

CA Final November - 2024 Exam
Paper-1 - Financial Reporting

03/11/2024
5:45 PM

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Roll No.

Total No. of Questions : 6

Total No. of Printed Pages : 12

Maximum Marks : 70

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.

SEAL

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.

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PART - II

Question. 1

(14 Marks)

The balance sheets of H Ltd. and S Ltd. as on 31.03.2024 were as follows:

Particulars	H LTD	S LTD
	₹ in Lakhs	
Assets :		
Non-Current Assets		
Property, Plant and Equipment	14,800	6,000
Financial Assets : Investment		
Investment in S Ltd	5,800	
1000 Debenture in S Ltd	1,500	
Current Assets		
Inventories	2,600	2,000
Financial Assets		
Trade Receivables (due from S Ltd. ₹ 160 lakh)	4,000	3,000
Dividend Receivable	320	—
Cash and Cash Equivalent	500	2,000
Total	29,520	13,000
Equity and Liabilities		
Equity		
Equity Share Capital (₹ 10 per share)	10,000	4,000
Other Equity (Retained Earnings)	16,320	5,000
Non-current Liabilities		
13% Debenture of ₹ 100 each		3,000
Current Liabilities		
Financial Liabilities :		
Trade Payables (due to H Ltd. ₹ 120 lakh)	1,700	600
Dividend Payable		400
Other Liabilities	1,500	
Total	29,520	13,000

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Additional Information:

- (i) On 01st April' 2023, S Ltd. had 400 lakh shares of ₹ 10 each and ₹ 3,000 lakh in its Retained Earnings in Other Equity. H Ltd. acquired 80% share of S Ltd. on 01st April' 2023 at a consideration of ₹ 5,800 lakh in cash.
- (ii) The following changes in book value of identifiable net assets of S Ltd. as on 01st April' 2023 are to be considered for arriving the fair value of identifiable net assets and to record the changes in their fair value on the said date. These change in the fair values are to be considered while drawing consolidated Financial Statements of the Group.

<u>Assets</u>	<u>Book value</u>	<u>Fair value</u>
PPE	₹ 2500 lakhs	₹ 2800 lakhs
Inventory	₹ 500 lakhs	₹ 200 lakhs

The rate of depreciation on PPE is 10% p.a.

- (iii) NCI was to be measured at fair value based on the purchase consideration.
- (iv) Goodwill was impaired by ₹ 100 lakh.
- (v) H Ltd. sold goods worth ₹ 200 lakh to S Ltd. on credit at a profit of 20% on sales. 50% of the goods were still laying unsold.
- (vi) S Ltd. issued a cheque of ₹ 40 lakh in favour of H Ltd. as a part payment of the goods purchased from it in March, 2024. The cheque is yet to be received by H Ltd.
- (vii) Dividend payable represents the dividend declared out of pre-acquisition profit. H Ltd. credited its share of dividend from S Ltd. to its profits.

Prepare the Consolidated Balance Sheet of the Group as at 31st March' 2024.

Question 2 (a)

(10 Marks)

On 1st January 2023, Joe & Co Limited, an Indian listed company which prepares its financial statements on a quarterly basis has entered into a written put option for USD (\$) 40,000 with Box Limited to be settled in future on 31st December 2023 for a rate equal to ₹ 78 per USD at the option of Box Limited. Joe & Co Limited did not receive any amount upon entering into the contract.

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For the purpose of accounting, use the following information representing marked to market fair value of put option contract at each reporting date.

As at 31st March 2023 - ₹ (50,000)

As at 30th June 2023 - ₹ (30,000)

As at 30th September 2023 - ₹ NIL

Spot rate of USD on 31st December 2023 – ₹ 76 per USD.

Evaluate and explain whether the above option meets the definition of derivatives as laid down in Ind AS 109 and record the entries for each quarter ended till the date of actual purchase of USD.

Question 2 (b)

(4 Marks)

Spicer Ltd., a listed company, prepares interim financial reports at the end of each quarter.

Following information is provided:

- (i) On 1st April' 2023, Spicer Ltd. has brought forward losses of ₹ 620 lakh under Income Tax Act. No Deferred Tax Asset has been recognized by the management of the company on such losses in view of the uncertainty over company's ability to earn profits in the foreseeable future and set off these losses.
- (ii) Due to sudden change in government policies, the company's business turned around and it has reported quarterly earnings of ₹ 650 lakh and ₹ 360 lakh respectively for the first two quarters of financial year 2023-24 and anticipates net earnings of ₹ 720 lakh in the coming half year ended March' 2024 of which ₹ 160 lakh will be the loss in the quarter ended December' 2023.
- (iii) The tax rate for the company is 25% with a 10% surcharge.

You are required to calculate the amount of Tax Expenses to be reported for each quarter of financial year 2023-24.

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Question 3 (a)

(8 Marks)

Anand Limited owns a Building X which is specifically used for the purpose of earning rentals. The Company has not been using the Building X or any of its facilities for its own use for a long time. The company is also exploring the opportunities to sell the building if it gets the reasonable amount in consideration.

Following information is relevant for Building X for the year ending 31st March 2024:

Building X was initially purchased at the cost of ₹ 120 crores. At that time, the useful life of the building was estimated to be 10 years; out of which 5 years have been expired as on 1st April 2023: The company follows straight line method for depreciation.

During the year, the company has invested in another Building Y with the purpose to hold it for capital appreciation. The property was purchased on 1st April 2023 at the cost of ₹ 20 crores. Expected life of the building is 20 years. As usual, the company follows straight line method of depreciation.

Further, during the year 2023-2024 the company earned/incurred the following, directly relating to Building X and Building Y:

Rental income from Building X = ₹ 15 crores

Rental income from Building Y = ₹ 5 crores

Sales promotion expenses = ₹ 0.50 crores

Fees and Taxes = ₹ 0.10 crores

Ground Rent = ₹ 0.25 crores

Repairs and Maintenance = ₹ 0.15 crores

Legal and Professional = ₹ 0.20 crores

Commission and Brokerage = ₹ 0.10 crores

The company does not have any restrictions and contractual obligations against Property X and Y. For complying with the requirements of Ind AS, the management sought an independent report from the specialists so as to ascertain the fair value of buildings X and Y. The independent valuer has valued the fair value of property as per the valuation model recommended by international valuation standards committee. Fair value has been computed by the method by streamlining present value of future cash flows namely, discounted cash flow method.

The estimated rent per month per square feet for the period is expected to be in range of ₹ 50 to ₹ 60. And it is further expected to grow at the rate of 10 percent per annum for each of 3 years. The weightage discount rate used is 12% to 13%.

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Assume that the fair value of properties based on discounted cash flow method is measured at ₹ 105 crores. The treatment of fair value of properties is to be given in the financials as per the requirements of Indian Accounting Standards.

You are required to:

- (i) Show how the Building X and Building Y would be treated in the Balance Sheet of Anand Limited?
- (ii) Provide detailed disclosures and computations in line with relevant Ind AS. (Treat it as if you are preparing a separate note or schedule, of the given assets in the Balance Sheet.)

Question 3 (b)

(6 Marks)

Mahadev Ltd. has a block of assets with a written down value of ₹ 5,00,000 on 1st April, 2022 for tax purposes. The book value of the assets for accounting purposes is also ₹ 5,00,000. Depreciation is charged on written down value @ 20% p.a. for both accounting and tax purposes. Of the entire block, assets costing ₹ 50,000 on 1st April, 2022 were sold for ₹ 1,00,000 on 31st March, 2024. You are required to compute the deferred tax asset/liability assuming tax rate of 35%.

Question 4 (a)

(6 Marks)

On 1st April, 2020, Peacock Ltd. started its manufacturing operations by installing a machine in the rented premises. The estimated life of the machine is 4 years. As per the terms of rental agreement, Peacock Ltd. has a present obligation to dismantle the machine and restore the premises into its original shape. The company estimates to incur ₹ 6,00,000 at the end of 4th year to restore the premises into the original shape. The borrowing rate applicable to the company is 8%.

(Note: PV Factor for 4th year discounted @ 8% = 0.735)

You are required to:

- (i) Advise the accounting treatment of the above; and
- (ii) Pass necessary journal entries across all four years.

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Question 4 (b)

(8 Marks)

Greater Ltd., in order to reward its employees launched a scheme effective from 1st April, 2021, in which employees will be granted equity shares of the company at a price less than the market price subject to satisfaction of certain conditions. Following details are provided to you:

- (a) According to scheme, each employee has an option to purchase 250 equity shares of the company at ₹ 45 per share provided that the employee does not leave the company for 3 years from the date of launch of the scheme i.e. upto 31st March, 2024.
- (b) Once 3 years are completed by an employee, the employee can exercise the option within 1 year i.e. by 31st March, 2025.
- (c) The closing share price on stock exchange as at 1st April, 2021 is ₹ 91 per share with face value of ₹ 10 per share. A registered valuer has been appointed by the company who derived the price of option at ₹ 75 using Black Scholes model of option pricing.
- (d) There are 750 employees eligible for the scheme. As at 31st March, 2022, 25 employees left the company and further 35 employees are expected to leave over the next 2 years. During the year 2022-23, a foreign based company entered into the market and started hiring experienced employees and therefore retention of existing employees has been problematic and a high attrition rate is observed in the market. 275 employees left the company during the year ended 31st March, 2023 and further 135 employees are expected to leave in the next one year. As at 31st March, 2024, only 400 employees remained with the company out of 750 employees.
- (e) Out of it only 375 employees exercised the option to purchase the equity shares during the year ended 31st March, 2024.

You are required to provide necessary accounting entries during the life of share-based payment scheme to account the scheme implemented by the company.

Question 5 (a)

(5 Marks)

Big Deal Ltd. is a marketing company having its departmental stores in 'A' class city of India. The company sells the diversified products. For the purpose of increasing sales and attract customers, the company during the financial year 2023-24, has adopted the following policy :

- (i) For every purchase of ₹ 400 the customer is awarded with 6 points.
- (ii) Each point is redeemable on any future purchases of company's same departmental store situated in any of 'A' class city within 3 years i.e. upto 31st March, 2026
- (iii) Value of each award point is ₹ 0.60

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During the financial year 2023-24, the Big Deal Ltd :

- (i) Assessed that the sales of the company during the year 2023-24 is ₹ 150 lakhs.
- (ii) Awarded 2,25,000 points to various customers during the year.
- (iii) Estimated that out of the awarded points, 54,000 points will remain unredeemed as at 31st March' 2024 which shall be eligible for redemption till 31st March, 2026 and;
- (iv) Expects only 75% points will be redeemed in the future.

As an accountant of the company, you are required to suggest the accounting treatment (Consolidated Journal Entries) in the following case :

How should the sales and redemption transactions be recognized and recorded as independent transactions in the FY 2023-24 as per Ind AS 115?

Question 5 (b)

(5 Marks)

Z Limited having net worth of ₹ 25 crores has opted voluntarily to adopt Ind AS from 1st April, 2022 in accordance with the Companies (Indian Accounting Standard) Rules 2015.

Mr. A, the senior manager, of Z Limited has identified following issues which need specific attention of CFO so that opening Ind AS balance sheet as on the date of transition can be prepared :

- (i) As part of Property, Plant and Equipment, Company has elected to measure land at its fair value and want to use this fair value as deemed cost on the date of transition. The land was acquired for a consideration of ₹ 5,00,000. However, the fair value of land as on the date of transition was ₹ 6,00,000.
- (ii) Company had taken a loan from another entity. The loan carries an interest rate of 7% and it had incurred certain transaction costs while obtaining the same. It was carried at cost on its initial recognition. The principal amount is to be repaid in equal instalments over the period of loan. Interest is also payable at each year end. The fair value of loan as on the date of transition is ₹ 2,80,000 as against the carrying amount of loan which at present equals ₹ 3,00,000.

Management wants to know the impact of Ind AS in the financial statements of company for its general understanding. Prepare Ind AS Impact Analysis Report (Extract) for Z Limited for presentation to the management wherein you are required to discuss the corresponding differences between Earlier IGAAP (AS) and Ind AS against each identified issue and its impact there upon for preparation of transition date balance sheet. Also pass journal entry for each of the issues mentioned above.

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Question 5 (c)

(4 Marks)

Define the concept of 'Offsetting'. Is offsetting permitted under the following circumstances?

- Whether profit on sale of an asset against loss on sale of another asset can be offset?
- Expenses incurred by a holding company on behalf of subsidiary, which is reimbursed by the subsidiary – whether in the separate books of the holding company, the expenditure and related reimbursement of expenses can be offset?
- When services are rendered in a transaction with an entity and services are received from the same entity in two different arrangements, can the receivable and payable be offset?

Or

Question 5 (c)

Explain how enhancing qualitative characteristics can improve the usefulness of the financial information.

Question 6 (a)

(5 Marks)

An entity provides broadband services to its customers along with voice call service. Customer buys modem from the entity. However, customer can also get the connection from the entity and modem from any other vendor. The installation activity requires limited effort and the cost involved is almost insignificant. It has various plans where it provides either broadband services or voice call services or both.

Comment on how to identify whether the performance obligations under the contract are distinct by using an automated process?

Question 6 (b)

(5 Marks)

Creative Limited performed a revaluation of all of its plant and machinery at the beginning of 1.4.2024. The following information relates to one of its Machinery:

	Amount in ₹
Gross carrying amount	4,00,000
Accumulated depreciation (straight-line method)	1,60,000
Net carrying amount	2,40,000
Fair Value	3,00,000

The useful life of the machinery is 10 years, and the company uses Straight line method of depreciation. The revaluation was performed at the end of 4 years.

You are required to advise how the company should account for revaluation of plant and machinery and depreciation subsequent to revaluation. Also pass journal entries in relation to the above.

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Question 6 (c)

(4 Marks)

You are required to analyse the following cases and advise whether they are related with prior period errors or change in accounting estimate:

- (a) As per the judgement of court an arrear of salaries and wages relating to previous year amounting to ₹ 15,00,000 will be paid in the current year. At the end of previous year, the management of the company was of the opinion that arrears of salaries and wages would not be required to be paid and accordingly no provision was made at the end of previous year.
- (b) Expenses of ₹ 1,50,000 of the previous year which were omitted from books of accounts of the previous year due to an oversight.
- (c) The amount of provision for doubtful debts as at the end of the previous year was ₹ 10,00,000 of which debts of ₹ 6,00,000 were realized during the current year.
- (d) Company had taken a Group Insurance policy. During the previous year due to mistake of Insurance Company the company paid less premium, which insurance company is demanding to pay now.

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SPACE FOR ROUGH WORK

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SEAL

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