QUESTION PAPER

SUBJECT - FINANCIAL REPORTING

PAPER NAME - FR 35% TEST 1

PAPER CODE - AFR1

DURATION - 3 HOURS

Total No. of Questions: 6
Total No. of Printed Pages: 15 Maximum Marks: 100

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to MCQs in Part I are to be marked on the OMR answer sheet as given on the cover page of descriptive answer book only. Answers to questions in Part II are to be written in the same descriptive answer book. Answers to MCQs, if written inside the descriptive answer book or on Part I question paper, will not be evaluated.
6. OMR answer sheet given on the cover page of descriptive answer book will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive answer book.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit descriptive answer book with OMR cover page to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators or having/using mobile phone or smart watch will be expelled from the examination and will also be liable for further punitive action.

PART-II

70 Marks

1. Question paper comprises 6 questions. Answer Question No. 1 which is compulsory and any 4 out of the remaining 5 questions.
2. Working notes should form part of the answer.
3. Answers to the 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 evaluated.

PART I – Multiple Choice Questions

Case study 1

XYZ Ltd. is an Indian company with the following employee benefit arrangements for the financial year 2023-24:

1. **Gratuity Plan**: The company has a defined benefit plan for gratuity. As of 31st March 2023, the present value of the defined benefit obligation (DBO) is INR 12,00,000, and the fair value of plan assets is INR 9,50,000. During 2023-24, the current service cost is INR 1,80,000, and the company contributed INR 1,50,000 to the plan. The discount rate is 8%, and the actual return on plan assets during the year is INR 80,000. There is an actuarial gain of INR 60,000 on the DBO.

2. **Defined Contribution Plan**: The company contributes 15% of employees' basic salary to a provident fund. For the year, the total contributions amount to INR 6,00,000.

3. **Termination Benefits**: On 1st January 2024, XYZ Ltd. announces a termination plan under which 50 employees will receive compensation totaling INR 25,00,000. The termination benefits are to be settled by 31st March 2024.

4. **Leave Encashment**: XYZ Ltd. offers leave encashment as a long-term employee benefit. As of 31st March 2024, the leave obligation is INR 4,00,000, and the current service cost for the year is INR 1,50,000. The discount rate is 7%, and the interest cost for the year is INR 28,000.

Using the above information, answer the following questions:

MCQs

Q1. What is the net interest expense to be recognized for the gratuity plan in the financial statements for 2023-24?

A. INR 1,20,000

B. INR 2,00,000

C. INR 2,40,000

D. INR 2,60,000

Q2. How will the actuarial gain of INR 60,000 on the DBO for the gratuity plan be accounted for in the financial statements?

A. Recognized in profit or loss immediately.

B. Adjusted against plan assets.

C. Recognized in other comprehensive income (OCI).

D. Deferred and amortized over the remaining service period of employees.

Q3. When should the termination benefits of INR 25,00,000 be recognized in the financial statements?

A. On 1st January 2024, when the termination plan is announced.

B. On 31st March 2024, when the payment is settled.

C. Over the period from 1st January 2024 to 31st March 2024.

D. Only when the employees accept the termination benefits.

Q4. What is the total expense for leave encashment to be recognized in profit or loss for 2023-24?

A. INR 1,78,000

B. INR 2,50,000

C. INR 1,50,000

D. INR 4,28,000

Case Study 2

PQR Ltd. granted 1,000 equity-settled share options to each of its 500 employees on 1st April 2023. The share options vest after 3 years if the employees remain in service. The fair value of each option on the grant date is INR 100. The company estimates that 20% of employees will leave before the vesting date.

During the financial year 2023-24, 50 employees leave the company, and PQR Ltd. revises its estimate of employee attrition to 15% for the remaining vesting period.

Using the above information, answer the following questions:

MCQs

Q5. What is the initial total fair value of the share-based payment arrangement at the grant date?

A. INR 5,00,00,000

B. INR 4,00,00,000

C. INR 1,00,00,000

D. INR 6,00,00,000

Q6. What is the revised total fair value of the share-based payment arrangement after considering the updated attrition estimate at the end of 2023-24?

A. INR 4,00,00,000

B. INR 4,25,00,000

C. INR 4,25,85,000

D. INR 3,50,00,000

Q7. What is the share-based payment expense to be recognized in profit or loss for the financial year 2023-24?

A. INR 1,33,33,333

B. INR 1,41,66,667

C. INR 1,50,00,000

D. INR 1,25,00,000

Q8. If an employee forfeits their share options after the vesting period, how will PQR Ltd. account for the forfeited options?

A. Reverse the expense recognized in profit or loss for the forfeited options.

B. No adjustment, as the expense is recognized over the vesting period only.

C. Transfer the value of forfeited options to retained earnings.

D. Adjust the value of remaining options for the forfeiture.

Case Study 3

ABC Ltd. is an Indian entity engaged in manufacturing and exports. The company enters into the following transactions during the financial year 2023-24:

1. **Investment in Equity Instruments**: On 1st April 2023, ABC Ltd. invests INR 50,00,000 in equity shares of XYZ Ltd., which are not held for trading. The fair value of these shares as on 31st March 2024 is INR 55,00,000. ABC Ltd. irrevocably elects to classify these investments at fair value through other comprehensive income (FVOCI).

2. **Borrowings**: On 1st July 2023, ABC Ltd. takes a loan of INR 1,00,00,000 at a fixed interest rate of 10% p.a. for 3 years. The loan origination fee is INR 2,00,000, which is deducted upfront by the lender.

3. **Forward Contract**: On 1st January 2024, ABC Ltd. enters into a forward contract to sell USD 1,00,000 on 31st March 2024 at a forward rate of 1 USD = INR 85. The spot rate on 1st January 2024 is 1 USD = INR 83, and on 31st March 2024, it is 1 USD = INR 84.

Using the above information, answer the following questions:

MCQs

Q9. How should ABC Ltd. account for the investment in equity instruments in its financial statements as on 31st March 2024?

A. Recognize INR 55,00,000 as an asset, with INR 5,00,000 gain recognized in profit or loss.

B. Recognize INR 55,00,000 as an asset, with INR 5,00,000 gain recognized in OCI.

C. Recognize INR 50,00,000 as an asset, with no adjustment for the fair value change.

D. Recognize INR 55,00,000 as an asset, with INR 5,00,000 deferred until disposal.

Q10. What is the effective interest rate (EIR) on the loan considering the origination fee?

A. 10.00%

B. 10.23%

C. 10.47%

D. 11.00%

Q11. How will the forward contract be accounted for in the financial statements as of 31st March 2024?

A. Recognize a gain of INR 1,00,000 in profit or loss.

B. Recognize a loss of INR 1,00,000 in OCI.

C. Recognize a gain of INR 2,00,000 in profit or loss.

D. Recognize a loss of INR 2,00,000 in OCI.

Q12. How will the interest expense on the loan be accounted for in ABC Ltd.'s financial statements for the year 2023-24?

A. INR 10,00,000 charged to profit or loss.

B. INR 9,47,500 charged to profit or loss.

C. INR 10,23,500 charged to profit or loss.

D. INR 11,00,000 charged to profit or loss.

<u>Individual MCQs</u>

Q13. Under Ind AS 12, deferred tax liability is not recognized for which of the following?

A. Taxable temporary differences arising from the revaluation of property, plant, and equipment.

B. Taxable temporary differences arising from the initial recognition of goodwill.

C. Taxable temporary differences related to investments in subsidiaries when the entity cannot control the timing of reversal.

D. Taxable temporary differences arising from the use of accelerated depreciation methods for tax purposes.

Q14. Under Ind AS 108, when is an entity required to report information about a segment that does not meet the quantitative thresholds?

A. When the segment is classified as a discontinued operation.

B. When the management considers the segment significant for decision-making purposes.

C. When the segment's external revenue is less than 10% of total external revenue.

D. When the aggregate revenue of reportable segments falls below 75% of the entity's total revenue.

Q15. According to the Conceptual Framework, which of the following is not a necessary characteristic of information to be classified as a liability?

A. The entity has a present obligation arising from past events.

B. The obligation is expected to result in an outflow of economic resources.

C. The obligation has a probable future settlement date.

D. The obligation is enforceable either legally or constructively.

PART II - Descriptive

Q1 (a).

On 1st April, 2021 "Fortunate Bank" has provided a loan of Rs. 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.

(10 Marks)

Q1 (b).

RST Ltd prepares consolidated financial statements as at 31st March each year. On 1st July, 2021, RST Ltd acquired 75% of the equity shares of the DHF Ltd and gained control of DHF Ltd. The issued shares of DHF Ltd is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

• On 1st July 2021, RST Ltd. issued shares for every three shares acquired in DHF Ltd. on 1st July 2021, the market value of an equity share in RST Ltd. was Rs. 6.50 and the market value of an equity share in DHF Ltd. was Rs. 5.50.

• On 30th June 2022, RST Ltd will make cash payment of Rs. 71,50,000 to the former share holders of DHF Ltd. who sold their shares to RST Ltd. on 1st July 2021. On 1st July, 2021 RST Ltd would have to pay interest at an annual rate of 10% on borrowings.

• On 30th June 2023, RST Ltd may make a cash payment of Rs. 3,00,00,000 to the former share holders of DHF Ltd who sold their shares to RST Ltd on 1st July 2021. This payment is contingent upon the revenues of RST Ltd growing by 15% over the two-year period from 1st July 2021 to 30 June, 2023.

On 1st July 2021, the fair value of this contingent consideration was Rs. 2,50,00,000. On 31st March 2022, the fair value of the contingent consideration was Rs. 2,20,00,000. On 1st July 2021, the carrying values of the identifiable net assets of DHF Ltd in the books of that company was Rs. 6,00,00,000. On 1st July 2021, the fair values of these net assets was Rs. 7,00,00,000. The rate of deferred tax to apply to temporary differences is 20%.

(4 Marks)

Q2 (a).

P Ltd. granted 400 stock appreciation rights (SAR) each to 75 employees on 1st April 20X1 with a fair value Rs. 200. The terms of the award require the employee to provide service for four years in order to earn the award. The fair value of each SAR at each reporting date is as follows:

31st March 20X2 Rs. 210

31st March 20X3 Rs. 220

31st March 20X4 Rs. 215

31st March 20X5 Rs. 218

What would be the difference if at the end of the second year of service (i.e. at 31st March 20X3), P Ltd. modifies the terms of the award to require only three years of service?

(8 Marks)

Q2 (b).

On April 1st 2019, a 8% convertible loan with a nominal value of Rs. 12,00,000 was issued at par by Cargo Ltd. it is redeemable on March 31st 2023 also at per. Alternatively, it may be converted into each shares on the basis of 100 new shares for each Rs. 200 worth of loan.

An equivalent loan without the conversion option would have carried interest at 10%. Interest of Rs. 96,000 has already been paid and included as a finance cost.

Present Value (PV) rates are as follows:

Year End	@8%	@10%
1	0.93	0.91
2	0.86	0.83
3	0.79	0.75
4	0.73	0.68

How will be Company present the above loan notes in the financial statements for the year ended March 31st, 2020?

(6 Marks)

Q3 (a).

A Ltd prepares financial statements to 31 March each year. The rate of income tax applicable to A Ltd is 20%. The following information relates to transactions, assets and liabilities of A Ltd during the year ended 31 March 20X2:

(i) A Ltd has a 40% shareholding in L Ltd. A Ltd purchased this shareholding for Rs. 45 Cr. The shareholding gives A Ltd significant influence over L Ltd but not control and therefore A Ltd. accounts for its interest in L Ltd using the equity method. The equity method carrying value of A Ltd's investment in L Ltd was Rs. 70 Cr on 31 March 20X1 and Rs. 75 Cr on 31 March 20X2. In the tax jurisdiction in which A Ltd operates, profits recognised under the equity method are taxed if and when they are distributed as a dividend or the relevant investment is disposed of.

(ii) A Ltd. measures its head office building using the revaluation model. The building is revalued every year on 31 March. On 31 March 20X1, carrying value of the building (after revaluation) was Rs. 40 Cr and its tax base was Rs. 22 Cr. During the year ended 31 March 20X2, A Ltd charged depreciation in its statement of profit or loss of Rs. 2 Cr and claimed a tax deduction for tax depreciation of Rs. 1.25 Cr. On 31 March 20X2, the building was revalued to Rs. 45 Cr. In the tax jurisdiction in which A Ltd operates, revaluation of property, plant and equipment does not affect taxable income at the time of revaluation.

Basis the above information, you are required to compute:

(a) The deferred tax liability of A Ltd at 31 March 20X2

(b) The charge or credit to both profit or loss and other comprehensive income relating to deferred tax for the year ended 31 March 20X2

(7 Marks)

Q3 (b).

Following is the Balance Sheet of Mars Ltd:

₹ in Lakhs

Particulars	31.3.20X3	31.3.20X2
ASSETS		
Non-Current Assets		
Property, Plant and Equipment	450	410
Intangible asset	90	90
Deferred Tax Asset (net)	45	45
Other Non-current Asset	95	85
Total Non-current Assets	680	630
Current Assets		
Financial Asset		
Investments	100	60
Trade Receivables	580	600
Cash and Cash Equivalents	300	300
Inventories	800	700
Other Current Assets	160	120
Total Current Assets	1,940	1,780
Total Assets	2,620	2,410
Equity and Liabilities		
Equity		
Equity Share Capital	280	250
Other Equity	980	820
Total Equity	1,260	1,070
Non-current Liabilities		
Financial Liabilities		
Borrowings	360	300
Other Non-current Liabilities	90	80
Total Non-current Liabilities	450	380
Current Liabilities		
Financial Liabilities		
Trade Payable	455	450
Bank Overdraft	410	420
Other current liabilities	45	90
Total Current Liabilities	910	960
Total Liabilities	1,360	1,340
Total Equity and Liabilities	2,620	2,410

Additional Information:

(a) Profit before tax for the year is Rs. 200 lakhs and provision for tax is Rs. 40 lakhs.

(b) Property, Plant and Equipment purchased during the year Rs. 100 lakhs.

(c) Current liabilities include Capital creditors of Rs. 25 lakhs as at 31st March 20X3 (Nil – 31st March 20X2)

(d) Long Term Borrowings raised during the year Rs. 120 lakhs.

From the information given, prepare a Statement of Cash Flows following Indirect Method. Assume that Bank overdraft is an integral part of the entity's cash management. **(7 Marks)**

Q4 (a).

On 1st January, 20X1, the carrying amounts of the relevant assets of the division of an entity, Star Ltd. were as follows:

• Purchased goodwill Rs. 1.2 lakhs;

• Property, plant and equipment (average remaining estimated useful life two years) Rs. 4 lakhs;

• Inventories Rs. 2 lakhs.

From 1st January, 20X1, Star Ltd. began to actively market the division and has received a number of serious enquiries.

On 1st January, 20X1, the directors estimated that they would receive Rs. 6.4 lakhs from the sale of the division. Since 1st January, 20X1, market conditions have improved and on 30th April, 20X1, Star Ltd. received and accepted a firm offer to purchase the division for Rs. 6.6 lakhs. The sale is expected to be completed on 30th June, 20X1.

Rs. 6.6 lakhs can be assumed to be a reasonable estimate of the value of the division on 31st March, 20X1.

During the period from 1st January 20X1 to 31st March, 20X1, inventories of the division costing Rs. 1.6 lakhs were sold for Rs. 2.4 lakhs. At 31st March, 20X1, the total cost of the inventories of the division was Rs. 1.8 lakhs. All of these inventories have an estimated net realizable value that is in excess of their cost.

Explain the disclosure requirement related to sale of division and provide the accounting treatment of property held for sale and discontinued operations.

(6 Marks)

Q4 (b).

Acer Ltd. has 350 employees (same as a year ago). The average staff attrition rates observed during past 10 years represents 6% per annum. Acer Ltd. provides the following benefits to all its employees:

Paid vacation - 10 days per year regardless of date of hiring. Compensation for paid vacation is 100% of employee's salary and unused vacation can be carried forward for 1 year. As of 31st March, 20X1, unused vacation carried forward was 3 days per employee, average salary was ₹ 15,000 per day and accrued expense for unused vacation in 20X0-20X1 was ₹ 65,00,000. During 20X1-20X2, employees took 9 days of vacation in average. Salary increase in 20X1-20X2 was 10%.

How would Acer Ltd. recognize liabilities and expenses for these benefits as of 31st March, 20X2?. Pass the journal entry to show the accounting treatment. (Assume FIFO)

(8 Marks)

Q5 (a).

On 1st April, 20X1, an entity purchased an office block (building) for Rs. 50,00,000 and paid a non refundable property transfer tax and direct legal cost of Rs. 2,50,000 and Rs. 50,000 respectively while acquiring the building.

During 20X1, the entity redeveloped the building into two-story building. Expenditures on redevelopment were:

• Rs. 1,00,000 on Building plan approval;

• Rs. 10,00,000 on construction costs (including Rs. 60,000 refundable purchase taxes); and

• Rs. 40,000 was due to abnormal wastage of material and labour.

When the re-development of the building was completed on 1st October, 20X1, the entity rents out Ground Floor of the building to its subsidiary under an operating lease in return for rental payment. The subsidiary uses the building as a retail outlet for its products. The entity kept first floor for its own administration and maintenance staff usage. Equal value can be attributed to each floor.

How will the entity account for all the above mentioned expenses in the books of account as on 1st October, 20X1?

Also, discuss how the above building will be shown in the consolidated financial statements of the entity as a group and in its separate financial statements as per relevant Ind AS.

(5 Marks)

Q5 (b).

On April 1, 20X1, Sigma Ltd. issued 30,000 6% convertible debentures of face value of Rs. 100 per debenture at par. The debentures are redeemable at a premium of 10% on 31 March 20X5 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 1 April 20X3. Suggest how should Sigma Ltd. account for this compound financial instrument on the date of transition. The present value of Rs. 1 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

(5 Marks)

Q5 (c).

As at 31 March 20X2, Natasha Ltd. carried trade receivables of Rs. 280 crores in its balance sheet. At that date, Natasha Ltd. entered into a factoring agreement with Samantha Ltd., a financial institution, according to which it transferred the trade receivables in exchange for an immediate cash payment of Rs. 250 crores. As per the factoring agreement, any shortfall between the amount collected and Rs. 250 crores will be reimbursed by Natasha Ltd. to Samantha Ltd. Once the trade receivables have been collected, any amounts above Rs. 250 crores, less interest on this amount, will be repaid to Natasha Ltd. The directors of Natasha Ltd. are of the opinion that the trade receivables should be derecognized.

You are required to explain the appropriate accounting treatment of this transaction in the financial statements for the year ending 31 March 20X2, and also evaluate this transaction in the context of the Conceptual Framework.

(4 Marks)

Q6 (a).

XYZ issued Rs. 4,80,000 4% redeemable preference shares on 1 st April 20X5 at par. Interest is paid annually in arrears, the first payment of interest amounting Rs. 19,200 was made on 31st March 20X6 and it is debited directly to retained earnings by accountant. The preference shares are redeemable for a cash amount of Rs. 7,20,000 on 31st March 20X8. The effective rate of interest on the redeemable preference shares is 18% per annum. The proceeds of the issue have been recorded within equity by accountant as this reflects the legal nature of the shares. Board of directors intends to issue new equity shares over the next two years to build up cash resources to redeem the preference shares.

Mukesh, Accounts manager of XYZ has been told to review the accounting of aforesaid issue. CFO has asked from Mukesh the closing balance of preference shares at the year end. If you were Mukesh, then how much balance you would have shown to CFO on analysis of the stated issue. Prepare necessary adjusting journal entry in the books of account, if required.

(5 Marks)

Q6 (b).

XYZ Ltd. has eight segments namely A, B, C, D, E, F, G and H. The information regarding respective segments for the year ended 31st March, 20X1 is as follows:

Segments	A	B	C	D	E	F	G	H
External Sales	0	255	15	10	15	50	25	35
Inter-Segment Sales	100	60	30	5	-	-	-	-
Total	100	315	45	15	15	50	25	35
Segment Result Profit / (Loss)	5	-90	15	-5	8	-5	5	7
Segment Assets	15	47	5	11	3	5	5	9

Identify which of the above segments out of A to H would be considered as reportable segments of XYZ Ltd. for the year ending 31st March, 20X1?

(5 Marks)

Q6 (c).

Discuss with reasons whether these events are in nature of adjusting or non -adjusting and the treatment needed in light of accounting standard Ind AS 10.

(i) Moon Ltd. won an arbitration award on 25 th April, 2019 for Rs. 1 crore. From the arbitration proceeding, it was evident that the Company is most likely to win the arbitration award. The directors approved the financial statements for the year ending 31.03.2019 on 1st May, 2019. The management did not consider the effect of the above transaction in Financial Year 2018- 2019, as it was favourable to the Company and the award came after the end of the financial year.

(ii) Zoom Ltd. has a trading business of Mobile telephones. The Company has purchased 1000 mobiles phones at Rs. 5,000 each on 15th March, 2019. The manufacturers of phone had announced the release of the new version on 1st March, 2019 but had not announced the price. Zoom Ltd. has valued inventory at cost of Rs. 5,000 each at the year ending 31st March, 2019. Due to arrival of new advance version of Mobile Phone on 8 th April, 2019, the selling prices of the mobile stocks remaining with Company was dropped at Rs. 4,000 each.

The financial statements of the company valued mobile phones @ Rs. 5,000 each and not at the value @ Rs. 4,000 less expenses on sales, as the price reduction in selling price was effected after 31.03.2019.

(iii) There as an old due from a debtor amounting to Rs. 15 lakh against whom insolvency proceedings was instituted prior to the financial year ending 31st March, 2019. The debtor was declared insolvent on 15th April, 2019.

(iv) Assume that subsequent to the year end and before the financial statements are approved, Company’s management announces that it will restructure the operation of the company. Management plans to make significant redundancies and to close a few divisions of company’s business; however, there is no formal plan yet. Should management recognise a provision in the books, if the company decides subsequent to end of the accounting year to restructure its operations?

(4 Marks)