Roll No. ........

Total No. of Questions – 6

Time Allowed – 3 Hours

Total No. of Printed Pages – 15

Maximum Marks – 100

# ABSL

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 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.

**Marks**

1. (a) Prepare the consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below : **16**

**Amounts in ₹ Lakhs**

| | Usha Ltd. | Nisha Ltd. | Sandhya Ltd. |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| Shareholder's Equity | | | |
| Share capital (₹ 10 per Share) | 300 | 200 | 160 |
| Reserves | 90 | 50 | 40 |
| Retained earnings | 80 | 25 | 30 |
| Current Liabilities | | | |
| Trade Payables | 235 | 115 | 90 |
| Bills Payable | | | |
| Usha Ltd. | - | 35 | - |
| Sandhya Ltd. | 15 | - | - |
| | **720** | **425** | **320** |
| **Assets** | | | |
| Non-Current Assets | | | |
| Tangible assets | 160 | 180 | 150 |
| Investments : | | | |
| 16 lakhs shares in Nisha Ltd. | 170 | - | - |
| 12 Lakhs shares in Sandhya Ltd. | | 140 | - |
| Current Assets | | | |
| Cash in hand and at Bank | 114 | 20 | 20 |
| Bills Receivable | 36 | - | 15 |
| Trade Receivables | 130 | 50 | 110 |
| Inventories | 110 | 35 | 25 |
| | **720** | **425** | **320** |

The following additional information is available :

(i) Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

(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, 2017 the following balances stood in the books of Nisha Limited and Sandhya Limited.

**₹ in Lakhs**

| | Nisha Limited | Sandhya Limited |
|---|---|---|
| Reserves | 40 | 30 |
| Retained earnings | 10 | 15 |

(iv) ₹ 5 Lakhs included in the inventory figure of Nisha Limited, is inventory which has been purchased from Sandhya Limited 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 market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

(vi) The capital profit preferably is to be adjusted against cost of control.

**Note** : Analysis of profits and notes to accounts must be a part of your answer.

 Marks

(b) Sun Limited has entered into a binding agreement with Moon Limited to buy a custom-made machine for ₹ 4,00,000. At the end of 2017-18, before delivery of the machine, Sun Limited had to change its method of production. The new method will not require the machine ordered which is to be scrapped after delivery. The expected scrap value is nil. Given that the asset is yet to be delivered, should any liability be recognized for the potential loss ? If so, give reasons for the same, the amount of liability as well as the accounting entry. 4

2. (a) XYZ Limited has three cash-generating units – X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows : 10

| Cash Generating Units | Carrying Amount (₹ in Lakhs) | Remaining useful life in years |
|---|---|---|
| X | 800 | 20 |
| Y | 1000 | 10 |
| Z | 1200 | 20 |

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below :

| Corporate Assets | Carrying amount (₹ lakhs) | Remarks |
|---|---|---|
| AU | 800 | The carrying amount of AU can be allocated on a reasonable basis to the individual cash-generating units. |
| BU | 400 | The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units. |

Marks

Recoverable amounts as on 31st March, 2018 are as follows :

| Cash-generating units | Recoverable amount (₹ in Lakhs) |
|---|---|
| X | 1000 |
| Y | 1200 |
| Z | 1400 |
| XYZ Limited | 3900 |

Calculate the impairment loss if any. Ignore decimals.

(b) How will you recognize and present the grants received from the Government in the following cases as per Ind AS 20 ? **5**

(i) A Ltd. received one Acre of land to setup a plant in backward area (fair value of land ₹ 12 lakhs and acquired value by Government is ₹ 8 lakhs).

(ii) B Ltd. received an amount of loan for setting up a plant at concessional rate of interest from the Government.

(iii) D Ltd. received an amount of ₹ 25 lakhs for immediate start-up of a business without any condition.

(iv) S Ltd. received ₹ 10 lakhs for purchase of machinery costing ₹ 80 lakhs. Useful life of machinery is 10 years. Depreciation on this machinery is to be charged on straight line basis.

(v) Government gives a grant of ₹ 25 lakhs to U Limited for research and development of medicine for breast cancer, even though similar medicines are available in the market but are expensive. The company is to ensure by developing a manufacturing process over a period of two years so that the cost comes down at least to 50%.

Marks

(c) Deluxe bike manufactured by Zed Limited is sold with an extended warranty of 2 years for ₹ 87,300 while an identical Deluxe bike without the extended warranty is sold in the market for ₹ 80,000 and equivalent warranty is given in the market for ₹ 10,000. How should Zed Limited recognize and measure revenue in the books on the sale of the bikes and warranty ? 5

3. (a) On 1st April, 2017 Good Time Limited purchased some land for ₹ 1.5 crore (including legal cost of ₹ 10 lakhs) for the purpose of constructing a new factory. Construction work commenced on 1st May, 2017. Good Time Limited incurred the following costs in relation to its construction. 8

| | ₹ |
|---|---|
| Preparation and levelling of the land | 4,40,000 |
| Purchase of materials for the construction | 92,00,000 |
| Employment costs of the construction workers (per month) | 1,45,000 |
| Overhead costs incurred directly on the construction of the factory (per month) | 1,25,000 |
| Ongoing overhead costs allocated to the construction project (using the company's normal overhead allocation model) per month | 75,000 |
| Costs of relocating employees to work at new factory | 3,25,000 |
| Costs of the opening ceremony on 1st January, 2018 | 2,50,000 |
| Income received during the temporary use of the factory premises as a store during the construction period. | 60,000 |

**Marks**

The construction of the factory was completed on 31st December, 2017 and production began on 1st February, 2018. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it is estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

At the end of the 40 years period, Good Time Limited has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The company estimates that the cost of demolition in 40 year's time (based on price prevailing at that time) will be ₹ 3 crores. The annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of ₹ 1 payable in 40 years time at an annual discount rate of 8% is 0.046.

The construction of the factory was partly financed by a loan of ₹ 1.4 crores taken out on 1st April, 2017. The loan was at an annual rate of interest of 9%. During the period 1st April, 2017 to 30th September, 2017 (when the loan proceeds had been fully utilized to finance the construction), Good Time Limited received investment income of ₹ 1,25,000 on the temporary investment of the proceeds.

You are required to compute the cost of the factory and the carrying amount of the factory in the Balance Sheet of Good Time Limited as at 31st March, 2018.

Marks

(b) Golden Era Limited grants 200 shares to each of its 400 employees on 1st January, 2016. The employee should remain in service during the vesting period so as to be eligible. The shares will vest at the end of the **8**

1st year – If the company's earnings increase by 12%

2nd year – If the company's earnings increase by more than 20% over the two year period.

3rd year – If the company's earnings increase by more than 20% over the three year period.

The fair value per share (non-market related) at the grant date is ₹ 61. In 2016 earnings increased by 10% and 22 employees left the company. The company expects that earnings will continue at a similar rate in 2017 and expect that the shares will vest at the end of the year 2017. The company also expects that additional 18 employees will leave the organization in the year 2017 and that 360 employees will receive their shares at the end of the year 2017. At the end of 2017 company's earnings increased by 18% (over the 2 years period). Therefore, the shares did not vest. Only 16 employees left the organization during 2017.

The company believes that additional 14 employees will leave in 2020 and earnings will further increase so that the performance target will be achieved in 2018. At the end of the year 2018, only 9 employees have left the organization. Assume that the company's earnings increased to desired level and the performance target has been met.

You are required to determine the expense as per Ind AS for each year (assumed as financial year) and pass appropriate journal entries.

Marks

(c) NAV Limited granted a loan of ₹ 120 lakhs to OLD Limited for 5 years @10% p.a. which is Treasury bond yield of equivalent maturity. But the incremental borrowing rate of OLD Limited is 12%. In this case, the loan is granted to OLD Limited at below market rate of interest. Ind AS 109 requires that a financial asset or financial liability is to be measured at fair value at the initial recognition. Should the transaction price be treated as fair value ? If not, find out the fair value. What is the accounting treatment of the difference between the transaction price and the fair value on initial recognition in the book of NAV Ltd. ? 4

Present value factors at 12% :

| **Year** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **PVF** | 0.892 | 0.797 | 0.712 | 0.636 | 0.567 |

4. (a) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crores. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crores. Depreciation estimated for the financial year 2018-19 is ₹ 1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crores, which is expected to decline by 20 per cent by the end of the next financial year. 5

Its value in use has been computed at ₹ 1.40 crores as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant Accounting Standard for applicability of the impairment are satisfied :

(i) What should be the carrying amount of this machine as at 31st March, 2019 ?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019 ?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakhs, how would you answer to questions (i) and (ii) above ?

(iv) If the value in use was zero and the company was required to incur a cost of ₹ 8 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above ?

(b) An asset is sold in 2 different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. 5

**In Market A :**

The price that would be received is ₹ 78, transaction costs in that market are ₹ 9 and the costs to transport the asset to that market are ₹ 6.

**In Market B :**

The price that would be received is ₹ 75, transaction costs in that market are ₹ 3 and the costs to transport the asset to that market are ₹ 6.

You are required to calculate :

(i) The fair value of the asset, if market A is the principal market, and

(ii) The fair value of the asset, if none of the markets is principal market.

(c) Future Limited undertakes a contract for construction of a Bridge on 01.04.2017. The contract was to be completed in two years. The following details are given below : 5

Contract Price ₹ 1250 Lakhs

Cost incurred up to 31.03.2018 ₹ 780 Lakhs

The company estimated that a further cost of ₹ 520 lakhs would be incurred for completing the project.

What amount should be charged to revenue for the financial year 2017-18 as per the provisions of Ind AS 11 "Construction Contracts" ? Show the extracts of Profit and Loss account in the books of Future Limited.

Marks

(d) Navya Limited manufacturer of ceramic tiles has shown a net profit of ₹ 15,00,000 for the first quarter of 2018-19. Following adjustments were made while computing the net profit : 5

(i) Bad debts of ₹ 1,64,000 incurred during the quarter. 75% of the bad debts have been deferred for the next three quarters (25% for each quarter).

(ii) Sales promotion expenses of ₹ 5,00,000 incurred in the first quarter and 90% expenses deferred to the next three quarters (30% for each quarter) on the basis that the sales in these quarters will be high in comparison to first quarter.

(iii) Additional depreciation of ₹ 3,50,000 resulting from the change in the method of depreciation has been taken into consideration.

(iv) Extra-ordinary loss of ₹ 1,36,000 incurred during the quarter has been fully recognized in this quarter.

Discuss the treatment required under Ind AS 34 and ascertain the correct net profit to be shown in the Interim Financial report of first quarter to be presented to the Board of Directors.

5. (a) Veer Limited issues convertible bonds of ₹ 75,00,000 on 1st April, 2018. The bonds have a life of five years and a face value of ₹ 20 each, and they offer interest payable at the end of each financial year at a rate of 4.5 per cent annum. The bonds are issued at their face value and each bond can be converted into one ordinary share in Veer Ltd at any time in the next five years. Companies of a similar risk profile have recently issued debt at 6 per cent per annum with similar terms but without the option for conversion. 8

You are required to :

(i) Provide the appropriate accounting entries for initial recognition as per the relevant Ind AS in the books of the company.

(ii) Calculate the stream of interest expenses across the five years of the life of the bonds.

(iii) Provide the accounting entries if the holders of the bonds elect to convert the bonds to ordinary shares at the end of the fourth year.

Marks

(b) New Era Development Limited has been preparing Value Added Statement for the past six years. The department of HRD (Human Resource Development) of the Company has suggested introducing a value added incentive scheme to motivate the employees for better performance. Under the scheme it is proposed that the best index performance favourable to employee i.e. Employee Costs to Added value, for the last six years, will be used as the target index for future calculations of the bonus to be paid. **8**

After the target index is determined, any actual improvement in the index will be rewarded. The employer and the employee will be sharing any such improvement in the ratio of 3:5. The bonus is to be given at the end of the year, after the profit for the year is determined.

The following information is available for the last six years.

**Summarized Value Added Statement for six years** **₹ lakhs**

| Particulars for 31st March | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| Sales | 240 | 280 | 380 | 460 | 520 | 600 |
| Less : Bought in Goods & Services | 105 | 128 | 200 | 250 | 280 | 320 |
| Added Value | 135 | 152 | 180 | 210 | 240 | 280 |
| Employees cost | 60 | 66 | 74 | 84 | 98 | 112 |
| Dividend | 8 | 10 | 15 | 20 | 24 | 30 |
| Taxes | 15 | 18 | 20 | 21 | 25 | 26 |
| Depreciation | 21 | 26 | 31 | 36 | 44 | 56 |
| Debenture Interest | 4 | 4 | 4 | 4 | 4 | 4 |
| Retained earning | 27 | 28 | 36 | 45 | 45 | 52 |
| **Added Value** | 135 | 152 | 180 | 210 | 240 | 280 |

Marks

**Summarized Profit & Loss account for the year ended 31st March, 2018**

| Particulars | ₹ lakhs | |
|---|---|---|
| **Income** | | |
| Sales less returns | 680 | |
| Dividend and interest | 24 | |
| Miscellaneous income | 26 | 730 |
| **Expenditure** | | |
| Production and Operating Expenses : | | |
| Cost of Material | 250 | |
| Wages and Salaries | 89 | |
| Other Manufacturing expenses | 70 | 409 |
| Administrative Expenses : | | |
| Administrative staff salary | 31 | |
| Executive Director's salary | 4 | |
| Administration expenses | 29 | 64 |
| Selling and Distribution expenses : | | |
| Selling and distribution salaries | 20 | |
| Selling expenses | 6 | 26 |
| Financial expenses : | | |
| Debenture interest | 4 | |
| Depreciation | 76 | 80 |
| Total expenditure | | 579 |
| Profit before taxation | | 151 |
| Provision for Taxation | | 47 |
| Profit after taxation | | 104 |

From the above information, prepare value added statement for the year 31st March, 2018 and determine the amount of bonus payable to employees, if any.

Marks

(c) Baby Limited manufactures consumable goods for infants like bath soap, cream, powder, oil etc. As part of its CSR policy, it has decided that for every pack of these goods sold, ₹ 0.75 will go towards the "Swachh Bharat Foundation" which will qualify as a CSR spend as per Schedule VII. Consequently, at the year end, the company sold 40,000 such packs and a total of ₹ 30,000 was recognized as CSR expenditure. However, this amount was not paid to the Foundation at the end of the financial year. Will the amount of ₹ 30,000 qualify to be CSR expenditure ? **4**

6. (a) M/s. PB Limited purchased a plastic bottle manufacturing plant for ₹ 24 lakhs on 1st April, 2015. The useful life of the plant is 8 years. On 30th September, 2017 PB Limited temporarily stops using the manufacturing plant because demand has declined. However the plant is maintained in a workable condition and it will be used in future when demand picks up. **8**

The accountant of PB Limited decided to treat the plant as held for sale until the demand picks up and accordingly measures the plant at lower of carrying amount and fair value less cost to sell. The accountant has also stopped charging depreciation for rest of the period considering the plant as held for sale. The fair value less cost to sell on 30th September, 2017 and 31st March, 2018 was ₹ 13.5 lakhs and ₹ 12 lakhs respectively.

The accountant has made the following working :

| **Carrying amount on initial classification as held for sale** | **₹** | **₹** |
|---|---|---|
| Purchase price of Plant | 24,00,000 | |
| Less : Accumulated Depreciation | | |
| [(₹ 24,00,000/8)*2.5 years] | 7,50,000 | 16,50,000 |
| Fair value less cost to sell as on 31st March, 2017 | | 12,00,000 |
| The value lower of the above two | | 12,00,000 |

Marks

**Balance Sheet extracts as on 31st March, 2018**

| **Particulars** | | ₹ |
|---|---|---|
| Assets | | |
| Current Assets | | |
| Other Current Assets | | |
| Assets classified as held for sale | | 12,00,000 |

**Required :**

Analyze whether the above accounting treatment is in compliance with the Ind AS. If not, advise the correct treatment showing necessary workings.

(b) Growth Limited on 1st April, 2015 issued 50,000, 7% convertible debentures of face value of ₹ 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31st March, 2020 or these may be converted into ordinary shares at the option of the holder. The interest rate for equivalent debentures without conversion rights would have been 10%. The date of transition to Ind AS is 1st April, 2017. 8

Suggest how Growth Limited should account for this compound financial instrument on the date of transition. Also discuss Ind AS on 'Financial Instrument' presentation in the above context.

The present value of ₹ 1 receivable at the end of each year based on discount rates of 7% and 10% can be taken as :

| End of Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 7% | 0.94 | 0.87 | 0.82 | 0.76 | 0.71 |
| 10% | 0.91 | 0.83 | 0.75 | 0.68 | 0.62 |

**Marks**

(c) Sun Shine India Limited has a capital base of ₹ 150 Lakhs and has earned profits to the tune of ₹ 17 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 14%. If the services of a particular executive are acquired by the company, it is expected that the profit will increase by ₹ 3 lakhs over and above the target profit. **4**

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

**OR**

Moon Ltd. acquires 75% of Star Limited on 1st April, 2017 for consideration transferred ₹ 60 lakhs. Moon Limited intends to recognize the Non-Controlling Interest (NCI) at proportionate share of fair value of identifiable assets. With the assistance of a suitably qualified valuation professional, Moon Limited measures the identifiable net assets of Star Limited at ₹ 90 lakhs. Moon Limited performs a review and determines that the business combination did not include any transactions that should be accounted for separately from the business combination.

State whether the procedures followed by Moon Limited and the resulting measurements are appropriate or not. Also calculate the bargain purchase gain in the process.

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