over a two year period (receipts on 1st April, 2021; 31st March 2022 and 31st March 2023). 6

The company is offering a discount of 5% (i.e. ₹ 37,500), if payment is made in full at the time of sale. The sale agreement reflects an implicit interest rate of 5.358% p.a.

The total consideration to be received from such sale is at ₹ 7,50,000 and hence, the management has recognized the revenue from sale of goods for ₹ 7,50,000.

You are required to analyse whether the above accounting treatment made by the accountant is in compliance of Ind AS. If not, advise the correct treatment alongwith journal entries and extracts of statement of Profit & Loss and Balance Sheet.

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(b) A Ltd. is in the business of infrastructure and has two divisions. The brief details of its business and underlying project details are as follows :

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Project 1. Ludhiana – Chandigarh Expressway Toll Project :

The Company has commenced the construction of the project in the current year. The brief details of the Concession Agreement are given below :

- Total expenses incurred ₹ 100 crore as on 31st March, 2022. Under IGAAP, the company has recorded such expenses as intangible assets in the books of account. Total expenses estimated to be incurred on the project are ₹ 200 crore ;
- Fair value of the construction service is ₹ 220 crore ;
- Total cash flow guaranteed by the government under the concession agreement is ₹ 350 crore ;
- Finance revenue over the period of operation phase is ₹ 30 crore;
- Other income relates to the services provided during the operation phase.

Project 2. Bengaluru – Chennai Expressway Toll Project :

The Company has also entered into another Concession Agreement with Government of Karnataka in the current year. The said concession agreement is Toll Based Project and the Company needs to collect the toll from the users of the expressway. The construction cost for the said project will be ₹ 150 crore. The fair value of such construction cost is approximately ₹ 200 crore. Under IGAAP, the company has recorded the expenses incurred on the said project as an intangible asset.

You are required to answer the following :

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- (i) What would be the classification of Ludhiana – Chandigarh Expressway Toll Project as per applicable Ind AS ? Give brief reasoning.
- (ii) What would be the classification of Bengaluru – Chennai Expressway Toll Project as per applicable Ind AS ? Give brief reasoning.
- (iii) What should be the accounting entries for the preparation of financial statements as per relevant Ind AS for the above 2 projects ?

- (c) An entity enters into a contract for the sale of Product A for ₹ 10,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases upto ₹ 8,000 in the next 30 days. The entity intends to offer a 10% discount on all sales during the next 30 days as a part of seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher. The entity believes that there is 75% likelihood that a customer will redeem the voucher and on an average, a customer will purchase ₹ 5,000 of additional products. You are required to determine how many performance obligations does the entity have with their stand-alone selling price and allocated transaction price ? 4

3. (a) Violet Limited is a beverages manufacturing company having various plants across India. There is Machinery A in the Surat plant which is used for the purpose of bottling. There is one more machinery which is Machinery B clubbed with Machinery A. Machinery A can individually have an output and also be sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with Machinery A it cannot produce output as well. The company considers this group of assets as a Cash Generating Unit and an Inventory amounting to ₹ 1.65 lakhs and Goodwill amounting to ₹ 1.50 lakhs is included in such CGU. 8

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Machinery A was purchased on 1st April 2016 for ₹ 12 lakhs and residual value is ₹ 60 thousands. Machinery B was purchased on 1st April, 2018 for ₹ 5 lakhs with no residual value. The useful life of both Machinery A and B is 10 years. The company expects following cash flows in the next 5 years pertaining to Machinery A. The incremental borrowing rate of company is 10% p.a.

Year	Cash Flows from Machinery A
1	2,00,000
2	1,50,000
3	1,00,000
4	1,50,000
5	1,00,000 (Excluding Residual Value)
Total	7,00,000

On 31st March, 2021, the professional valuers have estimated that the current market value of machinery A is ₹ 8.5 lakhs. There is a need to dismantle the machinery before delivering it to the buyer. Dismantling cost is ₹ 1.60 lakhs. Specialized packaging cost would be ₹ 30,000 and legal fees would be ₹ 68,000.

The inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10 lakhs as on 31st March, 2021. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11 lakhs i.e. on 31st March, 2022. The recoverable value of Machinery A is ₹ 5,50,000 and combined for Machinery A and Machinery B is ₹ 8,00,000 as on 31st March, 2022.

You are required to :

- (i) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2021 by providing all the relevant working notes to arrive at such calculation.

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(ii) Compute the carrying value after considering prospective depreciation for the year 2021-2022 on the above assets.

(iii) Compute the carrying value of CGU as at 31st March, 2022.

(Note : Present value factor of ₹ 1 should be taken upto 4 decimals for the purpose of calculation)

(b) Following is the summarized statement of profit and loss of New Age Ltd. as per Ind AS for the year ended 31.03.2022 : 6

Particulars	₹ in lakhs
Revenue from operations	1,450.00
Other income	70.00
(A) Total Income	1,520.00
Purchase of stock in trade	50.00
Changes in inventories of stock in trade	20.00
Employee benefit expenses	145.00
Finance costs	180.00
Other expenses	375.00
(B) Total expenses	770.00
(C) Profit before tax (A – B)	750.00
(D) Current tax expense	211.65
(E) Profit after tax (C – D)	538.35

Additional Information :

- (1) Consider that Income tax rate applicable to New Age Ltd. in India is 30%.
- (2) Other Expenses include the following expenses which are not deductible for income tax purposes :

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- (i) Penalties ₹ 1.50 lakh
- (ii) Donations ₹ 55.00 lakhs
- (iii) Impairment of goodwill ₹ 7.00 lakhs
- (3) Other expenses also include expenditure on Scientific Research amounting to ₹ 10 lakhs in respect of which a 150% weighted deduction is available under income tax laws.
- (4) Other income includes :
- (i) Dividends of ₹ 5 lakhs, which is exempt from tax.
- (ii) Long term capital gains of ₹ 12 lakhs which are taxable at the rate of 10%.
- (5) Profit before tax of ₹ 750 lakhs includes :
- (i) Agriculture income of ₹ 65 lakhs which is exempt from tax; and
- (ii) Profit of ₹ 75 lakhs earned in USA on which New Age Ltd. has paid tax at rate of 20%.

During review of financial statements of New Age Ltd., the CFO multiplied profit before tax by the income tax rate and arrived at ₹ 225 lakhs as the tax expenses. However, the actual income tax expenses appearing in the summarized statement of profit and loss is ₹ 211.65 lakhs.

You are required to help the CFO of the company in reconciling the difference between the two tax expense amount.

- (c) Explain the criteria in the Conceptual Framework for Financial Reporting for the recognition of an asset and discuss whether there are inconsistencies with the criteria in Ind AS 38. 6

OR

State the categories of capital as defined in the Integrated Reporting Framework. Can an integrated reporting be done in compliance to the requirements of the local laws to prepare a management commentary or other reports ?

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4. (a) On 1st April, 2021 “Fortunate Bank” has provided a loan of ₹ 25,00,000 to Mohan Limited for 4 years at 10% p.a. and the loan has been guaranteed by Surya Limited, which is a holding company for Mohan Limited. Interest payments are made at the end of each year and the principal is repaid at the end of the loan term. If Surya Limited had not issued a guarantee, ‘Fortunate Bank’ would have charged Mohan Limited an interest rate of 14% p.a. Surya Limited does not charge Mohan Limited for providing the guarantee.
- On 31st March 2022, there is 2% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.
- On 31st March 2023, there is 4% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.
- On 31st March 2024, there is 5% probability that Mohan Limited may default on the loan in the next 12 months. If Mohan Limited defaults on the loan, Surya Limited does not expect to recover any amount from Mohan Limited.
- You are required to provide accounting treatment of financial guarantee as per Ind AS 109 in the books of Surya Limited on initial recognition and in subsequent periods till 31st March, 2024.
- (b) Lessee enters into a 10 years lease for 6000 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 8% p.a. At the beginning of the 6th year, lessee and lessor agree to amend the original lease to reduce the space to only 3000 square metres of the original space starting from the first quarter of year 6. The annual fixed lease payments (from year 6 to year 10) are ₹ 60,000. Lessee’s incremental borrowing rate at the beginning of year 6 is 6% p.a.

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You are required to analyse the effect of the said modification and give journal entries for the same in the books of Lessee.

Note : Give your calculation by adopting the present value factor as :

Year	1	2	3	4	5	6	7	8	9	10
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584

5. (a) A herd of 15, 4 year old cows valued at ₹ 500 thousands per cow were held in 'M Dairy Farm' as at 1st April 2021. The following transactions took place on 1st October, 2021 :

(A) One cow aged 4.5 years was purchased for ₹ 520 thousands.

(B) One calf was born.

No cow was sold or disposed off during the year.

The per cow/calf fair value less cost to sell was as follows :

₹ in thousands

4 year old cow on 1 st April 2021	500
New born calf on 1 st October 2021	400
4.5 year old cow on 1 st October 2021	520
New born calf on 31 st March, 2022	410
0.5 year old calf on 31 st March, 2022	440
4 year old cow on 31 st March, 2022	516
4.5 year old cow on 31 st March, 2022	540
5 year old cow on 31 st March, 2022	560

You are required to :

- (i) Calculate change in fair value less costs to sell showing :
 - (a) The portion attributable to physical changes
 - (b) The portion attributable to price changes.
- (ii) Calculate the carrying cost of the herd as on 31st March, 2022.
- (iii) Prepare an extract of the livestock account for the year ended 31st March, 2022.

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- (b) Jackson Limited is engaged in manufacturing and trading activities. It is in the process of preparation of consolidated financial statements of the group for the year ended on 31st March 2022. During the year 2021-22, the company made a profit (after tax) of ₹ 2,10,00,000 of which ₹ 10,00,000 is attributable to Non-Controlling Interest (NCI).

The long term finance of the company comprises the following :

- (A) 10 crore equity shares of ₹ 1 each at the beginning of the year and the company has further issued 2,50,00,000 shares on 1st October 2021 at full market value.
- (B) 40 lakh irredeemable preference shares of ₹ 10 each. These shares were in issue for the whole of the year ended 31st March 2022. The payment of dividend on these preference shares is discretionary.
- (C) ₹ 9 crore of 6% convertible debentures issued on 1st April, 2020 and repayable on 31st March, 2025 at par. Interest is payable annually. As an alternative to repayment at par, the holder on maturity can elect to exchange their convertible debentures for 5 crore ordinary shares in the company. On 1st April, 2021 the prevailing market interest rate for 5 yearly convertible debentures which had no right of conversion was 8%. Using an annual discount rate of 8%, the present value of ₹ 1 payable in five years is 0.68 and the cumulative present value of ₹ 1 payable at the end of years one to five is 3.99.

In the year ended 31st March, 2022 Jackson Limited declared a dividend of ₹ 0.10 per share on the irredeemable preference shares.

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You are required to :

- (i) Compute the finance cost of convertible debentures and its closing balance as on 31st March, 2022 to be presented in the consolidated financial statements.
- (ii) Compute the basic and diluted earnings per share for the year ended 31st March 2022. Assume that applicable income tax rate is 30% for Jackson Limited and its subsidiaries.

- (c) On 1st April, 2019 Sun Ltd. issued share-based option to one of its key managerial personnel (employee) which can be exercised either in cash or equity and it has following features :

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Option I

No. of cash settled shares	70,000
Service condition	3 years

Option II

No. of equity settled shares of face value of ₹ 100 each	80,000
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Conditions :

Service	3 years
Restriction to sell	2 years

Fair Values

Share alternative fair value (with restriction)	₹ 125
Fair value at grant date	₹ 136
Fair value on 31 st March, 2020	₹ 141
Fair value on 31 st March, 2021	₹ 143
Fair value on 31 st March, 2022	₹ 146

You are required to pass the journal entries if the key managerial employee exercises cash option at the end of 31st March, 2022 and also if he exercises equity option at the end of 31st March, 2022.

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6. (a) Orange Ltd. is going to prepare its annual financial statements for the year ending 31st March, 2022, in the process it discovered that a provision for constructive obligation for payment of bonus to selected employees in the corporate office (material in amount) which was required to be recognized in the annual financial statements for the year ended 31st March, 2020 was not recognized due to oversight of facts. The bonus was paid during the financial year ended 31st March, 2021 and was recognized as an expense in the annual financial statements for the said year.

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As finance manager of the company you are required to analyse whether the situation relating to constructive obligation for payment of bonus is an error requiring retrospective restatement of comparatives considering that the amount is material.

- (b) ENG Ltd. has developed model to measure the expected credit loss based on the lifetime expected credit loss model. Accordingly, the company has estimated the following provisioning matrix :

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	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
Default Rate	0.3%	1.6%	3.6%	6.6%	10.6%

The Company has a portfolio of trade receivables of ₹ 6 crores as on 31st March, 2022 and operates in only one geographical region. The customer base of the company consists of large number of small clients and trade receivables are categorized by common risk characteristics that are representative of customer's abilities to pay all amounts due as per the contractual terms.

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The trade receivables do not have significant financing component.

The above provision matrix is based on its historically observed default rate over the expected life of the trade receivables and is adjusted for forward looking estimate.

The company has asked you to suggest whether the above system of making the provision for the expected credit loss is in accordance with the applicable Ind AS ? If yes, then determine the expected credit loss for the Trade Receivables outstanding as on 31st March, 2022 on the following basis :

	Current	1-30 days past due	31-60 days past due	61-90 days past due	More than 90 days past due
% of Trade Receivables	50%	25%	13%	8%	4%

- (c) Pharmaceuticals Limited has 5 operating segments namely K, L, M, N and O. The profit / loss of respective segments for the year ended 31st March, 2022 are as follows : 5

Segment	Profit / (Loss) (₹ in crore)
K	1,560
L	3,000
M	(4,600)
N	(9,000)
O	12,000
Total	2,960

Based on the quantitative thresholds, you are required to determine that which of the above segments would be considered as reportable segments for the year ending March 31, 2022.

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(d) On 1st April 2021, Honey Limited acquired 40% interest in another entity, Smart Limited. Honey Limited determines that it is able to exercise significant influence over Smart Ltd. Honey Limited has paid total consideration of ₹ 95,00,000 for acquiring the interest in Smart Ltd. On the date of acquisition, the book value of Smart Ltd.'s net assets was ₹ 1,80,00,000 and their fair value was ₹ 2,20,00,000. Honey Ltd. has determined that the difference of ₹ 40,00,000 pertains to an item of property, plant and equipment which has remaining useful life of 10 years.

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During the year 2021-22, Smart Ltd. made a profit of ₹ 16,00,000. Smart Limited paid a dividend of ₹ 24,00,000 on 31st March 2022. Smart Limited also holds a long term investment in equity securities. Under Ind AS, investment is classified as at FVTOCI in accordance with Ind AS 109 and Smart Ltd. recognized an increase in value of investment by ₹ 4,00,000 in OCI during the year. Ignore deferred tax implications, if any.

You are required to ascertain the closing balance of Honey Limited's investments in Smart Limited as at 31st March 2022 as per the relevant Ind AS. (Use equity method)

Particulars	Amount (₹)
Investment in Smart Ltd. (₹ 95,00,000)	95,00,000
Less: Book value of Smart Ltd. (₹ 1,80,00,000 × 40%)	(72,00,000)
Less: Fair value adjustment (₹ 40,00,000 × 40%)	(16,00,000)
Less: Dividend received (₹ 24,00,000 × 40%)	(9,60,000)
Less: Profit recognized (₹ 16,00,000 × 40%)	(6,40,000)
Less: Depreciation on PPE (₹ 40,00,000 × 40% × 1/10)	(1,60,000)
Less: Increase in OCI (₹ 4,00,000 × 40%)	(1,60,000)
Total	10,00,000

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