Pinnacle Academy

Mock Tests for

May 2019 C A Final Examination

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[Solution is at the end with marking for self-assessment]

Time Allowed-1 hour & 30 minutes **Maximum Marks- 50**

New Syllabus

FR Mock Test 1

9th March, 2019

Q 1 is compulsory.
Answer any 2 from the remaining.

Q 1

(a) An e-commerce company is a travel agent that sell travel tickets through an e-commerce platform. Travel agents sell airline tickets to the public, generally at a price determined with reference to the market rate, but often pay the airline a discounted amount. The travel agent does not bear any general inventory risk because it does not carry tickets as its inventory and buys tickets only when it receives orders or bookings from customers.

What should be the revenue of the e-commerce company acting as a travel agent? Will your answer get change if the e-commerce company bears the credit risk say when corporate customers have an account with the travel agent and settle the account only after the travel agent has paid the airline for the ticket?

(6 Marks)

(b) 1,60,000 units of carbon credit (CER) has been produced by LMN Ltd. Currently the value of CER under different situations are as follows:

(i) Cost @ Rs.200 per unit i.e. CER
(ii) Market Value @ Rs.160 per unit i.e. CER
(iii) Net Realisation Value Rs.150 per unit i.e. CER
(iv) Disposal Value Rs.140 per unit i.e. CER

Explain how income recognition will be done as per relevant and applicable Accounting Standards?

(4 Marks)

Best of Luck!

(Assessed answer papers shall be returned on **16th March 2019**)
[Question paper and solution shall be hosted on:
www.ashishlalaji.net]

Q 2

(a) From the following Profit & Loss Account of XYZ Ltd. prepare Gross Value Added Statement:

	Notes	Amount (Rs. 000)	Amount (Rs. 000)
Sales less return			21,350
Trading Profit	1		1,920
Less: Depreciation		302	
Interest	2	140	442
			1,478
Add: Other income			80
			1,558
Provision for tax	3		688
Profit after tax			870
Less: Extraordinary items	4		15
			855
Less: Proposed Dividend			340
Retained Profit			515

Notes:

1. Trading Profit is arrived at after charging the following:

Salaries, wages, etc. to employees	3,685
Directors' remuneration	360
Audit Fees	220
Hire of equipment	290

2. Interest figure is ascertained as below:

Interest paid on bank loans and overdraft	160	
Less: Interest Received	20	140

3. Extra-ordinary items are:

Loss of goods by fire	35	
Less: Surplus on sale of properties	20	15

4. Charge of taxation include a transfer of Rs.1,48,000 to the credit of deferred tax account

(10 Marks)

(b) A company has a capital base of Rs.1 crore and has earned profits to the tune of Rs.11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by Rs.2.5 lakhs over and above the target profit. Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

(6 Marks)

(c) Write a short note on **Levies of UNFCCC** **(4 Marks)**

Q 3 Comics Ltd. has 2 divisions Phantom and Mandrake. Division Phantom has been making constant profits while division Mandrake has been invariably suffering losses. On 31st March, 2018, the division-wise draft extract of the Balance Sheet was:

(Rs. in crores)

	Phantom	**Mandrake**	**Total**
Property, Plant & Equipment:			
Cost	750	1,500	
Less: Depreciation	675	1,200	
WDV	75	300	375
Current Assets	600	1,500	
Less: Current Liabilities	75	1,200	
Net Current Assets	525	300	825
			1,200
Loan Funds	---	900	900
Equity Share Capital (Rs.10)	75	---	75
Other equity	525	(300)	225
			1,200

Division Mandrake along with its assets and liabilities was sold for Rs.75 crores to Magic Ltd. a new company, who allotted 3 crore equity shares of Rs.10 each at a premium of Rs.15 per share to the members of Comics Ltd. in full settlement of the consideration, in proportion to their shareholding in the company.

One of the members of Comics Ltd. was holding 60% shareholding of the Company.

Assuming that there are no other transactions, you are asked to:

(i) Pass journal entries in the books of Comics Ltd.

(ii) Prepare the Balance Sheet of Comics Ltd. after the entries in (i)

(iii) Prepare the Balance Sheet of Magic Ltd.

(20 Marks)

Q 4

(a) The following are the Balance Sheets as at 31st March, 2011 of X Ltd. and Y Ltd.:

Liabilities	**X (Rs.)**	**Y (Rs.)**	**Assets**	**X (Rs.)**	**Y (Rs.)**
Share Capital- Equity			Goodwill	30,000	10,000
Shares of Rs. 10 each	4,00,000	3,00,000	Machinery	1,50,000	1,00,000
Reserves & Surplus			Stock	40,000	72,000
Creditors	60,000	80,000	Debtors	2,10,000	1,20,000
	40,000	30,000	Bank	60,000	90,000
			Preliminary Expenses	10,000	18,000
	5,00,000	4,10,000		5,00,000	4,10,000

Goodwill of the companies is to be valued at Rs.50,000 and Rs.40,000 respectively. Machinery of X is worth Rs.2,00,000 and of Y Rs.90,000. Stock of Y has been shown at 90% of its cost. It is decided that X will acquire Y by taking over its entire business by issue of shares at the intrinsic value. Prepare balance sheet of X Ltd. after the take-over.

(16 Marks)

(b) An e-commerce company purchases traded goods from a wholesaler. It would sell these goods to the end customer and may or may not carry the associated inventory risk as it purchases goods from the wholesaler only when it receives orders from the end customer. However, it may bear the risk of those inventory items that have been returned by the customers. Determine the revenue recognition for e-commerce company.

(4 Marks)

Best of Luck!

(Assessed answer papers shall be returned on **16th March 2019)**
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New Syllabus
Solution of
FR Mock Test 1
Conducted on 9th March, 2019

Q 1

(a) In the given case, the travel agent does not bear any inventory risk, nor is it responsible for carrying out the services related to the ticket itself, because this is the responsibility of the airlines. The travel agent provides a service on behalf of various airlines and other suppliers and earns a fee. The travel agent's revenue should reflect only the fee and not the gross amount billed to the customer.

The fact that the agency sometimes bears credit risk is not a determining factor and does not compel the agency to reflect the gross billing as revenue.

(6 Marks)

(b) Since CERs are recognised as inventory, the entity should apply AS 2 to recognise revenue in respect of sale of CERs. Accordingly, CER should be valued at Rs.150 per CER i.e. at NRV which is less than cost.

(4 Marks)

Q 2

(a) **Determination of Cost of Bought-in materials and Services:**

	Amount (Rs. in '000s)
Sales	21,350
Less: Trading Profit	1,920
Total Cost	19,430
Less:	
Salaries and Wages	3,685
Director's remuneration	360
Cost of bought-in materials and services	15,385

Solution prepared by CA. Ashish Lalaji

Be free to send your suggestions / comments to
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Gross Value Added Statement of XYZ Ltd. for the year ended 31st March 2014:

(Rs. in '000s)

VALUE ADDED	**Amount**	**Amount**
Sales less return		21,350
Less: Cost of bought-in materials and services		15,385
Value Added by manufacturing and trading activities		5,965
Add: Interest received	20	
Other income	80	100
Less: Extraordinary items		
Surplus on sale of properties	20	
Loss of goods by fire	(35)	(15)
Gross Value Added		6,050
VALUE APPLIED		
To Pay Employees:		
Salaries, wages and other benefits		3,685
To Pay Directors:		
Director's remuneration		360
To Pay Government:		
Income Tax (688 – 148)		540
To Pay Providers of Capital:		
Interest on loans and overdraft	160	
Proposed Dividend	340	500
To Provide for Maintenance and Expansion:		
Depreciation	302	
Transfer to Deferred Tax	148	
Retained Profit	515	965
		6,050

(2 + 8 = 10 Marks)

(b) Capital Base = Rs.1,00,00,000
Actual Profit = Rs. 11,00,000
Target Profit @ 12.5% = Rs. 12,50,000

Expected Profit on employing the particular executive
= Rs.12,50,000 + 2,50,000 = Rs.15,00,000

Additional Profit = Expected Profit – Actual Profit
= 15,00,000 – 11,00,000 = Rs.4,00,000

Maximum bid price = 4,00,000 / 12.5 % = Rs.32,00,000
Maximum salary that can be offered = 12.5% of Rs.32,00,000 i.e., 4,00,000
Maximum salary can be offered to that particular executive up to the amount of additional profit i.e., Rs.4,00,000.

(6 Marks)

(c) UNFCCC imposes two types of levies on the generating entity:

1. The first type of levy is in kind whereby a specified percentage of the CERs earned are deducted at the point of issuance by the UNFCCC. This levy is applied to all projects other than those of the Least Developed Countries.

Example
If this levy is 2% and if 1000 CERs are to be issued, then after deducting 20 CERs, 980 CERs will be credited.

2. The second type of levy imposed is in the form of a cash payment which is charged by the UNFCCC towards meeting administrative costs of UNFCCC. In this levy, a fixed payment per unit of CER is charged for the total CERs credited to the generating entity.

Example
Further, if USD 0.10 per CER is charged towards the second levy, then the generating entity will need to make a payment at this rate for the 980 CERs credited to it, i.e., USD 98.

(4 Marks)

Q 3

(i) Journal of Comics Ltd.:

Loan Funds A/c	Dr.	900	
Current Liabilities A/c	Dr.	1,200	
To Reorganisation A/c			2,100
Reorganisation A/c	Dr.	1,800	
To Property, Plant & Equipment A/c			300
To Current Assets A/c			1,500
Reorganisation A/c	Dr.	300	
To Capital Reserve A/c			300

(3 Marks)

(ii) Balance Sheet of Comics Ltd. as on 31st March, 2018

(Rs. in crores)

Particulars	**Amount (Rs.)**
Assets:	
1. Non Current Assets:	
Property, Plant & Equipment:	75
2. Current Assets	600
Total	675

Equity & Liabilities:	
Equity:	
(a) Equity Share Capital	75
(b) Other Equity (225 + 300)	525
Liabilities:	
Current Liabilities	75
Total	675

(8 Marks)

(iii) Computation of Net Assets Taken Over and Difference to be reported as Capital Reserve arising out of Common Control Business Combination:

Particulars	**Amount (Rs.)**	**Amount (Rs.)**
Purchase Consideration		30
Less: Net Assets Taken Over:		(300)
PPE	300	
Current Assets	1,500	
	1,800	
Less: Loan Funds	900	
Current Liabilities	1,200	
Capital Reserve		(330)

(1 Marks)

Balance Sheet of Magic Ltd. as on 31st March, 2018

(Rs. in crores)

Particulars	**Amount (Rs.)**
Assets:	
1. Non Current Assets:	
Property, Plant & Equipment:	300
2. Current Assets	1,500
Total	1,800
Equity & Liabilities:	
Equity:	
(a) Equity Share Capital	30
(b) Other Equity	(330)
Liabilities:	
1. Non Current Liabiliites:	
Long Term Borrowings	900
2. Current Liabilities	1,200
Total	1,800

(8 Marks)

Q 4

(a) Calculation of intrinsic value per share:

	X (Rs.)	Y (Rs.)
Goodwill	50,000	40,000
Machinery	2,00,000	90,000
Stock	40,000	80,000
Debtors	2,10,000	1,20,000
Bank	60,000	90,000
	5,60,000	4,20,000
Less: Creditors	40,000	30,000
Net Assets	5,20,000	3,90,000
No. of equity shares	40,000	30,000
Intrinsic Value per share	13	13

(4 Marks)

Exchange ratio = 13 / 13 i.e. 1
Purchase consideration = 30,000 shares to be issued at Rs.13 per share i.e. Rs.3,90,000.

(2 Marks)

Balance sheet of X Ltd. (after take over of Y Ltd.)

		Note No.	**Amount (Rs.)**	**Amount (Rs.)**
I	**Assets**			
1	**Non Current Assets**			3,10,000
	Fixed Assets			
	– Tangible			
	Machinery		2,40,000	
	– Intangible			
	Purchased Goodwill		70,000	
2	**Current Assets**			6,00,000
	Inventories		1,20,000	
	Trade Receivables		3,30,000	
	Cash and Cash Equivalents		1,50,000	
	Total			9,10,000
II	**Equity and Liabilities**			
1	**Shareholders' Funds**			8,40,000
(a)	**Share Capital**			
	70,000 Equity Shares of Rs.10 each (30,000 shares issued for consideration other than cash)		7,00,000	
(b)	**Reserves and Surplus**	1	1,40,000	
2	**Current Liabilities**			70,000
	Creditors			
	Total			9,10,000

See notes accompanying to balance sheet.

Solution prepared by CA. Ashish Lalaji

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Note No.		**Amount (Rs.)**
1	**Reserves and Surplus**	
	Securities Premium	90,000
	Others	60,000
		1,50,000
	Less: Preliminary Expenses	10,000
		1,40,000

(10 Marks)

(b)

In the given case, the e-commerce company does not seem to bear significant inventory risk, however, it may bear the following:

i. credit risk

ii. is primarily responsible for providing the goods to the customer, i.e., fulfilling the order

iii. direct pricing discretion

iv. discretion in selecting the supplier/ wholesaler

Therefore, in this case, the e-commerce company should reflect gross billing to its customers as its revenue.

(4 Marks)

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