

Chapter Tests of FR of CA Ashish Lalaji 9825856155

FR Test 8: Ind AS 103

Maximum Marks: 30
Time Allowed: 90 minutes

- Q 1** Balance sheets of Professional Ltd. and Dynamic Ltd. as of 31st March, 2022 are:
(Rs. in lakhs)

Particulars	Professional Ltd.	Dynamic Ltd.
Assets:		
Non-Current Assets:		
Property plant and equipment	300	500
Investments	400	100
Current assets:		
Inventories	250	150
Financial assets	400	230
Trade receivable	450	300
Cash and cash balances	200	100
Total	2,000	1,380
Equity and Liabilities		
Equity		
Share capital- Equity shares of Rs.100 each	500	400
Reserve and surplus	730	180
OCI	80	45
Non-Current liabilities:		
Long term borrowings	250	200
Long term provisions	50	70
Deferred tax	40	35
Current Liabilities:		
Short term borrowings	100	150
Trade payable	250	300
Total	2,000	1,380

Professional Ltd. acquired Dynamic Ltd on 1 April 2022 by issuing its own shares in the ratio of 1 share of Professional Ltd for every 4 shares of Dynamic Ltd., which has 4,00,000 ordinary shares. The fair value of the shares of Professional Ltd is Rs.550.

Other information:

- a. Professional Ltd also agreed to pay an additional payment that is higher of Rs.35 lakh and 25% of any excess of Dynamic Ltd in the first year after acquisition over its profits in the preceding 12 months. This additional amount will be due after 2 years. Dynamic Ltd has earned Rs.10 lakhs profit in the preceding year and expects to earn another Rs.20 Lakhs
- b. In addition to above, Professional Ltd also had agreed to pay one of the founder shareholder a payment of Rs.20 lakhs immediately irrespective of whether he stays with the Company for 2 years after the acquisition or not.
- c. Dynamic Ltd had certain equity settled share based payment award (original award) which got replaced by the new awards issued by Professional Ltd. As per the original term the vesting period was 5 years and as of the acquisition date the employees of Dynamic Ltd have already served 2 years of service. As per the replaced awards the vesting period has been reduced to 2 years (2 years from the acquisition date). The fair value of the award on the acquisition date was as follows:
 - i. Original award- Rs.5,00,000
 - ii. Replacement award- Rs.8,00,000
- d. Dynamic Ltd had a lawsuit pending with a customer who had made a claim of Rs.90 lakhs. Management reliably estimated the fair value of the liability to be Rs.50 lakhs.
- e. Following new intangible assets, not earlier recorded in books of Dynamic Ltd., were identified by Professional Ltd.:
 - (i) Sole distribution rights of Rs.30 lakhs
 - (ii) Non Compete Fees of Rs.45 lakhs
 - (iii) Skilled workforce of Rs.25 lakhs and Unskilled workforce of Rs.15 lakhs
 - (iv) Customer list of Rs.20 lakhs but Professional Ltd. has no intention to sell
- f. Fair value of PPE of Dynamic Ltd. on 1st April, 2022 is Rs.350 lakhs.

You are required to prepare post-combination balance sheet. Ignore tax.

(16 Marks)

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

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- Q 2** The Balance Sheet of Z Ltd. as at 31st March, 2023 is given below. In it, the respective shares of the company's two divisions namely S Division and W Division in the various assets and liabilities have also been shown.

(All amounts in crores of Rupees)

	S Division	W Division	Total
Fixed Assets:			
Cost	875	249	
Less: Depreciation	<u>360</u>	<u>81</u>	
Written-down value	<u>515</u>	<u>168</u>	683
Investments			97
Net Current assets:			
Current Assets	445	585	
Less: Current Liabilities	<u>270</u>	<u>93</u>	
	<u>175</u>	<u>492</u>	<u>667</u>
Financed by:			
Loan funds		15	417
Own funds:			
Equity share capital: shares of Rs.10 each			345
Reserves and surplus			<u>685</u>
			<u>1,447</u>

On 1st April 2023 a new company named Y Ltd. was incorporated with an authorized capital of Rs. 900 crore divided into shares of Rs. 10 each. All the assets and liabilities pertaining to W Division were transferred to the newly formed company; Y Ltd. allotting to Z Ltd.'s shareholders its two fully paid equity shares of Rs. 10 each at par for every fully paid equity share of Rs. 10 each held in Z Ltd. as discharge of consideration for the division taken over. It is not a common business transaction.

Y Ltd. recorded in its books the fixed assets at Rs. 218 crore and all other assets and liabilities at the same values at which they appeared in the books of Z Ltd. Tax rate is 30%.

You are required to:

- Show the journal entries in the books of Z Ltd.
- Prepare Z Ltd.'s Balance Sheet immediately after the demerger and the initial Balance Sheet of Y Ltd. (SOCE and Notes in both cases need not be prepared).
- Calculate the intrinsic value of one share of Z Ltd. immediately before the demerger and immediately after the demerger; and
- Calculate the gain, if any, per share to the shareholders of Z Ltd. arising out of the demerger.

(14 Marks)

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