Roll No. ....

Total Number of Questions :

Total Number of Printed pages - 10

Time Alloted : 3 Hours

Maximum Marks - 100

FHLK

PAPER – 1 : FINANCIAL REPORTING (NEW SYLLABUS)

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.

Question 1

a) Draw the consolidated Balance sheet as on 31st March, 2015 as per Schedule-III with Notes to Accounts (following indirect method) based on the following information:

Balance Sheet as on 31st March, 2015 (Rs in lacs)

Liabilities	***P***	***Q***	***R***
Share Capital			
Equity Share Capital (FV Rs 100)	600	400	100
Reserves and Surplus			
Reserves	40	10	20
Surplus in Profit and Loss Account	60	40	30
Current Liabilities			
Trade Payable	30	10	35
Other Payable			
Q Limited			15
R Limited	50	-	-
Total	780	460	200

(Rs in lacs)

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Assets	*P*	*Q*	*R*
Fixed Assets (Net of Depreciation) 100	230	150	
Investments			
Q Limited	320		
R Limited	40	100	
Current Assets			
Inventories	50	30	40
Trade Receivables	60	50	20
Other Receivable			
R Limited		40	
P Limited			30
Bank Balance	80	90	10
Total	780	460	200

Additional Information:

(a) P Limited acquired 1,50,000 (cum bonus) shares of Q Limited and 30,000 shares of R Limited and Q Limited acquired 50,000 shares of R Limited on 31st March, 2014 .

(b) Q Limited fixed 1st April, 2014 as record date for allotment of bonus share in the ratio of 1 : 1 and the same were duly allotted.

(d) In December 2014, Q Limited invoiced goods to P Limited for Rs 30 lacs on a load of 25% on cost. 1/3rd of such goods are in stock with P Limited as at the end of the year

(e) R Limited sold to Q Limited on 1st January 2015, an asset costing Rs 20 lacs and made a profit of 20% on invoice value. Q has provided depreciation @ 10% per annum on such assets.

(f) As on 31st March 2014, the balances in reserves and profit and loss account of Q Limited were Rs 5 lacs and Rs 15 lacs respectively.

(g) R Limited made a profit of Rs 12.40 lacs during the current year. During the year, Rs 0.55 lacs was received from insurance company against loss of stock due to flood which occurred on 31st January 2014 in which goods worth Rs 0.75 lacs were damaged and were part of R's stock as on 31st March, 2014.

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(h) R Limited transferred, at the year-end on 31st March, 2015, an amount from Profit and

Loss account to Reserves which equals to 20% of the reported aggregate figures of Reserves and Profit and Loss account in the balance-sheet.

(16 Marks)

b) The fair value of plan assets of Anupam Ltd. was Rs. 2,00,000 in respect of employee benefit pension plan as on 1st April, 2009. On 30th September, 2009 the plan paid out benefits of Rs. 25,000 and received inward contributions of Rs. 55,000. On 31st March, 2010 the fair value of plan assets was Rs. 3,00,000. On 1st April, 2009 the company made the following estimates, based on its market studies and prevailing prices.

Interest and dividend income (after tax) payable by fund 10.25 %

Realized gains on plan assets (after tax) 3.00 %

Fund administrative costs (3.00)%

Expected rate of return 10.25%

Calculate the expected and actual returns on plan assets as on 31st March, 2010, as per AS 15

(4 Marks)

Question 2

a) Sun Co-operative Society Ltd. has borrowed a sum of US$12.50 million at the commencement of the financial year 2011-12 for its solar energy project at LIBOR (London Interbank Offered Rate) of 1% + 4% The interest is payable at the end of the respective financial year. The loan was availed at the then rate of Rs. 45 to the US dollar while the rate as on 31st March, 2012 is Rs. 48 to the US dollar. Had Sun Co-operative Society Ltd. borrowed the Rupee equivalent in India, the interest would have been 11%. You are required to compute Borrowing Cost. Also show the amount of exchange difference as per prevailing Accounting Standards.

b) EITHER

Bright Ltd. acquired 30% of East India Ltd. Shares for Rs. 2,00,000 on 01-06-09. By such an acquisition Bright can exercise significant influence over East India Ltd. During the financial year ending on 31-03-09 East India earned profits Rs. 80,000 and declared a dividend of Rs. 50,000 on 12-08-2009. East India reported earnings of Rs. 3,00,000 for the financial year ending on 31-03-10 and declared dividends of Rs. 60,000 on 12-06-2010.

* Calculate the carrying amount of investment in:

o Separate financial statements of Bright Ltd. as on 31-03-10;

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o Consolidated financial statements of Bright Ltd.; as on 31-03-10;

*What will be the carrying amount as on 30-06-2010 in consolidated financial statements?

OR *(6 Marks)*

A Ltd. purchased 1,00,000 MT atRs 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 Rs 10,00,000

Direct Variable Overheads Rs 1,00,000

Direct Fixed Overheads (Including interest Rs 40,625) Rs 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 Rs 105 per MT. Calculate the value of closing inventory

(6 Marks)

c) A plant was acquired 15 years ago at a cost of Rs. 5 crores. Its accumulated depreciation as at 31st March, 2009 was Rs. 4.15 crores. Depreciation for the financial year 2009-10 is Rs. 25 lakhs. Estimated Net Selling Price as on 31st March,2009 was Rs. 30 lakhs, which is expected to decline by 20% by the end of the next financial year.

Its value in use has been computed at Rs. 35 lakhs as on 1st April, 2009, which is expected to decrease by 30 per cent by the end of the financial year.

(i) Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 2010?

(ii) How much will be the amount of write off for the financial year ended 31st March, 2010?

(iii) If the plant had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs. 12 lakhs, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the enterprise were required to incur a cost of Rs. 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

(8 Marks)

Question 3

a) Determine the order to include dilutive securities in the computation of weighted average number of shares and calculate the diluted earnings per share on the basis of the following pertaining to year ended 31/3/2012

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Particulars	
Net profit attributable to equity shareholders	Rs 1,00,00,000
No. of equity shares outstanding	20,00,000
Average fair value of one equity share during the year	Rs 75.00

Details of Potential Equity Shares:

Options	1,00,000 with exercise price of Rs 60
Convertible	Preference Shares 8,00,000 shares entitled to a cumulative dividend of Rs 8 per share. Each preference share is convertible into 2 equity shares
Dividend distribution tax	16.22%
12% Convertible Debentures of Rs 100 each	Nominal amount Rs 10,00,00,000. Each debenture is convertible into 4 equity shares.
Tax rate	30%

(8 Marks)

b) An enterprise grants to an employee the right to choose either a cash payment equal to the value of 1,000 shares, or 1,200 shares. The grant is conditional upon the completion of three years service. If the employee chooses the equity alternative, the shares must be held for three years after vesting date. The face value of shares is Rs 10 per share.

At grant date, the fair value of the shares of the enterprise (without considering post-vesting restrictions) is Rs 50 per share. At the end of years 1, 2 and 3, the said fair value is Rs 52, Rs 55 and Rs 60 per share respectively. The enterprise does not expect to pay dividends in the next three years. After taking into account the effects of the post-vesting transfer restrictions, the enterprise estimates that the grant date fair value of the equity alternative is Rs 48 per share.

At the end of year 3, the employee chooses:

Scenario 1: The cash alternative

Scenario 2: The equity alternative

Calculate the amount of expenses for each year and pass necessary journal entries for each year & for settlement under above two scenarios.

(8 Marks)

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

(4 Marks)

Question 4

a) The summarized Balance Sheets of A Ltd. and B Ltd., as at 31-3-2014 were as follows:(Rs in lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital			Fixed Assets	60	18
(Share of Rs 10 each)	50	10	Investment in B Ltd.		
General Reserves	50	20	(60,000 shares)	6	-
Profit & Loss Account	20	15	Debtors	35	5
Secured Loan	20	3	Inventories	30	25
Current Liabilities	30	2	Cash at bank	39	2
	170	50		170	50

A Ltd. holds 60% of the paid up capital of B Ltd. and balance is held by a foreign company.

The foreign company agreed with A Ltd. as under:

(i) The shares held by the foreign company will be sold to A Ltd. at Rs 50 above than nominal value of per share.

(ii) The actual cost per share to the foreign company was Rs 11, gain accruing to foreign company is taxed @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by A Ltd., 50% of the consideration (after payment of tax) will be remitted to foreign company by A Ltd., and also any cash for fractional shares allotted.

(iii) For the balance consideration A Ltd. would issue its shares at their intrinsic value. It was also decided that A Ltd. would also absorb B Ltd., simultaneously by writing down the fixed assets of B Ltd. by 10%. The Balance Sheet figure included a sum of Rs 1,00,000 due by B Ltd. to A Ltd. and stock of A Ltd. included stock of Rs 1,50,000 purchased from B Ltd., who sold them at cost plus 20%.

The entire arrangement was approved and put through by all concern effective from 1-4-2014.

(8 Marks)

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You are required to prepare the Balance Sheet of A Ltd., after absorption of B Ltd. Workings should form part of your answer.

(16 Marks)

b) Explain Financial capital maintenance and Physical capital maintenance as per the Framework and differentiate it.

(4 Marks)

Question 5

a) On 1st April, 2008 Sigma Ltd. issued 6% Convertible debentures of face value of Rs 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31-03- 2012 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%.

Being a compound financial instrument, you are required to separate equity and debt portions as on 01-04-2008. Equity portion is Rs1,85,400. Find out the debt portion

(Debenture amount). The present value of Rs1 receivable at the end of each year based on discount rates of 6% and 10% can be taken as:

End of year	6%	10%
1	0.94	0.91
2	0.89	0.83
3	0.84	0.75
4	0.79	0.68

(10 Marks)

b) The following information is supplied to you about Lookdown Ltd.

Capital & Reserves

No of Equity Shares of Rs 100 each of which Rs 75 has been called up 5,00,000

Equity Shares in respect of which calls are in arrear @ 25 per share Rs1,00,000

General Reserve Rs 10,00,000

Profit & Loss account (balance at beginning of the year) Rs (25,00,000)

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Profit/(loss) for the year Rs (1,80,000)

Industry Average Profitability 12.50%

8% Debentures of Rs 10 each 8,00,000

Lookdown Ltd. is proposing to hire the services of Mr. X to turn the company around.

Minimum take home salary per month demanded by Mr. X Rs 4,00,000

Average Income tax rate on salaries 25%

Provident Fund contribution by Employer per month Rs 50,000

Profits over and above target expected by hiring Mr. X 10%

You are required to analyze the proposal and see whether it is worthwhile to employ Mr. X and also suggest the maximum emoluments that could be paid to him.

Note:

(i) PF contributions are tax exempt.

(ii) Take home salary is that remaining after employee's contribution to PF @ Rs 50,000 per month and after deduction of Income-tax on salary.

(10 Marks)

Question 6

a) In December 20X1 an entity entered into a loan agreement with a bank. The loan is repayable in three equal annual installments starting from December 20X5. One of the loan covenants is that an amount equivalent to the loan amount should be contributed by promoters by March 24 20X2, failing which the loan becomes payable on demand. As on March 24, 20X2, the entity has not been able to get the promoter's contribution. On March 25, 20X2, the entity approached the bank and obtained a grace period up to June 30, 20X2 to get the promoter's contribution.

The bank cannot demand immediate repayment during the grace period. The annual reporting period of the entity ends on March 31, 20X2.

(i) As on March 31, 20X2, examine the classification of the loan to be done by the entity as per Ind AS?

(ii) Assume in anticipation that it may not be able to get the promoter's contribution by due date. In February 20X2, the entity approached the bank and got the compliance date extended up to June 30, 20X2 for getting promoter's contribution. In this case, examine whether the loan classification as on March 31, 20X2 be different from (a) above?

(5 Marks)

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b) On 1 April 20X1, Sun ltd purchased some land for Rs 10 million (including legal costs of Rs 1 million) in order to construct a new factory. Construction work commenced on 1 May 20X1. Sun ltd incurred the following costs in relation with its construction:

Preparation and levelling of the land – Rs 3,00,000.

Purchase of materials for the construction – Rs 6·08 million in total.

Employment costs of the construction workers – Rs 2,00,000 per month.

Overhead costs incurred directly on the construction of the factory – Rs 1,00,000 per month.

* Ongoing overhead costs allocated to the construction project using the company's normal overhead allocation model – Rs 50,000 per month.

* Income received during the temporary use of the factory premises as a car park during the construction period – Rs 50,000.

* Costs of relocating employees to work at the new factory – Rs 300,000.

* Costs of the opening ceremony on 31 January 20X1 – Rs 150,000.

The factory was completed on 30 November 20X1 and production began on 1 February 20X2. 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 30% of the total cost of the building.

At the end of the 40-year period, Sun ltd has a legally enforceable obligation to demolish the factory and restore the site to its original condition. The directors estimate that the cost of demolition in 40 years time (based on prices prevailing at that time) will be Rs 20 million. An annual risk adjusted discount rate which is appropriate to this project is 8%. The present value of Rs 1 payable in 40 years time at an annual discount rate of 8% is 4·6 cents.

The construction of the factory was partly financed by a loan of Rs 17·5 million taken out on 1 April 20X1. The loan was at an annual rate of interest of 6%. During the period 1 April 20X1 to 31 August 20X1 (when the loan proceeds had been fully utilised to finance the construction), Sun Ltd received investment income of Rs 100,000 on the temporary investment of the proceeds.

Required:

Compute the carrying amount of the factory in the Balance Sheet of Sun Ltd at 31 March 20X2.

You should explain your treatment of all the amounts referred to in this part in your answer.

(10 Marks)

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Parent P acquired 90 percent of subsidiary S some years ago. P now sells its entire investment in S for Rs 1,500 lakhs. The net assets of S are 1,000 and the NCI in S is Rs 100 lakhs. The cumulative exchange differences that have arisen during P's ownership are gains of Rs 200 lakhs, resulting in P's foreign currency translation reserve in respect of S having a credit balance of Rs180 lakhs, while the cumulative amount of exchange differences that have been attributed to the NCI is Rs 20 lakhs

Calculate P's gain on disposal

(10 Marks)

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