

Roll No. ....

NOV 2023

Total No. of Questions – 6

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Time Allowed – 3 Hours

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



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. The extracts of the Balance Sheets of Hammer Ltd. and its subsidiary Sleek Ltd. as on 31<sup>st</sup> March, 2023 are given below : 20

Particulars	Note No.	Hammer Ltd. (₹)	Sleek Ltd. (₹)
<b>I ASSETS</b>			
<b>A. Non- Current Assets</b>			
Property, Plant and Equipment	1	6,00,000	3,25,000
Intangible Assets	2	1,25,000	75,000
Investments		6,25,000	1,25,000
<b>B. Current Assets</b>			
Inventories		1,25,000	1,60,000
Financial Assets			
Trade receivables		3,25,000	2,90,000
Cash and Cash equivalents		1,50,000	3,50,000
<b>Total Assets</b>		<b>19,50,000</b>	<b>13,25,000</b>
<b>II EQUITY AND LIABILITIES</b>			
<b>A. Equity</b>			
Equity Share Capital (₹ 10 each)		10,00,000	5,00,000
Other Equity	3	5,50,000	3,75,000
<b>B. Non- Current Liabilities</b>			
Financial Liabilities			
Borrowings	4	—	1,00,000
<b>C. Current Liabilities</b>			
Financial Liabilities			
Short term borrowings			
Bank Overdraft		1,00,000	50,000
Trade Payables		3,00,000	3,00,000
<b>Total Equity and Liabilities</b>		<b>19,50,000</b>	<b>13,25,000</b>

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Notes to Accounts :

Note No.	Particulars	Hammer Ltd. (₹)	Sleek Ltd. (₹)
1.	<b>Property, Plant and Equipment</b>		
	(a) Plant and Machinery	2,00,000	1,25,000
	(b) Furniture and Fittings	<u>4,00,000</u>	<u>2,00,000</u>
		<b><u>6,00,000</u></b>	<b><u>3,25,000</u></b>
2.	<b>Intangible Assets</b>		
	Goodwill	<u>1,25,000</u>	<u>75,000</u>
3.	<b>Other Equity</b>		
	(a) General Reserve	2,00,000	1,25,000
	(b) Retained Earnings	<u>3,50,000</u>	<u>2,50,000</u>
		<b><u>5,50,000</u></b>	<b><u>3,75,000</u></b>
4.	<b>Borrowings</b>		
	8% Debentures of ₹ 100 each	—	<u>1,00,000</u>

Additional information :

- Hammer Ltd. acquired 20,000 equity shares of Sleek Ltd. on 1<sup>st</sup> April, 2022 at a cost of ₹ 2,40,000 and further acquired 17,500 equity shares on 1<sup>st</sup> October, 2022 at a cost of ₹ 1,92,500;
- The 8% debentures of Sleek Ltd. includes debentures held by Hammer Ltd. of nominal value of ₹ 35,000. These were acquired by Hammer Ltd. on 1<sup>st</sup> January, 2022 at a cost of ₹ 84,000;

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- The retained earnings of Sleek Ltd. had a credit balance of ₹ 75,000 as on 1<sup>st</sup> April, 2022. On that date the balance of General Reserve was ₹ 50,000;
- Sleek Ltd. had paid dividend @ 10% on its paid-up equity share capital out of the balance of retained earnings as on 1<sup>st</sup> April, 2022 for the financial year 2021-22. The entire dividend received by Hammer Ltd. was credited in its statement of profit and loss;
- As per the resolution dated 28<sup>th</sup> February 2023, Sleek Ltd. had allotted bonus shares @ 1 equity share for every 10 shares held out of its general reserve. The accounting effect has not been given;
- Trade receivables of Hammer Ltd. includes bills receivables of ₹ 2,00,000 drawn upon Sleek Ltd. Out of this, bills of ₹ 50,000 have been discounted with bank;
- During the financial year 2022-23 Hammer Ltd. purchased goods from Sleek Ltd., of ₹ 25,000 at a sales price of ₹ 30,000. 40% of these goods remained unsold on 31<sup>st</sup> March, 2023;
- On 1<sup>st</sup> October, 2022 machinery of Sleek Ltd. was overvalued by ₹ 20,000 for which necessary adjustments are to be made. Depreciation is charged @ 10% per annum;
- The parent company i.e., Hammer Ltd. has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume the fair value per equity share of Sleek Ltd. at ₹ 11 on the date when control of Sleek Ltd. was acquired by Hammer Ltd.

You are required to prepare consolidated balance sheet as per Ind AS of Hammer Ltd. and its subsidiary Sleek Ltd. as at 31<sup>st</sup> March, 2023.

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2. (a) As per the provisions of section 135 of the Companies Act, 2013 read with relevant rules, circulars and notifications related to 'Corporate Social Responsibility' (CSR), discuss the following situations :

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- (i) A company is formed under section 8 of the Companies Act, 2013 to undertake charitable activities. The management of the Company is of the opinion that since all the activities of the Company are charitable in the normal course of business, the CSR provisions are not applicable to it. You are required to advise whether the CSR provisions are applicable to the Company. The Company fulfils all the criteria listed in section 135 of the Companies Act, 2013.
- (ii) C Limited is covered under the provisions of section 135 of the Companies Act, 2013. The Company fulfils all the criteria listed in section 135 of the Companies Act, 2013. It has an holding company H Limited and a subsidiary company S Limited. Neither H Limited nor S Limited fulfils the criteria listed in section 135 of the Companies Act, 2013. Advise whether H Limited and S Limited are required to comply with the provisions of section 135 of the Companies Act, 2013.
- (iii) For the financial year 2020-21, CBC Ltd. was within the purview of CSR provisions as per the Companies Act, 2013 as its net profit for the financial year exceeded ₹ 5 crores. It also satisfied the 'net worth' and 'turnover' criteria. The Company duly discharged its CSR obligations in the financial year 2021-22. However, due to adverse market conditions during the financial year 2021-22, the turnover fell below ₹ 1,000 crores and the Company incurred a loss. Its net worth also fell below ₹ 500 crores. The Company is of the opinion that CSR provisions are no longer applicable to it with effect from financial year 2021-22. Discuss.

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(iv) An office building is constructed exclusively for the CSR activities under section 135 of the Companies Act, 2013 of the Company. The entire expenditure is treated as revenue expenditure and charged to statement of profit and loss. Discuss whether the treatment of charging cost of construction of the aforesaid building to statement of profit and loss is correct. Whether any disclosures as per Schedule III of the Companies Act, 2013 have to be made ?

(b) XYZ Limited is a sales and marketing company in amusement and entertainment domain. It negotiates and agrees in advance with four famous amusement parks to purchase their tickets for online sale through its payment gateway to general public. The negotiated rates are at a discount when compared with the price of tickets sold directly by amusement parks to the general public. XYZ Limited is free to determine its sale price of the ticket. As part of the agreement XYZ Limited will also assist the amusement parks / general public with respect to services provided by the amusement parks to the general public. However, each amusement park will continue to be responsible for fulfilling its / their obligation associated with the ticket, including solutions to dis-satisfied customers. For XYZ Limited, there is no credit risk as payment is collected from customers before hand. However, it carries an inventory risk as tickets have to be purchased in advance and unsold tickets are loss to XYZ Limited. Discuss whether XYZ Limited is a principal or an agent ?

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(c) Whether the following expenses shall form part of 'costs incurred to obtain a contract'. Give reasons : **6**

- (i) Commission paid only upon successful signing of the contract;
- (ii) Legal fees for drafting the terms of the arrangement / agreement;
- (iii) Travel expenses of a sales person pitching for a new client contract;
- (iv) Salaries of sales people working exclusively on obtaining new clients;
- (v) Bonus based on quarterly sales;
- (vi) Commission paid to sales manager which is based on contracts obtained.

3. (a) A consumer products entity, Entity A Limited (lessee) enters into a lease agreement with Entity B Limited (lessor) for a dedicated production line to manufacture one of its store-brand household products for a period of three years. Entity A Limited has agreed to order a minimum 100,000 units per month and to make a payment to Entity B Limited as per the following agreed rates : **8**

- (i) ₹ 240 per unit if the ordered quantity is between 100,000 to 1,20,000 units;
- (ii) ₹ 246 per unit if the ordered quantity is between 1,20,001 to 1,50,000 units.

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As per the terms of the agreement, Entity A Limited has the exclusive right to use the production line. Entity B Limited cannot use the specified production line for any other customer. The type of household product is specified in the contract. Entity A Limited issues instructions to Entity B about the quantity and timing of products to be delivered. If the production line is not producing the household product for Entity A, it remains idle. Entity B Limited operates and maintains the production line on a daily basis. Entity A Limited has estimated that for manufacturing each unit, Entity B Limited incurs an average cost of ₹ 195. Further, the observable stand-alone price for the rent of the production line is ₹ 60,00,000 per month. Entity A Limited's incremental borrowing rate at the commencement date of the lease is 10% per annum.

Entity A Limited concludes that the arrangement contains a lease as per Ind AS 116. It also elects not to apply the practical expedient in paragraph 15 of Ind AS 116 of not to separate the non-lease component (s) from the lease component(s). Accordingly, it separates non-lease components from lease components.

You are required :

- (i) Analyse the above and identify lease component(s) and non-lease component(s);

And at the commencement of the lease;

- (ii) Compute and allocate the consideration into lease component(s) & non-lease component(s);
- (iii) Compute the lease liability (the present value factor @10% per annum of 2.49 for 3 years may be adopted);
- (iv) Determine the recognition / treatment of lease component(s) and non-lease component(s).

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- (b) The following details are available for Hydra Limited as at 31<sup>st</sup> March, 2023 :

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Disposal Group	Carrying Amount at the reporting date before classification as held for sale (Amount in ₹)	Carrying amount as remeasured immediately before classification as held for sale (Amount in ₹)
Goodwill	7,50,000	7,50,000
Property, Plant and Equipment (carried at revalued amounts)	23,00,000	20,00,000
Building (carried at cost)	28,50,000	28,50,000
Investment in Equity Instruments	12,00,000	11,00,000
Inventory	9,00,000	7,50,000

Hydra Limited estimates that the fair value less costs to sell of the disposal group is ₹ 65,00,000.

State, as per applicable Ind AS, how and at what amount of loss should Hydra Limited recognize 'disposal group' before classifying it as held for sale. Also compute the impairment loss if any, and how it should be allocated by Hydra Limited.

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- (c) N Ltd is engaged in the business of manufacturing of bottles for both, pharmaceutical companies and non-pharmaceutical companies. It has a wholly owned subsidiary, H Ltd., which is engaged in the business of pharmaceuticals. H Ltd. purchases the pharmaceutical bottles from its parent company. The demand of H Ltd. is very high and hence to cater to its shortfall, H Ltd. also purchases the bottles from other companies. Purchases are made at competitive prices.

N Ltd. sold pharmaceuticals bottles to H Ltd. for Euro 24 lakhs on 1<sup>st</sup> February, 2023. The cost of these bottles was ₹ 1660 lakhs in the books of N Ltd. at the time of sale. As at 31<sup>st</sup> March, 2023 all these bottles were lying as closing stock in the books of H Limited. Also as at 31<sup>st</sup> March, 2023, the entire amount against the supply of these bottles was payable by H Ltd.

The functional currency of :

- H Limited is Euro; and
- N Limited is INR.

Following additional information is available :

Exchange rate on 1 February, 2023	1 Euro = ₹ 83
Exchange rate on 31 March, 2023	1 Euro = ₹ 85

Provide the journal entries in the books of N Ltd. and H Ltd. on the transaction date(s) as well as 31<sup>st</sup> March, 2023, if any. Assume net realizable value of stock was always equal to its cost.

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4. (a) Ore Exploration Ltd. is engaged in the manufacturing of drilling and mining equipment for over last 25 years. The management of the company is planning to expand the manufacturing activities for which funds are needed. On 1<sup>st</sup> April, 2019, to meet out the financial requirement Ore Exploration Ltd. issued 50,000, Compulsory Convertible Cumulative Preference Shares (CCCPS) of ₹ 100 each. These preference shares carry a coupon rate of 12% p.a. and is payable every year. The Company has substantial profits for payment of preference dividend. Under the terms of instrument, every two preference shares are convertible into 1 equity share of ₹ 100 each at the end of 4<sup>th</sup> year. The prevailing annual market interest rate for the similar debt without conversion option is 15% per annum. The transaction cost of completing the issue process of the instrument is 3% of the proceeds. The effective interest rate is 16.60% per annum.

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You are required to :

- Compute the liability and equity component;
- Provide the 'liability' ledger account for various years at amortized cost using the effective interest rate;
- Pass necessary accounting entries for the whole period.

Note : Use the following present values of Re. 1 at different discounting factors for the purpose of calculation, wherever required.

Year	1	2	3	4
13%	0.8850	0.7831	0.6931	0.6133
15%	0.8696	0.7561	0.6575	0.5718
18%	0.8475	0.7182	0.6086	0.5158

- (b) Discuss the cost constraint on useful financial information.

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OR

Discuss the characteristics of good financial statements.

5. (a) A Ltd. announced a stock appreciation right (SAR) on 1<sup>st</sup> April, 2020 for each of its employees. The scheme gives the employees the right to claim cash payment equivalent to an excess of market price of Company shares on exercise date over the exercise price of ₹ 250 per share in respect of 100 shares, subject to a condition of continuous employment of 3 years. The SAR is exercisable after 31<sup>st</sup> March, 2023 but before 30<sup>th</sup> June, 2023. The fair value of SAR was :

- ₹ 42 in 2020-21;
- ₹ 46 in 2021-22; and
- ₹ 48 in 2022-23.

In 2020-21 the company estimates that 2% of its employees shall leave the Company annually. This was revised to 3% in 2021-22. Actually :

- 15 employees left the company in 2020-21;
- 10 employees left the company in 2021-22; and
- 8 employees left the company in 2022-23.

The SAR therefore actually vested in 492 employees on 30<sup>th</sup> June, 2023 and when SAR was exercised, the intrinsic value was ₹ 50 per share.

Compute, by fair value method, the SAR expense for financial years;

- 2020-21;
- 2021-22;
- 2022-23;
- 2023-24.

Also provide SAR ledger from inception till closure. Discuss whether this account is in the nature of liability or equity ?

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- (b) Haymond Limited has three segments H, M & D. The following information is provided for the year ending 31<sup>st</sup> March, 2023 :

All amounts are in ₹ Lakhs.

Particulars	Segments			Head Office
	H	M	D	
Sales to M	500	—	—	
Sales to D	—	5	—	
Other Sales (Domestic)	10	—	—	
Sales (Export)	680	170	40	
Operating Profit/(Loss) before tax	30	5	(8)	
Reallocated cost from Head Office	4	2	2	
Interest cost	2	3	1	
Fixed Assets	20	4	12	5
Net Current Assets	12	4	9	3
Long Term Liabilities	2	1	12	2

**Other Information :**

- (i) Share Capital amounts to ₹ 40,00,000  
(ii) Reserve & Surplus amounts to ₹ 12,00,000

Prepare segment information as per Ind AS 108.

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- (c) Beauty Ltd. purchased a patent right of a face-wash on 1<sup>st</sup> April, 2020 for ₹ 4,20,000; which has a legal life of 10 years. Due to the highly competitive nature of the product, the management of the company estimates a useful life of only 6 years. Straight line amortization is determined by the management to be the best method. As at 1<sup>st</sup> April, 2021, management is uncertain that the process can actually be made economically feasible and decides to write down the patent to an estimated market value of ₹ 2,00,000 and also decides to amortize it over 2 years. As at 1<sup>st</sup> April, 2022, having perfected the related production process, the asset is now appraised at a value of ₹ 3,50,000. Furthermore, the estimated useful life is now believed to be 3 more years.

You are required to determine the value of intangible asset at the end of financial year :

- 2020-21;
- 2021-22;
- 2022-23.

Also, discuss the treatment of revaluation gain in financial year 2022-23.

6. (a) Diamond Limited is transitioning to Ind AS. It has certain investments in Ruby Limited's Convertible Debt Instruments, which are currently (on the date of transition to Ind AS) exercisable and would provide Diamond Limited with a controlling stake over Ruby Limited on exercise of the conversion rights. Diamond Limited evaluated that Ruby Limited should be treated as its subsidiary under Ind AS. Hence it would require consolidation in its Ind AS Consolidated Financial Statements. Ruby Limited was not considered as a Subsidiary, Associate or a Joint Venture under Previous GAAP.

How should Ruby Limited be consolidated on transition to Ind AS. Assume that Diamond Limited has opted to avail the exemption from retrospective re-statement of past business combinations as per applicable Ind AS ?

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(b) Poor Limited borrowed ₹ 120 Lakhs from a Scheduled Bank. The terms of loan are as under :

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- Rate of Interest @ 10% per annum, payable yearly.
- Tenure of Loan 12 Years.
- Principal to be paid at the end of tenure i.e. 12<sup>th</sup> Year.

Poor Limited defaulted in payment of Interest in year 5, 6, 7 and 8. A loan reschedule agreement took place at the end of 9<sup>th</sup> year with the Bank. As per the agreement Poor Limited is required to pay ₹ 220 Lakhs at the end of 10<sup>th</sup> year. The default continued till the end of 10<sup>th</sup> year.

You are required to calculate as per relevant Ind AS :

- (i) Book Value of the Loan at the end of the 10<sup>th</sup> Year.
- (ii) Additional amount to be paid to the Bank on Account of Rescheduling.

(assume interest is compounded in the case of default).

(c) A shipping company is required by law to bring all its ships into dry dock every 5 years for a major inspection and overhaul. Overhaul expenditure might at first sight seem to be repair to the ships but is actually a cost incurred in getting the ship back into a seaworthy condition. As such the costs must be capitalised.

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A ship that cost ₹ 40 Crore with 20 year life must have a major overhaul every 5 years. The estimated cost of the first overhaul is ₹ 10 Crores.

**Calculate :**

- (i) the depreciation charged for first five years;
- (ii) the carrying amount at the end of 5<sup>th</sup> year.

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- (d) HG Incredibles Limited had in the recent past made a right issue. In its offer document to its members, it had projected a surplus of ₹ 50 crores during the year ending 31.03.2023. The draft result for the year ended 31.03.2023, prepared on the hitherto followed accounting policies and presented for perusal of the Board of Directors showed a surplus of ₹ 5 Crores. The Board in consultation with the Managing Director, decided on the following :
- (i) Value year-end Inventory at Works Cost (₹ 40 Crores) instead of hitherto method of valuation of inventory at Prime Cost (₹ 20 Crores);
  - (ii) Not to provide for “After Sales Expenses” during the warranty period. Till the last year, provision for 1% of Sales used to be made under the concept of “matching of costs against revenue” and actual expenses used to be charged against provision. The Board now decided to account for expenses as and when actually they are incurred. Sales during the year was ₹ 800 Crores;
  - (iii) Provide depreciation for the year on Straight Line Method on account of substantial additions in Gross Block during the year, instead of on Reducing Balance Method, which was hitherto adopted. As a consequence, ₹ 21 Crores depreciation is now less charged than have it would have been provided under the old method. (₹ 67 Crores on Reducing Balance method and ₹ 46 Crores in Straight Line Method).
  - (iv) Provide for other than temporary fall in the value of investments, which fall took place in last 6 years, amounting to ₹ 12 Crores.

Discuss the above situations as per applicable Ind AS, particularly Ind AS 8. Whether the above are change in accounting policies or change in estimates ?

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