

# Chapter Tests of FR of CA Ashish Lalaji 9825856155

## FR Test 5: Financial Instruments

Maximum Marks: 30  
Time Allowed: 1 hour

### Q 1

- (a) A Ltd. borrows a sum of Rs.20 crores from B Ltd., repayable as a single bullet payment at the end of 5 years. The interest thereon @ 5% p.a. is payable at yearly rests. The market rate is 8%, A Ltd. pays an origination fee of Rs.2.4 crores to B Ltd. to compensate B Ltd. for the lower rate of interest. Apart from these, there are no other transactions between the two parties. You are required to show the value at which B Ltd. would recognize the loan and the annual interest thereon. Consider following PVF for this purpose:

Year	5 %	8 %
End of year 1	0.952	0.926
End of year 2	0.907	0.857
End of year 3	0.864	0.794
End of year 4	0.823	0.735
End of year 5	0.784	0.681

(6 Marks)

- (b) Mega Ltd. issued Rs.1,00,00,000 worth of 8% Debentures of Face Value of Rs.100 each on par value basis on 1<sup>st</sup> January 2012. These debentures are redeemable at 12% premium at the end of 2015 or exchangeable for ordinary shares of Mega Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of debt and equity portion for the given compound financial instrument. Consider following PVF for this purpose:

Year	8 %	12 %
End of year 1	0.926	0.893
End of year 2	0.857	0.797
End of year 3	0.794	0.712
End of year 4	0.735	0.636

(6 Marks)

- Q 2 On 1st April, 2022, XYZ Ltd., a company incorporated in India enters into a contract to buy solar panels from Good Associates, a firm domiciled in UAE, for which delivery is due after 6 months i.e. on 30th September, 2022.

The purchase price for solar panels is US\$ 50 million.

The functional currency of XYZ is Indian Rupees (INR) and of Good Associates is Dirhams.

The obligation to settle the contract in US Dollars has been evaluated to be an embedded derivative which is not closely related to the host purchase contract.

Exchange rates:

1. Spot rate on 1st April 2022: USD 1 = Rs. 75
2. Six-month forward rate on 1st April, 2022: USD 1 = Rs. 78
3. Spot rate on 30th September, 2022: USD 1 = Rs. 77

Analyse the contract and pass the necessary journal entries.

**(10 Marks)**

**Q 3**

**(a)** An entity is about to purchase a portfolio of fixed rate assets that will be financed by fixed rate debentures. Both financial assets and financial liabilities are subject to the same interest rate risk that gives rise to opposite changes in fair value that tend to offset each other. Comment.

**(4 Marks)**

**(b)** A company issued Non-redeemable preference shares with dividend payments linked to ordinary shares. Evaluate whether such preference shares are an equity instrument or a financial liability to the issuer entity?

**(4 Marks)**

## Question Paper set by **CA. Ashish Lalaji**

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