



Book No. 1 (containing 36 pages)

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

FINAL Examination

Group No. I Paper No. I

Subject FINANCIAL REPORTING

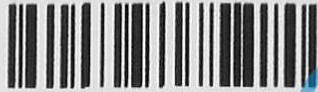
Number of Answer Books used

For use by ICAI only

561593



01 NOV 2016



4101531-4100

Q. No.	Please put ✓ against the Questions answered	Marks Awarded (to be filled by Examiner)					Total
		a	b	c	d	e	
1	✓	0	0	1	3½		4½ ✓
2	✓	7					7 ✓
3	✓	12					12 ✓
4	✓	6½	1				7½ ✓
5	✓	5	1				6 ✓
6	✓	0	4½				4½ ✓
7							
8							
9							
10							
Total							42

Use only Blue / Black Ball Point Pen to write and shade the circles. AVOID RED PEN. Write the marks in the boxes before shading the respective circles.

Total Marks awarded

042

- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9

Total (in words)

Forty Two

Exa

Chi (Initial of the Checker with date)

### INSTRUCTIONS TO THE CANDIDATE

**Answers are not to be written on this page**

- Roll number should be written in figures and words in the allotted space at the right hand corner of the cover sheet.
- Roll number should be written in the box in numbers and darken the appropriate circles of the OMR portion provided in the right hand corner of the cover page with **Black / Blue** ball point pen.
  - Fill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.
  - Remove the perforated Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.
  - Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.
  - The answers should be written neatly and legibly
  - The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.
  - The answer to each question in all parts should be fully completed in one page, or in a consecutive set of pages, before the next question is taken up.
9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"



### Question No. 3

W.N 1 Profit & loss appropriation a/c (in lakhs)

Particulars	Profit & loss	General reserve	Particulars	P&L	G.R.
To Bonus (WN 6)	-	1800	By balance b/d	1200	3000
To Dividend (WN 7)	60	-	By Net Profit (bal fig)	480	180
To balance c/d	1620	1380			
	1680	3180		1680	3180

W.N 2 Analyse of Profits of S Ltd.

	Pre acquisition		Post acquisition
			P/L      G.R.
Profits	1200		-
General reserve	3000		-
Net Profits			480      180
Bonus	(1800)		
Dividend	(60)		
	1800		
	2340		480      180

C	H Ltd 60%	1404	280	100
	Minority Interest 40%	936	192	72

WN3 Cost of Control

	Investment acquired	3000
Less:	Share Capital (4800 x 60%)	(2880)
	Pre acquisition profits	(1404)
(60 x 60%)	Rectification of dividends	<u>(36)</u>
$\frac{1}{2}$	Capital Reserve	<u>1320</u>

WN4 Minority Interest

(936 + 192 + 72) →	Profits of S Ltd.	1200
	Share Capital (4800 x 40%)	<u>1920</u>
$\frac{1}{2}$		<u>3120</u>

WN5 Calculation of Consolidated Profit & Loss a/c

	Open Balance of H Ltd.	2715
	Add: Post acquisition profits	208
(60 x 60%)	Less: Rectification of Dividend	(36)
	Less: Unrealised profits $\frac{1}{2}$	(20)
	(100 x $\frac{25}{125}$ )	
$\frac{1}{2}$		<u>2947</u>

~~Lat<sup>n</sup> of General Reserve~~ 2

## CONSOLIDATED BALANCE SHEET OF HLT.

as at 31.03.2016

(₹ in lakhs)

Particulars	Note No.	Amount
<u>Equities &amp; Liabilities</u>		
Share Capital	7	12000
Reserves & Surplus	2	7159
Minority Interest		3120
<u>Current Liability</u>		
Bills Payable	3	487
Sundry Creditors	4	2315
Provision for taxation	5	1249
Proposed dividend		1200
Total		27530
<u>Assets:</u>		
<u>Non Current Assets</u>		
Fixed assets Tangibles	6	14954
<u>Current assets</u>		
Stock	7	5085
Debtors	8	3963
Cash & Bank balances	9	1694
Bills Receivables	10	514
Sundry advances		520
Total		27530



Notes to accounts :-

₹ in lacs

## 1. Share Capital

Authorized

15000

Issued &amp; subscribed

12000

## 2. Reserves &amp; Surplus

a) Consolidated P/L a/c

2947

b) Consolidated General reserve  
(2784 + 100)

2892

c) Capital reserve

1320

7159

## 3. Bills Payable

H Ltd

372

S Ltd

160

(-) Contra bills (45)

487

## 4. Sundry Creditors

H Ltd

1461

S Ltd.

854

2315

## 5. Provision for taxation

H Ltd

855

S Ltd.

394

1249

6.	<u>Fixed Asset</u>	
	Land & buildings	2718
	Plant & M/c (4905 + 4900)	9805
	Furniture & fittings	2431
		<u>14954</u>

7.	<u>Stock</u>	
	H Ltd	3949
	S Ltd.	1956
	(-) Profit	<u>(20)</u>
		5885

8.	<u>Debtors</u>	
	H Ltd	2600
	S Ltd	<u>1363</u>
		3963

9.	Cash (1490 + 204)	1694
----	-------------------	------

10.	<u>Bills receivables</u>	
	H Ltd	360
	S Ltd.	199
	(-) Contra	<u>45</u>
		514

Working Note 6

Calculation of share capital &amp; bonus issue

Let share capital without bonus =  $x$ 

$$\therefore x + \frac{3}{5}x = 480 \text{ lakhs}$$

$$x = 300 \text{ lakhs}$$

$$\text{Bonus} = 300 \times \frac{3}{5}$$

$$= 180$$

$$\text{Bonus value} = 180 \times 10 \\ = ₹ 1800 \text{ lakhs}$$

Working Note 7 - Dividend

$$\text{Dividend} = 300 \times 20\% \\ = 60 \text{ lakhs}$$

Working Note 8

$$\text{Holding ratio} = \frac{180}{300} \times 100 \\ = 60\%$$

✓  
12



Question No. 4(a)

Calculation of Capital employed

	PIR Ltd.	MAS Ltd	DSS Ltd <del>MAS Ltd.</del>
Freehold Properties	1320,000	580,000	8,60,000
Add: Plant & Machinery	900,000	820,000	880,000
Add: Current asset	420,000	480,000	780,000
Add: Investments			
Less: 7% Debentures	(600,000)		
Less: Current Liabilities	(560,000)	(360,000)	(420,000)
Less: Proposed dividend	(200,000)	(100,000)	
(A)	1280,000	1420,000	1320,000
Equity shares	+ 80,000 x 14.2		2100,000
Share Price (B)	160,000	<del>14.2</del> 100,000	150,000
Let value of share of MAS Ltd. be x.			
Share Price			
A ÷ B	15.10	14.2	14
Quoted Price	10	10	
higher	15.10		

### Calculation of future maintainable profits -

Estimated Profits	210000
(-) Retained one third	<u>70000</u>
	<u>140000</u>

### Valuation of Goodwill

$$\text{Goodwill} = \frac{\text{Future maintainable profits}}{\text{Capital employed}} \times \text{Yield}$$

$$= \frac{140000}{210000} \times 8\%$$

$$= 140000 - 168000$$

$$= \text{NIL}$$

Quoted price of share of PIR Ltd = ₹10  
As per Balance sheet valuation, share price = ₹15.1

Higher of above ₹15.10

Therefore PIR Ltd. and MIS Ltd. acquire  
37500 shares each @ 14

And DSS Ltd obtain <sup>37500</sup> shares of PIR Ltd  
and MAS Ltd @ 15.10 and 14.2 respectively.

(10)

ICAI



ICAI

Question No. 4(b)

Calculation of Net Owned funds of  
Galaxy Ltd.

Equity Share Capital	1,00,000
Add: Free reserves	500,000
Less: Deferred expenditure	(200,000)
	<u>4,00,000</u>

ICAI

②

Question No. 5 (a)

Statement of Profit & Loss  
for value Ltd. for  
the year ending 31.02.2016

Particulars	Amount (£)
<u>INCOME</u>	
Revenue from Operations	3056000
Other Income	23100
Total (A)	3079100
<u>Expenses</u>	
Decrease in Stock	16000
Purchases	1520000
Manufacturing & other expenses	535000
Manufacturing & other expense (Note 1)	596500
Finance Expenses	400600
Depreciation & amortisation expense	120000
Total (B)	2655100
Profit before taxes	424000
Less Provision for taxes	(35000)
	389000
Reserves Carried forward from previous year	125000



Appropriations:

1	Proposed Dividend	100000
2	Debenture redemption reserve	200000
	General Reserve	100000
	Retained Profit	(110000)

Note 1:- Manufacturing & other expenses:-

0	Manufacturing expem	75000
	Electricity exp	56500
	Employee benefit exp	460000
	Cess & taxes	5000
	<del>Finance charge</del>	<del>375000</del>
	Total	<u>596500</u>

(5)

### Question No. 5 (b)

As per AS-18 on 'Related Party Disclosures', an entity is required to disclose when it has substantial interest such as-

- 1) Holding more than 50% of share,
- 2) Power to control Governing body.
- 3) It has influence on other (holding 20% or more voting power)

And AS-18

Further, Disclosure requirement is there when transaction is occurring between related person. AS-18 defines related persons as under-

- ① Father
- ② Mother
- ③ Brother or spouse of brother
- ④ Sister
- ⑤ Son or spouse of son
- ⑥ Daughter or spouse of daughter

~~Ind AS-10~~ requires the following disclosures.

- 1 Name of related party
- 2 Nature of relationship
- 3 Nature of transaction
- 4 Volume of transaction
- 5 ~~Even~~ Element of transaction
- 6 Outstanding amount of transaction
- 7 Amount of bad debts / discounts in such transaction

IND AS-~~10~~<sup>24</sup> requires the disclosure when transaction occurs between -  
Person or  
Close Members

IND AS-~~10~~<sup>24</sup> defines close member

Father

Mother

Spouse / Domestic Partner / Dependant

Son / Spouse / domestic Partner / Dependant

Daughter / Spouse / domestic Partner / Dependant

∴ IND-~~10~~<sup>24</sup> has wider scope than AS-10

①



Question No. 6 (b)Economic value AddedNote 1

Here Financial leverage = 1.2 times  
 & Earning before Interest & tax = EBIT  
 We know.  $\frac{EBIT}{EBT} = 1.2$

$$\therefore \frac{EBIT}{EBIT - \text{Intl. Tax}} = 1.2$$

$$\frac{EBIT}{EBIT - 60000} = 1.2$$

$$EBIT = 1.2 EBIT - 720000$$

$$0.2 EBIT = 720000$$

$$EBIT = 3600000$$

$$\begin{aligned} \therefore \text{Net operating Profit after tax (NOPAT)} &= EBIT - \text{tax} \\ &= 3600000 - 30\% \text{ of } 3600000 \\ &= 2520000 \end{aligned}$$

Note 2 Here Capital employed = Equity share capital  
 + Reserves & surplus  
 + 15% Debentures

$$= 4500000 + 3500000 + 6000000$$

$$\therefore \text{Capital employed} = \text{£ } 1,40,00,000$$

Note 3: Calculation of Overall cost of capital

$$K_d = 10\% (1 - 0.30) \times \frac{60 \text{ las}}{140 \text{ las}} = 3$$

$$K_e = 16\% \times \frac{80 \text{ las}}{140 \text{ las}} = 9.14$$

$$\text{Overall cost of capital (WACC)} = \underline{12.14\%}$$

Hence Economic value added of Balak Ltd

$$= \text{NOPAT} - \text{Capital employed} \times \text{WACC}$$

$$= 36000000 - 14000000 \times 12.14\%$$

$$= \underline{19004000}$$

(14)

Question No. 6 (a)

$$\begin{aligned} \text{Option expense} &= \cancel{970} \times \cancel{300} \\ \text{at Year 1} & \quad \frac{1000 \times 291 \times 10 \times 1}{3} \\ &= 970,000 \end{aligned}$$

$$\begin{aligned} \text{Option expense} &= \frac{1000 \times 282 \times 13 \times 2}{3} - 970,000 \\ \text{at year end 2} & \\ &= 1474,000 \end{aligned}$$

$$\begin{aligned} \text{Option expense} &= \frac{1000 \times 274 \times 15 \times 2}{3} - \\ \text{at year end 3} & \end{aligned}$$

$$\begin{aligned} &1474000 \\ &- 970000 \end{aligned}$$

150



ICAI

Question No. 1 (a)

Annual emoluments  
of Darshan = ₹ 1552303

Escalation rate = 10%

∴ As per Company Policy

$$\text{amount receivable} = \frac{1552303 \times 1.10 \times 1.10 \times 1.10 \times 1.10 \times 25\% \times 5}{5}$$

568182

0

A Amount	Year	P.v. factor	Present value of Defined benefit obligation
568182	4	0.735	417614
568182	3	0.794	451137
568182	2	0.857	486932
568182	1	0.926	526137
568182	0	1	568182

Calculation of Current Service & Interest Cost

Year	0	1	2	3	4
	417614	451137	486932	526137	568182

## Calculation of Current Service & Interest Cost

Year	Opening balance	Current Service Cost	Interest Cost (Opening balance $\times$ 8%)	Closing balance
0	₹ -	417614	-	417614
1	417614	451137	33409	902160
2	902160	486932	72173	1461265
3	1461265	526137	116901	2104303
4	2104303	568182	168344	2840829

Hence company should charge ₹ 568182 as defined benefit obligation in profit and loss account every year.

And

	Current Service Cost	Interest Cost	Total
	417614	-	417614
	451137	33409	484546
	486932	72173	559105
	526137	116901	643038
	568182	168344	736526



Question No. 1(b)

'As per Accounting Standard - 29 "Provisions, Contingent Liabilities & Contingent assets"

- Provision is required to be made if the probability of loss is more than 50%.
- A footnote is required to be given for contingent liability if probability of loss is likely to occur between 0% & 50%.

In the given case, sundry debtors are in winding up process, so ~~it~~ there are high chances of loss, but Sun Ltd. <sup>may</sup> ~~can~~ sold finished goods to other ~~possible~~ customers.

∴ Provision required for ₹ 65 lacs & Solar Power Panel (WIP) & Solar Power panel (finished goods) amounting ₹ 85 lacs & ₹ 55 lacs respectively shall be treated as contingent asset.

Question No. 1 (c)

Calculation of Percentage Completion of work (£ in lakhs)

	Year 1	Year 2	Year 3
Cost Incurred	3139	9102	12300
Estimated Cost	12075	12300	12300

Percentage	$\frac{3139}{12075} \times 100$	$\frac{9102}{12300} \times 100$	$\frac{12300}{12300} \times 100$
	26%	74%	100%

Calculation of revenue

	Year 1	Year 2	Year 3
Revenue (A)	13500	13800	13800
% Completion (B)	26%	74%	100%
Revenue to be recognised A x B	3500	10212	13800

Statement showing Revenue, Expense, Profit

to be recognised in each year:-

Year	Revenue <sup>(A)</sup>	Expense <sup>(B)</sup>	Profit <sup>(A-B)</sup>
1	3500	3139	361
2	10212	9102 + 2300	1110
3	13800	12300	1500



Question No. 1(d)

Cash Flows from Operating Activities:

	Cash Sales	150,000
Add:	Trade Receivables	160,000
Add	Trade Commission	40,000
Add:		
Less:	Cash Purchases	(130,000)
	Trade Payables	(144,000)
	Rent Paid	(50,000)
	Office expenses	(25,000)

Cash flow during the year 1,000

as per "Accounting Standard - 3"

(25)



## Question No. 2

### Working Note 1

#### Calculation of cash balance

Cash consideration recd	↗	1500000
Less: Expenses incurred		(1200000)
Add: Reimbursement for expense		600000
Add: Profit earned		360000
Less: Profit transferred to foreign buyer $(360000 \times 40\%)$		(144000)
		1116000

### Working Note 2

#### Calculation of Reserves & Surplus

Profit & loss a/c		540000
Less: Expenses Incurred		(600000)
Add: Profit earned		216000
Less: Patent, Trademarks copyrights written off		(375000)
Add Revaluation reserve for land $(1050,000 - 300,000) \times 100\%$	↗	750,000
		531000

## Calculation of Goodwill / Capital Reserve

Working Note 3

Calculation of Profit or loss on transfer:-

	Purchase Consideration	30,00,000
Less:	Net assets transferred	(135,000)
	Profit	<u>16,50,000</u>

$\frac{1}{2}$

Note 4

Valuation of Investment in Foreign Company

<del>Amount paid</del>	
Share Value allotted (15,00,000 + 20%)	<u>18,00,000</u>

$\frac{1}{2}$

Share Quoted on the Singapore stock exchange	95%
---	-----

17,10,000

Balance sheet of Shiva Ltd.  
as at 30.04.2016

<u>Particulars</u>	<u>Amount (₹)</u>
<u>Equities &amp; Liabilities</u>	
Share Capital	1200000
Reserves & Surplus (Note 1)	3741000
<u>Non Current Liabilities</u>	
11% Debentures (Assumption 1)	750000
<u>Current Liabilities</u>	
Trade Payables (600000 - 375000)	225000
Total (A)	<u>5916000</u>
<u>Non Current assets</u>	
<u>Fixed assets</u>	
Tangible Assets (Note 2)	5190000
<u>Current assets</u>	
Trade receivables (1200000 - 300000)	900000
Investment in foreign company (WN 4)	1710000
Cash & cash equivalents (WN 1)	1116000
Total (B)	<u>5916000</u>



Notes to accounts.Note 1 Reserves & Surplus

General reserve	750,000
Securities Premium	600,000
Profit as per WN2	531,000
Profit as per WN3	165,000
Profit on Investment	210,000
	<u>374,000</u>

Note 2 Tangible Fixed assets

Plant & Machinery	690,000
(1290,000 - 600,000)	
Land $(10,50,000 - 3,00,000) \times 20\%$	150,000
	<u>2190,000</u>

Assumptions :

- ① Treatment of <sup>Interest for</sup> Debenture for 1 month has been ignored assuming payable at year end.
- ② Exchange rate when receipt of consideration is not available. Hence any Profit/Loss on the same not considered.
- ③ Face value of share of foreign company is assumed ₹ 100

09

ICAI



ICAI

ICAI

ICAI



ICAI