

**MOCK TEST PAPER 1**  
**FINAL (NEW) COURSE: GROUP – I**  
**PAPER – 1: FINANCIAL REPORTING**

**Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.**

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

*Working notes should form part of the answers.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) Flywing Airways Ltd is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries.

On 1 April 20X1, the company began the construction of a new production line in its aircraft parts manufacturing shed.

Costs relating to the production line are as follows:

Details	Amount Rs.'000
Costs of the basic materials (list price Rs.12.5 million less a 20% trade discount)	10,000
Recoverable goods and services taxes incurred not included in the purchase cost	1,000
Employment costs of the construction staff for the three months to 30 June 20X1	1,200
Other overheads directly related to the construction	900
Payments to external advisors relating to the construction	500
Expected dismantling and restoration costs	2,000

**Additional Information**

The construction staff was engaged in the production line, which took two months to make ready for use and was brought into use on 31 May 20X1.

The other overheads were incurred in the two months period ended on 31 May 20X1. They included an abnormal cost of Rs.3,00,000 caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. At the end of that time Flywing Airways Ltd is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of Rs.2 million mentioned above is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate rate to use in any discounting calculations is 5%. The present value of Re.1 payable in eight years at a discount rate of 5% is approximately Re.0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is Rs.3 million.

The Company computes its depreciation charge on a monthly basis.

No impairment of the plant had occurred by 31 March 20X2.

Analyze the accounting implications of costs related to production line to be recognized in the balance sheet and profit and loss for the year ended 31 March, 20X2. **(12 Marks)**

- (b) On 1 July 20X1, FA Ltd acquired 75% of the equity shares of Bolton Ltd and gained control of Bolton Ltd. Bolton Ltd has 12 million equity shares in issue.

Details of the purchase consideration are as follows:

- On 1 July 20X1, FA Ltd issued two shares for every three shares acquired in Bolton Ltd. On 1 July 20X1, the market value of an equity share in FA Ltd was Rs.6.50 and the market value of an equity share in Bolton Ltd was Rs. 6.00.
- On 30 June 20X2, FA Ltd will make a cash payment of Rs. 7.15 million to the former shareholders of Bolton Ltd. who sold their shares to FA Ltd on 1 July 20X1. On 1 July 20X1, FA Ltd would have needed to pay interest at an annual rate of 10% on borrowings.
- On 30 June 20X3, FA Ltd may make a cash payment of Rs. 30 million to the former shareholders of Bolton Ltd who sold their shares to FA on 1 July 20X1. This payment is contingent upon the revenues of FA Ltd. growing by 15% over the two-year period from 1 July 20X1 to 30 June 20X3. On 1 July 20X1, the fair value of this contingent consideration was Rs. 25 million. On 31 March 20X2, the fair value of the contingent consideration was Rs. 22 million.

On 1 July 20X1, the carrying values of the identifiable net assets of Bolton Ltd in the books of that company totaled Rs. 60 million. On 1 July 20X1, the fair values of these net assets totaled Rs. 70 million. The rate of deferred tax to apply to temporary differences is 20%.

During the nine months ended on 31 March 20X2, Bolton Ltd had a poorer than expected operating performance. Therefore on 31 March 20X2, it was necessary for FA Ltd to recognize an impairment of the goodwill arising on acquisition of Bolton Ltd, amounting to 10% of its total computed value.

Compute the impairment of goodwill on acquisition of Bolton Ltd under both the methods permitted in the relevant Ind AS for the initial computation of the non-controlling interest in Bolton Ltd at the date of acquisition. **(8 Marks)**

2. (a) During the year ended 31<sup>st</sup> March, 20X2, Blue Ocean group changed its accounting policy for depreciating property, plant and equipment, so as to apply components approach fully, whilst at the same time adopting the revaluation model.

In years before 20X1-20X2, Blue Ocean group's asset records were not sufficiently detailed to apply a components approach fully. At the end of 31<sup>st</sup> March, 20X1, management commissioned an engineering survey, which provided information on the components held and their fair values, useful lives, estimated residual values and depreciable amounts at the beginning of 20X1-20X2.

The results are shown as under:

**Property, plant and equipment at the end of 31<sup>st</sup> March, 20X1**

	Rs.
Cost	25,000
Depreciation	<u>(14,000)</u>
Net book value	<u>11,000</u>
Depreciation expense for 20X1-20X2 (on old basis)	1,500

<b>Some results of the engineering survey:</b>	
Valuation	17,000
Estimated residual value	3,000
Average remaining asset life (years)	7

However, the survey did not provide a sufficient basis for reliably estimating the cost of those components that had not previously been accounted for separately, and the existing records before the survey did not permit this information to be reconstructed.

The board of directors considered how to account for each of the two aspects of the accounting change. They determined that it was not practicable to account for the change to a fuller components approach retrospectively, or to account for that change prospectively from any earlier date than the start of 20X1-20X2.

Also, the change from a cost model to a revaluation model is required to be accounted for prospectively. Therefore, management concluded that it should apply Blue Ocean group's new policy prospectively from the start of 20X1-20X2.

Blue Ocean group's tax rate is 30 per cent.

Compute the impact of change in accounting policy related to change in carrying amount of Property, Plant & Equipment under revaluation method and impact on taxes based on the basis of information provided. Show the impact of each item affected on financial statements by the analysis of stated issue. **(6 Marks)**

- (b) Blueberry Ltd entered into the following transactions during the year ended 31<sup>st</sup> March, 20X2:
- Entered into a speculative interest rate option costing Rs. 10,000 on 1<sup>st</sup> April, 20X0 to borrow Rs. 6,000,000 from Exon Bank commencing 30<sup>th</sup> June, 20X2 for 6 months at 4%.  
The value of the option at 31<sup>st</sup> March, 20X2 was Rs. 15,250.
  - Purchased 6% debentures in Fox Ltd on 1<sup>st</sup> April, 20X1 (their issue date) for Rs. 150,000 as an investment. Blueberry Ltd. intends to hold the debentures, until their redemption at a premium, in 5 years' time. The effective rate of interest of the bond is 8%.
  - Purchased 50,000 shares in Cox Ltd on 1<sup>st</sup> October, 20X2 for Rs. 3.50 each as an investment. The share price on 31<sup>st</sup> March, 20X2 was Rs. 3.75.

Show the accounting treatment and relevant extracts from the financial statements for the year ended 31<sup>st</sup> March, 20X2 of transactions related to financial instruments. Blueberry Ltd designates financial assets at fair value through Profit or loss only when this is unavoidable. **(10 Marks)**

- (c) Mr. Atul is an independent director of a company X Ltd. He plays a vital role in the management of X Ltd. and contributes in major decision making process of the organisation. X Ltd. pays sitting fee of Rs. 2,00,000 to him for every Board of Directors' (BOD) meeting he attends. Throughout the year, X Ltd. had 5 such meetings which was attended by Mr. Atul.

Similarly, a non-executive director, Mr. Naveen also attended 5 BOD meetings and charged Rs. 1,50,000 per meeting. The Accountant of X Ltd. believes that they being not the employees of the organisation, their fee should not be disclosed as per related party transaction.

Examine whether the sitting fee paid to independent director and non-executive director is required to be disclosed in the financial statements prepared as per Ind AS? **(4 Marks)**

3. (a) Entity A acquired a subsidiary, entity B, during the year. Summarised information from the consolidated statement of profit and loss and balance sheet is provided, together with some supplementary information.

<b>Consolidated statement of profit and loss</b>	<b>Amount (Rs.)</b>
Revenue	3,80,000
Cost of sales	<u>(2,20,000)</u>
Gross profit	1,60,000
Depreciation	(30,000)
Other operating expenses	(56,000)
Interest cost	<u>(4,000)</u>
<b>Profit before taxation</b>	<b>70,000</b>
Taxation	<u>(15,000)</u>
<b>Profit after taxation</b>	<b><u>55,000</u></b>

<b>Consolidated balance sheet</b>	<b>20X2</b>	<b>20X1</b>
	<b>Amount (Rs.)</b>	<b>Amount (Rs.)</b>
<b>Assets</b>		
Cash and cash equivalents	8,000	5,000
Trade receivables	54,000	50,000
Inventories	30,000	35,000
Property, plant and equipment	1,60,000	80,000
Goodwill	<u>18,000</u>	<u>—</u>
<b>Total assets</b>	<b><u>2,70,000</u></b>	<b><u>1,70,000</u></b>
<b>Liabilities</b>		
Trade payables	68,000	60,000
Income tax payable	12,000	11,000
Long term debt	<u>1,00,000</u>	<u>64,000</u>
<b>Total liabilities</b>	<b><u>1,80,000</u></b>	<b><u>1,35,000</u></b>
<b>Shareholders' equity</b>	<b><u>90,000</u></b>	<b><u>35,000</u></b>
<b>Total liabilities and shareholders'</b>	<b><u>2,70,000</u></b>	<b><u>1,70,000</u></b>

#### Other information

All of the shares of entity B were acquired for Rs. 74,000 in cash. The fair values of assets acquired and liabilities assumed were:

<b>Particulars</b>	<b>Amount (Rs.)</b>
Inventories	4,000
Trade receivables	8,000
Cash	2,000
Property, plant and equipment	1,10,000
Trade payables	(32,000)
Long term debt	(36,000)
Goodwill	<u>18,000</u>
<b>Cash consideration paid</b>	<b><u>74,000</u></b>

Prepare statement of cash flows of Entity A.

(10 Marks)

- (b) An entity which follows its financial year as per the calendar year grants 1,000 share appreciation rights (SARs) to each of its 40 management employees as on 1st January 20X5. The SARs provide the employees with the right to receive (at the date when the rights are exercised) cash equal to intrinsic value of the entity's share price. All of the rights vest on 31<sup>st</sup> December 20X6; and they can be exercised during 20X7 and 20X8. Management estimates that, at grant date, the fair value of each SAR is Rs. 11; and it estimates that 10% of the employees will leave evenly during the two-year period. The fair values of the SARs at each year end are shown below:

Year	Fair value at year end
31 December 20X5	12
31 December 20X6	8
31 December 20X7	13
31 December 20X8	12

10% of employees left before the end of 20X6. On 31<sup>st</sup> December 20X7 (when the intrinsic value of each SAR was Rs. 10), six employees exercised their options and remaining employees exercised their options at the end of 20X8 (when the intrinsic value of each SAR was equal to the fair value of Rs. 12).

How much expense and liability is to be recognized at the end of each year? Also pass Journal entries. **(10 Marks)**

4. (a) Company EFG enters into a property lease with Entity H. The initial term of the lease is 10 years with a 5- year renewal option. The economic life of the property is 40 years and the fair value of the leased property is Rs.50 Lacs. Company EFG has an option to purchase the property at the end of the lease term for Rs.30 lacs. Lease is paid at the beginning of the year. The first annual payment is Rs.5 lacs with an increase of 3% every year thereafter. The implicit rate of interest is 9.04%. Entity H gives Company EFG an incentive of Rs. 2 lacs (payable at the beginning of year 2), which is to be used for normal tenant improvement.

Company EFG is reasonably certain to exercise that purchase option. How would EFG measure the right-of-use asset and lease liability over the lease term? **(16 Marks)**

- (b) D Ltd. issues preference shares to G Ltd. for a consideration of Rs. 10 lakhs. The holder has an option to convert these preference shares to a fixed number of equity instruments of the issuer anytime up to a period of 3 years. If the option is not exercised by the holder, the preference shares are redeemed at the end of 3 years. The preference shares carry a coupon of RBI base rate plus 1% p.a.

The prevailing market rate for similar preference shares, without the conversion feature or issuer's redemption option, is RBI base rate plus 4% p.a. On the date of contract, RBI base rate is 9% p.a.

Calculate the value of the liability and equity components. **(4 Marks)**

5. (a) Prepare the Consolidated Balance Sheet as on 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below:

**Rs. in lakhs**

	P Ltd.	S Ltd.	SS Ltd.
Assets			
<u>Non-Current Assets</u>			
Property, Plant and Equipment	320	360	300
Investment :			
16 lakhs shares in S Ltd.	340		

12 Lakhs shares in SS Ltd.		280	
<u>Current Assets</u>			
Inventories	220	70	50
Financial Assets			
Trade Receivables	260	100	220
Bills Receivable	72	-	30
Cash in hand and at Bank	<u>228</u>	<u>40</u>	<u>40</u>
	<u>1440</u>	<u>850</u>	<u>640</u>
<u>Equity and Liabilities</u>			
<u>Shareholder's Equity</u>			
Share capital (Rs. 10 per Share)	600	400	320
Other Equity			
Reserves	180	100	80
Retained earnings	160	50	60
<u>Current Liabilities</u>			
Financial Liabilities			
Trade Payables	470	230	180
Bills Payable			
P Ltd.		70	
SS Ltd.	<u>30</u>		
	<u>1440</u>	<u>850</u>	<u>640</u>

The following additional information is available :

- P Ltd. holds 80% shares in S Ltd. and S Ltd. holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.
- 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.
- On 1st April, 20X1 the following balances stood in the books of S Limited and SS Limited.

**Rs. in lakhs**

	S Limited	SS Limited
Reserves	80	60
Retained earnings	20	30

- Rs. 10 lakhs included in the inventory figure of S Limited, is inventory which has been purchased from SS Limited at cost plus 25%. The sale of goods by SS Ltd. is done after acquisition of shares by S Ltd.
  - 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 S Limited and SS Limited are the same as respective face values. **(16 marks)**
- (b) An entity enters into 1,000 contracts with customers. Each contract includes the sale of one product for Rs. 50 (1,000 total products × Rs. 50 = Rs. 50,000 total consideration). Cash is received when control of a product transfers. The entity's customary business practice is to allow a customer to

return any unused product within 30 days and receive a full refund. The entity's cost of each product is Rs. 30.

Since the contract allows a customer to return the products, the consideration received from the customer is variable. To estimate the variable consideration to which the entity will be entitled, the entity decides to use the expected value. Using the expected value method, the entity estimates that 970 products will not be returned.

The entity estimates that the costs of recovering the products will be immaterial and expects that the returned products can be resold at a profit.

Determine the amount of revenue, refund liability and the asset to be recognised by the entity for the said contracts. **(4 Marks)**

6. (a) On 1 April 20X1, the fair value of the assets of XYZ Ltd's defined benefit plan were valued at Rs. 20,40,000 and the present value of the defined obligation was Rs. 21,25,000. On 31<sup>st</sup> March, 20X2 the plan received contributions from XYZ Ltd amounting to Rs. 4,25,000 and paid out benefits of Rs. 2,55,000. The current service cost for the financial year ending 31 March 20X2 is Rs. 5,10,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 March 20X2 was Rs. 23,80,000, and the present value of the defined benefit obligation was Rs. 27,20,000. Provide a reconciliation from the opening balance to the closing balance for Plan assets and Defined benefit obligation. Also show how much amount should be recognised in the statement of profit and loss, other comprehensive income and balance sheet? **(6 Marks)**

- (b) An entity enters into a contract for the sale of Product A for Rs. 1,000. As part of the contract, the entity gives the customer a 40% discount voucher for any future purchases up to Rs. 1,000 in the next 30 days. The entity intends to offer a 10% discount on all sales during the next 30 days as part of a seasonal promotion. The 10% discount cannot be used in addition to the 40% discount voucher.

The entity believes there is 80% likelihood that a customer will redeem the voucher and on an average, a customer will purchase Rs. 500 of additional products.

Determine how many performance obligations does the entity have and their stand-alone selling price and allocated transaction price? **(5 Marks)**

- (c) ST Limited enters into a contract with a customer to sell an asset. Control of the asset will transfer to the customer in two years (i.e. the performance obligation will be satisfied at a point in time). The contract includes two alternative payment options:
- (1) Payment of Rs. 5,000 in two years when the customer obtains control of the asset or
  - (2) Payment of Rs. 4,000 when the contract is signed. The customer elects to pay Rs. 4,000 when the contract is signed.

ST Limited concludes that the contract contains a significant financing component because of the length of time between when the customer pays for the asset and when the entity transfers the asset to the customer, as well as the prevailing interest rates in the market.

The interest rate implicit in the transaction is 11.8 per cent, which is the interest rate necessary to make the two alternative payment options economically equivalent. However, the entity determines that, the rate that should be used in adjusting the promised consideration is 6%, which is the entity's incremental borrowing rate.

Pass journal entries showing how the entity would account for the significant financing component.

**(5 Marks)**

- (d) Explain why weighted average number of shares are used in the calculation of earnings per share and how it is calculated.

Following is the data for company XYZ in respect of number of equity shares during the financial year 20X1-20X2. Find out the number of shares for the purpose of calculation of basic EPS.

S. No.	Date	Particulars	Number of shares
1	1-Apr-20X1	Opening balance of outstanding equity shares	1,00,000
2	15-Jun-20X1	Issue of equity shares	75,000
3	8-Nov-20X1	Conversion of convertible preference shares in Equity	50,000
4	22-Feb-20X2	Buy back of shares	(20,000)
5	31-Mar-20X2	Closing balance of outstanding equity shares	205,000

**(4 Marks)**

**OR**

ABC Ltd. is a company which has a net worth of Rs. 200 crore, it manufactures rubber parts for automobiles. The sales of the company are affected due to low demand of its products.

Required financial details of the following financial years are as follows: (Rs. in crore)

	March 31, 20X4 (Current year) projected	March 31, 20X3	March 31, 20X2	March 31, 20X1
Net Profit	3.00	8.50	4.00	3.00
Sales (turnover)	850	950	900	800

Does ABC Ltd. has an obligation to form a CSR committee since the applicability criteria is not satisfied in the current financial year?

**(4 Marks)**