NOVEMBER 2018 EXAMS

PAPER 1 -: Financial Reporting

OLD SYLLABUS

Working Notes shall form part of the answer .

Time Duration –1.5 Hour

Total Marks—50 Marks

TEST PAPER - 1

Guidelines:-

1.Mention your ICAI registration number,phone number & email id on your answer sheet.

2.Use Black ball point pen only

3.Attempt the question paper within the time frame allowed.

4. Mail your answer sheet at **caammitaggarwal@gmail.com**

5. Please Mention page number on your answer sheet.

Question number 1

From the following information of Beta Ltd. calculate Earnings Per Share (EPS) in accordance with AS 20:

		(₹) Year 31.3.17	(₹) Year 31.3.16
1.	Net profit before tax	3,00,000	1,00,000
2.	Less: Current tax	(40,000)	(30,000)
	Tax relating to earlier years	(24,000)	13,000
	Deferred tax	(30,000)	(10,000)
3.	Profit after tax	2,06,000	73,000
4.	Other information:		
	(a) Profit includes compensation from Central Government towards loss on account of earthquake in 2014 (non-taxable)	1,00,000	NIL
	(b) Outstanding convertible 6% Preference shares 1,000 issued and paid on 30.9.2015. Face value ₹ 100, conversion ratio 15 equity shares for every preference share.		
	(c) 15% convertible debentures of ₹ 1,000 each total face value ₹ 1,00,000 to be converted into 10 Equity shares per debenture issued and paid on 30.6.2015.		
	(d) Total number of equity shares outstanding as on 31.3.2017, 20,000 including 10,000 bonus shares issued on 1.1.2017, face value ₹ 100.		

(10 MARKS)

Question number 2

Antarbarti Limited reported a Profit Before Tax (PBT) of ₹ 4 lakhs for the third quarter ending 30-09-2016. On enquiry you observe the following. Give the treatment required under AS 25:

(i) Dividend income of ₹ 4 lakhs received during the quarter has been recognized to the extent of ₹ 1 lakh only.

(ii) 80% of sales promotion expenses ₹ 15 lakhs incurred in the third quarter has been deferred to the fourth quarter as the sales in the last quarter is high.

(iii) In the third quarter, the company changed depreciation method from WDV to SLM, which resulted in excess depreciation of ₹ 12 lakhs. The entire amount has been debited in the third quarter, though the share of the third quarter is only ₹ 3 lakhs.

(iv) ₹ 2 lakhs extra-ordinary gain received in third quarter was allocated equally to the third and fourth quarter.

(v) Cumulative loss resulting from change in method of inventory valuation was recognized in the third quarter of ₹ 3 lakhs. Out of this loss ₹ 1 lakh relates to previous quarters.

(vi) Sale of investment in the first quarter resulted in a gain of ₹ 20 lakhs. The company had apportioned this equally to the four quarters.

Prepare the adjusted profit before tax for the third quarter.

(8 MARKS)

Question number 3

G Ltd., acquired a machine on 1st April, 2010 for ₹ 7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at ₹ 5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March 2016, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 79 lakhs. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of G Ltd. G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

(8 MARKS)

Question number 4

Harish Construction Company is constructing a huge building project consisting of four phases. It is expected that the full building will be constructed over several years but Phase I and Phase II of the building will be started as soon as they are completed.

Following is the detail of the work done on different phases of the building during the current year:

(₹ in lakhs)

	Phase I	Phase II	Phase III	Phase IV
	₹	₹	₹	₹
Cash expenditure	10	30	25	30
Building purchased	24	34	30	38
Total expenditure	34	64	55	68
Total expenditure of all phases				221
Loan taken @ 15% at the beginning of the year				200

(6 MARKS)

Question number 5

XYZ Ltd., has undertaken a project for expansion of capacity as per the following details:

	Plan ₹	Actual ₹
April, 2017	2,00,000	2,00,000
May, 2017	2,00,000	3,00,000
June, 2017	10,00,000	–
July, 2017	1,00,000	–
August, 2017	2,00,000	1,00,000
September, 2017	5,00,000	7,00,000

The company pays to its bankers at the rate of 12% p.a., interest being debited on a monthly basis. During the half year company had ₹ 10 lakhs overdraft upto 31st July, surplus cash in August and again overdraft of over ₹ 10 lakhs from 1.9.2017. The company had a strike during June and hence could not continue the work during June. Work was again commenced on 1st July and all the works were completed on 30th September. Assume that expenditure were incurred on 1st day of each month. Calculate:

(i) Interest to be capitalised.

(ii) Give reasons wherever necessary.

Assume:

(a) Overdraft will be less, if there is no capital expenditure.

(b) The Board of Directors based on facts and circumstances of the case has decided that any capital expenditure taking more than 3 months as substantial period of time.

(8 MARKS)

Question 6

Rock Star Ltd. discontinues a business segment. Under the agreement with employee's union, the employees of the discontinued segment will earn no further benefit. This is a curtailment without settlement, because employees will continue to receive benefits for services rendered before discontinuance of the business segment. Curtailment reduces the gross obligation for various reasons including change in actuarial assumptions made before curtailment. If the benefits are determined based on the last pay drawn by employees, the gross obligation reduces after the curtailment because the last pay earlier assumed is no longer valid.

Rock Star Ltd. estimates the share of unamortized service cost that relates to the part of the obligation at ₹ 18 (10% of ₹ 180). Calculate the gain from curtailment and liability after curtailment to be recognised in the balance sheet of Rock Star Ltd. on the basis of given information:

(a) Immediately before the curtailment, gross obligation is estimated at ₹ 6,000 based on current actuarial assumption.

(b) The fair value of plan assets on the date is estimated at ₹ 5,100.

(c) The unamortized past service cost is ₹ 180.

(d) Curtailment reduces the obligation by ₹ 600, which is 10% of the gross obligation.

(5 MARKS)

Question 7

Major Changes in Ind AS 12 vis-à-vis IAS* 12 Not Resulting in Carve Outs

(5 MARKS)