Paper 17- Corporate Financial Reporting

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Full Marks : 100 **Time allowed: 3 hours**

Part – I
Answer Question No 1 which is compulsory.

1. Choose the most appropriate answer from the four alternatives given: (1 Mark for right choice & 1 Mark for justification): [2×10=20]

(i) FICKLE LTD. has five business segments with operating profits and losses as shown below:

Segment	Operating Profit / (loss) Rs. in Lakhs
P	3
Q	(3)
R	20
X	(9)
Y	(20)

Reportable segments as per AS-17 are

A. P,Q,R,X,Y
B. P,Q,R,Y
C. P, Q, R only
D. R, X, Y only

Answer: — D. R,X,Y only.

As per of AS-17 ―Segment Reporting‖ a Business Segment or Geographical Segment should be identified as a reportable segment if : Its segment result, whether profit or loss is 10% or more of

i) the combined result of all segments in profit;
ii) the combined result of all segments in loss, whichever is greater, i.e. absolute amount.

Absolute profits = (3+20) Lakh = 23 Lakh Absolute Losses = (3+9+20) Lakh = 32 Lakh, Greater of these two absolute amounts are losses of `32 lakhs 10% of ` 32 = ` 3.20 Lakh Reportable Segments are R, X, Y.

(ii) Which of the following is/are the qualitative characteristic/s of financial statements as per IFRS conceptual framework?

A. Faithful representation
B. Comparability
C. Verifiability
D. All of the above

Answer: — D. All of the above

The qualitative characteristics are —

1. Relevance
2. Faithful representation
3. Comparability

4. Verifiability
5. Understandability

(iii) A building owned by a company and leased out under an operating lease. Which Ind AS/s is/are applicable?

A. Ind AS 2.
B. Ind AS 16 and Ind AS 116
C. Ind AS 40 and Ind AS 116
D. None of the above.

Answer: — C. Ind AS 40 and Ind AS 116

As the building is held (by the owner) to earn rentals or for capital appreciation or both, and it is dealt in Ind AS 40, on the other hand Operating lease attracts the application of Ind AS 116.

Ind AS 2 deals with Inventories and Ind AS 16 deals with owner-occupied property, both are not applicable in this case.

(iv) Which of the following is/are type/types of conglomerate merger?

A. Product extension merger B.
Strategic extension merger C.
Pure conglomerate merger D.
Both A and C

Answer: — D. Both A and C

The conglomerate merger may be of three types:
(a) Product extension merger
(b) Market extension merger
(c) Pure conglomerate merger

(v) By purchase of shares the purchaser company entailing voting power of 20% or more, the investor company may have significant influence over the investee company, the investee is called ____________ .

A. Joint Venture
B. Associate
C. Subsidiary
D. None of the above

Answer: — B. Associate

By purchase of shares if the purchaser company is entailing voting power of 20% or more, the investor company may have significant influence over the investee company and the investee is called Associate.

(vi) _____________ ______________ is considered ―the best-known framework for voluntary reporting of environmental and social performance by business and other organizations worldwide.

A. Global Reporting Initiative (GRI)

B. Triple Bottom Line Reporting
C. Corporate Social Responsibility Reporting
D. None of the above.

Answer: — A. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is considered —the best-known framework for voluntary reporting of environmental and social performance by business and other organizations worldwide.

(vii) Which of the following is/are the user/s of TBL Reporting?
A. Businesses
B. Non-profit Organisations
C. Banks
D. Both A and B

Answer: — D. Both A and B

All types of entities viz. Businesses, non-profits organisations and government entities alike can all use the TBL.

(viii) IR is beneficial as it contributes to
A. incorporate sustainability into its core business
B. Decreased internal collaboration
C. address reputational risk
D. Both A and C

Answer: — D. Both A and C

IR is beneficial as it contributes to:
- incorporate sustainability into its core business
- communicate the impact of a company's operations on environment and community
- identify ESG related risks and opportunities
- provide a competitive edge over its peers in the long term
- informed decisions and improved overall performance
- identify cost savings by analyzing financial and non-financial metrics together
- increase internal collaboration
- increase engagement with internal and external stakeholders through consistent and balanced reporting
- address reputational risk.
- increase brand value and customer loyalty

(ix) _are the rights that entitle the employees to receive cash or shares for an amount equivalent to the excess of market price on exercise date over a stated price. A. Employee Stock Option Plan (ESOP)
B. Employee Stock Purchase Plan (ESPP)
C. Stock Appreciation Rights (SAR)
D. None of the above

Answer: — C. Stock Appreciation Rights (SAR)

Stock Appreciation Rights (SAR): These are the rights that entitle the employees to receive cash or shares for an amount equivalent to the excess of market price on exercise date over a stated price.

(x) Grants-in-aid is covered under IGAS _________.

A. 2
B. 3
C. 1
D. None of the above

Answer: — A. 2

IGAS — 2 is related to Accounting and Classification of Grants - in – Aid.

Section – B
Answer any five questions out of seven questions.

[16x5=80]

2. (a) A private limited company manufacturing fancy terry towels had valued its closing stock of inventories of finished goods at the realisable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyer. Comment on the valuation of the stocks by the company. [6]

Answer:

Accounting Standard 2 —Valuation of Inventories states that inventories should be valued at lower of historical cost and net realisable value. AS 9 on —Revenue Recognition states, — at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods invoiced are often valued at Net realisable value.

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing stock of finished goods (Fancy terry towel) should have been valued at lower of cost and net realisable value and not at net realisable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing stock of inventories of finished goods is not correct.

(b) Mr. Joythi of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 30.06.2021 :

(Rs. in lakhs)

Net Profit	**25,000**
Dividend (including dividend tax) paid	**8,535**
Provision for Income-tax	**5,000**
Income tax paid during the year	**4,248**
Loss on sale of assets (net)	**40**
Book value of the assets sold	**185**
Depreciation charged to Profit & Loss Account	**20,000**

Amortisation of Capital grant	**6**
Profit on sale of Investments	**100**
Carrying amount of Investment sold	**27,765**
Interest income on investments	**2,506**
Interest expenses	**10,000**
Interest paid during the year	**10,520**
Increase in Working Capital (excluding Cash & Bank balance)	**56,075**
Purchase of fixed assets	**14,560**
Investment in joint venture	**3,850**
Expenditure on construction work in progress	**34,740**
Proceeds from calls in arrear	**2**
Receipt of grant for capital projects	**12**
Proceeds from long-term borrowings	**25,980**
Proceeds from short-term borrowings	**20,575**
Opening cash and Bank balance	**5,003**
Closing cash and Bank balance	**6,988**

Required **:**

Prepare the Cash Flow statements for the year in accordance with AS-3 on Cash Flow statements issued by the Institute of Chartered Accountants of India (Make necessary assumptions). [10]

Answer:

Cash Flow Statement for the year ended 30-06-2021

(Rs. in lakhs)

Cash Flow from Operating Activities		
Net Profit before Taxation (25,000 + 5,000)	30,000	
Adjustments for :		
Depreciation	20,000	
Loss on sale of assets (Net)	40	
Amortisation of capital grant	(6)	
Profit on sale of investments	(100)	
Interest income on investments	(2,506)	
Interest expenses	10,000	
Operating profit before working capital changes	57,428	
Changes in working capital (excluding cash and bank balance)	(56,075)	
Cash generated from operations	1,353	
Income taxes paid	(4,248)	
Net cash used in operating activities		(2,895)
Cash flows from investing activities		
Sale of assets (185-40)	145	
Sale of investments (27,765 + 100)	27,865	

Investment income on investments	2,506	
Purcahse of fixed assets	(14,560)	
Investment in joint venture	(3,850)	
Expenditure on construction work-in-progress	(34,740)	
Net cash used in investing activities		(22,634)
Cash flows from financing Activities		
Proceeds from calls in arrear	2	
Receipts of grant for capital projects	12	
Proceeds from long-term borrowings	25,980	
Proceeds from short-term borrowings	20,575	
Interest paid	(10,520)	
Dividend (including dividedn tax) paid	(8,535)	
Net cash provided by financing activities		27,514
Net increase in cash and cash equivalents		1,985
Add : Cash and cash equivalents at the beginning of the period		5,003
Cash and cash equivalents at the end of the period		6,988

Note : It is assumed that interest income on investments Rs.2,506 has been received during the year.

3. (a) State what is Investment Property, give two examples of Investment Property and two examples of property which are not Investment Property. [2+2+2=6]

Answer:

Investment property is property (land or a building—or part of a building—or both) held (by the owner or by the lessee as a right-of-use asset) to earn rentals or for capital appreciation or both, and it is dealt in Ind AS 40.

The following are examples of investment property:

(a) land held for long-term capital appreciation.

(b) land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)

The following are examples of items that are not investment property:

(a) property intended for sale in the ordinary course of business or in the process of construction or development for such sale (see Ind AS 2, Inventories), for example, property acquired exclusively with a view to subsequent disposal in the near future or for development and resale.

(b) property that is leased to another entity under a finance lease.

(b) Z Ltd. took over the business of X Ltd. and Y Ltd. The summarised Balance Sheets of Z Ltd., X Ltd. and Y Ltd. as on 31 March, 2021 are given below:

(Rs. in lakhs)

Liabilities	Z Ltd. R	X Ltd. R	Y Ltd. R	Assets	Z Ltd. R	X Ltd. R	Y Ltd. R
Share Capital				Fixed Assets:			
Equity shares of Rs.100 each		800	750	Land and Building	600	550	400
12% Preference shares of Rs. 100 each	1,000	300	200	Plant and Machinery	400	350	250
Reserves and Surplus:				Investments		150	50
Revaluation Reserve		200	150	Current Assets, Loans and Advances:			
General Reserve	600	170	150	Stock	500	350	250
Profit and Loss Account		50	30	Sundry Debtors	300	250	300
Secured Loans:				Bills Receivables		50	50
10% Debentures (`100 each)		60	30	Cash and Bank	200	300	200
Current Liabilities and Provisions:							
Sundry Creditors	400	270	120				
Bills payables		150	70				
Total	2,000	2,000	1,500	Total	2,000	2,000	1,500

Additional Information:

(1) 10% Debenture holders of X Ltd., and Y Ltd., are discharged by Z Ltd., issuing such number of its 15% Debentures of Rs.100 each, so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number 15% preference shares of Z Ltd., at a price of Rs.150 per share (face value of Rs.100).

(3) Z Ltd. will issue 5 equity shares for each equity share of X Ltd. and 4 equity shares for each equity share of Y Ltd. The shares are to be issued Rs.30 each, having a face value of Rs.10 per share.

Prepare the Balance Sheet of Z Ltd. as on 1 April, 2022 in the Schedule III Division II format. [10]

Answer:

1. Computation of Consideration (Rs. in lakhs)

Particulars	**X Ltd. (Rs.)**	**Y Ltd. (Rs.)**
Preference Share Holders treated as Equity : 3,00,000 shares of Rs. 150 each	450	
: 2,00,000 shares of Rs. 150 each		300
Equity Share Holders : 5 x 8,00,000 shares of Rs. 30 each	1,200	
: 4 x 7,50,000 shares of Rs. 30 each		900
15% debentures for 10% old debentures	40	20
Total	1,690	1,220

2. Computation of Securities Premium

Particulars	**Equity Share Capital**	**Securities premium**	**Total**
Preference Share Capital = (3,00,000 + 2,00,000) = 5,00,000 shares	Rs. 100 each = 500	At Rs. 50 each = 250	750
Equity Share Capital = (40,00,000 + 30,00,000) = 70,00,000 shares	Rs. 100 each = 700	At Rs. 20 each = 1,400	2,100
Total	1,200	1,650	2,850

3. Computation of Goodwill / Gains on Bargain Purchase

Particulars	**X Ltd.**	**Y Ltd.**
Consideration	1,650	1,250
Less: Net assets taken over (considered at Fair Value)	1,540	1,290
Goodwill	110	
Gains on Bargain Purchase		90
Net Goodwill	(110-90)=20	

Balance Sheet of Z Ltd.
(As at 1st April 2022)

(Rs. in lakhs)

	Particulars	Note No.	Amount
I.	**ASSETS**		
	(1) Non-current Assets		
	PPE	4	2,550
	Goodwill		20
	Non-current investment	5	200
	(2) Current Assets		
	Other Current Assets	6	2,750
	Total		**5,520**
II.	**EQUITY AND LIABILITIES**		
	(1) Equity		
	(a) Equity Share Capital	1	1,700
	(b) Instruments entirely Equity in nature		500
	(c) Other Equity (Securities Premium)		2,250
	(2) Non-current Liabilities: Long term Borrowings	2	60
	(3) Other Current Liabilities	3	1,010
	Total		**5,520**

[Relevant Notes]
1. Equity

Particulars	Amount (Rs. in lakhs)
Authorized, issued, subscribed and paid up capital:	
(a) Equity share capital: 1,70,00,000 equity shares of Rs. 10 each [100,00,000 + 70,00,000]	1,700
(b) Instruments entirely equity in nature: 5,00,000 preference shares of Rs. 100 each (treated as equity in nature)	500
(c) Other equity (600 + 1,650)	2,250
Total	4,450

2. Non Current Liabilities

Particulars	Amount (Rs. in lakhs)
15% Debentures of `100	60
Total	60

3. Other Current Liabilities

Particulars	Amount (Rs. in lakhs)
Sundry Creditors (270 + 120) + 400	790
Bills payable (150 + 70)	220
Total	1,010

4. PPE:

Particulars	Amount (Rs. in lakhs)
(a) Plant and Machinery [350 + 250] + 400	1,000
(b) Land and Building [550 + 4001] + 600	1,550
Total	2,550

5. Non Current Investments

Particulars	Amount (Rs. in lakhs)
Investment [150+50]	200
Total	200

6. Other Current Assets

Particulars	Amount (Rs. in lakhs))
(a) Stock [350 + 250] + 500	1,100
(b) Sundry Debtors [250 + 300] + 300	850
(c) Bills receivable [50 + 50]	100
(d) Cash and Bank [300 + 200] + 200	700
Total	2,750

4. (a) What is meant by 'Power' and 'Return' as per Ind AS 110? What is the link between power and returns? [5+2+2=9]

Answer:

Power:

An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, i.e. the activities that significantly affect the investee's returns.

Power arises from rights. Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised. Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee.

If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities, the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee.

An investor can have power over an investee even if other entities have existing rights that give them the current ability to participate in the direction of the relevant activities, for example when another entity has significant influence. However, an investor that holds only protective rights does not have power over an investee (see paragraphs B26–B28), and consequently does not control the investee.

Returns:

An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance. The investor's returns can be only positive, only negative or both positive and negative.

Although only one investor can control an investee, more than one party can share in the returns of an investee. For example, holders of non-controlling interests can share in the profits or distributions of an investee.

Link between power and returns:

An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns from its involvement with the investee, but also has the ability to use its power to affect the investor's returns from its involvement with the investee.

Thus, an investor with decision-making rights shall determine whether it is a principal or an agent. An investor that is an agent in accordance with paragraphs B58–B72 does not control an investee when it exercises decision-making rights delegated to it.

(b) A Ltd. acquires 80% of B Ltd. for Rs. 9,60,000 paid by equity at par. Fair Value (FV) of B's net assets at time of acquisition amounts Rs. 8,00,000. Required:

1. **Calculate Non-Controlling-Interest (NCI) and Goodwill.**
2. **Journal Entries in the books of A.** **[7]**

Answer:

Purchase consideration Rs.9,60,000 ; FV of Net Assets Rs.8,00,000
NCI = Rs.8,00,000 × (20%) = Rs. 1,60,000 [at proportionate to fair value of net assets]
Goodwill = Consideration + NCI – Net Assets = Rs. (9,60,000 + 1,60,000 – 8,00,000) = 3,20,000

Journal Entry

Particulars		Dr. (Rs.)	Cr. (Rs.)
Net assets A/c	Dr.	8,00,000	
Goodwill A/c	Dr.	3,20,000	
To, Consideration A/c			9,60,000
To NCI A/c			1,60,000
Consideration A/c	Dr.	9,60,000	
To, Equity Share Capital A/c			9,60,000

In the books of B there is no entry.
As B exists after business combination, the above entries are passed in the consolidated accounts of A. A requires to pass entries in books for separate financial statements also, as stated below.

Particulars		Dr. (Rs.)	Cr. (Rs.)
Investment A/c	Dr.	9,60,000	
To, Equity Share Capital A/c			9,60,000

5. (a) P acquires 60% shares in Q on 1.10.2021 at Rs.30,000. Q makes profits Rs.20,000 in the year 2021- 22 and declared dividend `9,000. NCI is valued at proportionate net assets. Abstracts of Separate Balance Sheet of P (Dividend from subsidiary not accounted) and Individual Balance Sheet of Q as at 31.03.2022: (Rs. Lakhs)

	P	Q
PPE	**50,000**	**30,000**
Investment in shares of Q at cost	**30,000**	
Current Assets	**20,000**	**28,000**
	1,00,000	**58,000**
Equity Shares (Rs.10)	**60,000**	**25,000**
Other Equity	**25,000**	**15,000**
Current Liabilities		
Trade Payables	**15,000**	**9,000**
Dividend Payable		**9,000**
	1,00,000	**58,000**

Show Consolidated Balance Sheet and Separate Balance Sheet in books of P. [12]

Answer:

Working Notes:

1. Analysis of profits of Q:
   Opening P/L = Other Equity at the end + Dividend – Profits for the year = Rs.15,000 + Rs.9,000 - Rs.20,000 = Rs.4,000

2. Net Assets identified on acquisition in the mid of the year, represented by Value of Equity
of Q = Rs.25,000 + Pre acquisition profits (Opening P/L + 50% of yearly profit) = Rs.25,000+
Rs.4,000 + Rs.10,000 = Rs.39,000 (A)

3. Goodwill = B+C - A = Rs.15,600 + Rs.30,000 – Rs.39,000 = Rs.6,600
Where:
A.= Rs.39,000
B. NCI = 40% × Rs.39,000 = Rs.15,600
C. Consideration = Investment in shares of Q = Rs.30,000.

4. NCI at the reporting date = NCI at acquisition + Share of NCI in post acquisition profits of
Q – Dividend payable to NCI
= Rs.15,600 + 40% × Rs.10,000 (50% of yearly profit) - 40% ×Rs.9,000 (dividend payable to be shown separately) = Rs.15,600 + Rs.4,000 - Rs.3,600 = Rs.16,000.

5. Consolidated Other Equity = P's Other Equity + Share from Post acquisition profits of Q =
Rs.25,000 + 60% × 10,000 = Rs.31,000
Separate Other Equity = Rs.25,000 + Rs.2,700 (post-acquisition dividends) = Rs.27,700

(Rs. Lakhs)

	In P's Book	
	Separate	Consolidated
Goodwill (3)		6,600
PPE = 50,000 + 30,000	50,000	80,000
Investment in shares of Q (30 000 – 2 700 Pre-acquisition Dividend)	27,300	
Current Assets (20 000 + 5,400 Div Receivable)	25,400	48,000#
	1,02,700	1,34,600
Equity Shares	60,000	60,000
Other Equity (5)	27,700	31,000
NCI (4)		16,000
Current Liabilities		
Trade Payables	15,000	24,000
Dividend Payable (to NCI)		3,600
	1,02,700	1,34,600

Rs. (20,000 + Rs.28,000 = Rs.48,000); In Consolidated balance sheet Inter-company dividend is set off and does not appear.

(b) List the matters to be disclosed as significant judgments and assumptions by an entity.

[4] Answer:

An entity shall disclose, for example, significant judgements and assumptions made in determining that:
(a) it does not control another entity even though it holds more than half of the voting rights of the other entity;
(b) it controls another entity even though it holds less than half of the voting rights of the other entity;
(c) it is an agent or a principal;
(d) it does not have significant influence even though it holds 20 per cent or more of the voting rights of another entity;
(e) it has significant influence even though it holds less than 20 per cent of the voting rights of another entity.

6. (a) The following abridged Balance Sheet as on 31st March, 2021 pertains to S Ltd.

Liabilities	Rs. in lakhs	Assets	Rs. in lakhs
Equity Share Capital :		Goodwill, at cost	420
180 lakh Equity shares of `10 each, fully paid up	1,800	Other Fixed Assets	11,166
90 lakh Equity shares of `10 each, `8 paid	720	Current Assets	2,910
150 lakh Equity shares of `5 each, fully paid- up	750	Loans and Advances	933
Other Equity	5,457		
Borrowings	4,500		
Current Liabilities	1,242		
Provisions	960		
	15,429		15,429

You are required to calculate the following for each one of three categories of equity shares appearing in the above mentioned Balance Sheet:

(i) Intrinsic value on the basis of book values of Assets and Liabilities including goodwill;

(ii) Value per share on the basis of dividend yield.

Normalrateofdividendintheconcernedindustryis15%, whereas Glorious Ltd. has been paying 20% dividend for the

last four years and is expected to maintain it in the next few years; and

(iii) Value per share on the basis of EPS.

For the year ended 31st March, 2021 the company has earned Rs. 1,371 lakh as profit after tax, which can be considered to be normal for the company. Average EPS for a fully paid share of Rs. 10 of a Company in the same industry is Rs. 2. **[8]**

Answer:

(A) Calculation of Intrinsic value [Based on book value]

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Goodwill Fixed Assets Current Assets Loan Advances	420 11,166 2,910 933
Total	15,429
Less: Provision Current liabilities	960 1,242
Secured loans	4,500
Net Assets available for Equity share holder	8,727
Add: Notional calls [90x2]	180

Total Assets	8,907
÷ Equity share capital [1,800 + 900 + 750)	3,450
Intrinsic value per Rupee	2.58

Paid up value Rs. 10 x 2.58 =	25.8
Paid up value Rs. 8 x 2.58 =	20.64
Paid up value Rs. 5 x 2.58 =	12.90

(B) Dividend Yield $= \dfrac{\text{Dividend Rate}}{\text{Normal rate of Return}} \times$ Paid up Share Capital

Paid up value 10 $= \dfrac{20\%}{15\%} \times 10 =$ Rs. 13.33

Paid up value 8 $= \dfrac{20\%}{15\%} \times 8 =$ Rs. 10.67

Paid up value 5 $= \dfrac{20\%}{15\%} \times 5 =$ Rs. 6.67

(C) Earning per Rupee of Share Capital $= \dfrac{\text{Erning after tax}}{\text{Paid up Share Capital}}$

$= \dfrac{1,371}{3,270} = 0.419$

Earning per fully paid shares of Rs. 10 = 0.419 × Rs. 4.19

Earning per share of Rs. 10 each, Rs. 8 paid-up = Rs. 0.419×8 = Rs. 3.35

Earning per share of Rs. 5, fully paid-up = Rs. 0.419 × 5= Rs. 2.10

Value of fully paid share of Rs. 10 = ` $\dfrac{4.19}{2} \times 10 =$ Rs. 20.95

Value of share of Rs. 10, Rs. 8 paid-up = ` $\dfrac{4.19}{2} \times 8 =$ Rs. 16.75

Value of fully paid-up share of Rs. 5 = ` $\dfrac{4.19}{2} \times 5 =$ Rs. 10.50.

(b) At the beginning of year 1, X Ltd. grants options to 200 employees. The share options will vest at the end of year 3, provided that the employees remain in the entity's employment, and provided that revenues of the company increases by at least at an average of 8 percent per year. If the per cent of increase is 8 percent and above but below 10 per cent per year, each employee will receive 120 share options, if 10 percent and above but below 15 percent each year, each employee will receive 240 share options and if on or above 15 percent, each employee will receive 360 share options. On grant date, X Ltd. estimates that the share options have a fair value of Rs. **40 per option and also estimates that 16 per cent of employees will leave before the end of year 3.**

By the end of year 1, 12 employees have left and the entity still expects that a total of 32 employees will leave by the end of year 3. In year 1, revenue has increased by 12 per cent and the company expects this rate of increase to continue over the next 2 years. By the end of year 2, a further 10 employees have left, bringing the total to 22 to date. The entity now expects only 5 more employees will leave during year 3, and therefore expects a total of 27 employees will have left during the three-year period. Revenue in year 2 increased by 18 per cent, resulting in an average of 15 per cent over the two years. By the end of year 3, a further 8 employees have left. The revenue increased by an average of 16 per cent per year in the three year period. [8]

Answer:

Year	Calculation (#)	Cumulative remuneration expense (Rs.)	Remuneration expense for the year (Rs.)
1	168*240*40*1/3	537600	537600
2	173*360*40*2/3	1660800	1123200
3	170*360*40*3/3	2448000	787200

\# At the end of No. of employee No. of share options

Year	1	200 – (32) = 168	240	since revenue increase is 12%(10 - 15)%
Year	2	200 – (22 + 5) = 173	360	since revenue increase is 18% (>15%)
Year	3	200 – (22 + 8) = 170	360	since revenue increase is 16% (>15%)

7. (a) In the month of March, 2021 M of Mumbai purchased goods from C of Chennai costing Rs. **70,000. M also purchased goods from B of Mumbai costing** Rs. **1,20,000. He paid telephone bill** Rs. **6,000. He purchased an air cooler for his office for** Rs. **12,000 from a supplier in Pune. He paid wages** Rs. **26,000 and sold goods at `40,000 to T of Thane and at** Rs. **2,40,000 to Q of Bangalore. Assume GST rate 12% in all cases. At the beginning of the month the available Input Tax Credit in the hands of M was: IGST** Rs. **2,400; CGST**
Rs. **4,800; SGST** Rs. **4,800. Pass journal entries. [9]**

Answer:

Particulars	**Dr.(Rs.)**	**Cr.(Rs.)**

Purchase A/c Dr.	70,000	
Input IGST A/c Dr.	8,400	
To Creditors A/c (Chennai)		78,400
Purchase A/c Dr.	1,20,000	
Input CGST A/c Dr.	7,200	
Input SGST A/c Dr.	7,200	
To Creditors A/c (Mumbai)		1,34,400
Debtors A/c Dr.	44,800	
To Sales A/c (Thane)		40,000
To Output CGST A/c		2,400
To Output SGST A/c		2,400
Debtors A/c Dr.	2,68,800	
To Sales A/c (Bangalore)		2,40,000
To Output IGST A/c		28,800
Telephone Expenses A/c Dr.	5,000	
Input CGST A/c Dr.	300	
Input SGST A/c Dr.	300	
To Bank A/c		5,600
Office Equipment A/c Dr.	12,000	
Input CGST A/c Dr.	720	
Input SGST A/c Dr.	720	
To Bank A/c		13,440
Set off against CGST output tax liability		
Output CGST Dr.	2,400	
To Input CGST A/c		2,400

Set off against SGST output		
Output SGST Dr.	2,400	
To Input SGST A/c		2,400
Set off against IGST output		
Output IGST Dr.	28,800	
To Input IGST A/c		10,800
To Input CGST		10,620
To Input SGST		7,380

Final payment		
Output IGST A/c Dr.	Nil	
To Electronic Cash Ledger A/c		Nil

Workings: **(Rs.)**

	Total	CGST	SGST	IGST
Output Tax liability	33,600	2,400	2,400	28,800
Input tax credit:				
Purchase Chennai		7,200	7,200	
Purchase Mumbai				8,400
Telephone		300	300	
Cooler		720	720	
Total ITC for the month	24,840	8,220	8,220	8,400
ITC at the beginning of the month	12,000	4,800	4,800	2,400
Total ITC available	36,840	13,020	13,020	10,800
1^{st} order set off Set off of Input tax credit				
CGST :13,020 – 2,400 = 10,620	(2,400)	(2,400)		
SGST: 13,020 – 2,400 = 10,620	(2,400)		(2,400)	
IGST: 10,800 – 10,800 = 0	(10,800)			(10,800)

2nd order set off Set off of Input tax credit CGST: 10,620 – 10,620 = 0	(10,620)			(10,620)
3rd order set off Set off of Input tax credit SGST: 10,620 – 7,380 = 3,240	(7,380)			(7,380)
Total ITC set off	(33,600)	(2,400)	(2,400)	(28,800)
Amount payable = Output tax liability – ITC set off ITC balance	0	NIL	NIL 3,240	NIL

(b) List the role of Public Accounts Committee (P.A.C). [7]

Answer:

1. Role regarding examination of the C&AG report: The chief function of P.A.C. is to examine the audit report of Comptroller and Auditor General (C&AG) after it is laid in the Parliament. C&AG assists the Committee during the course of investigation.

2. Role regarding unauthorized expenditures or excess expenditures: In examining the report of the Comptroller and Auditor General of India (C&AG), the committee has to satisfy itself that:
   - the expenditures made by the government, were authorized by the Parliament; and
   - the expenditures under any head has not crossed the limits of parliamentary authorization. It is to be noted that, every expenditure made by the government must be sanctioned by the Parliament. Thus, it is the role of the committee to bring to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.

3. Role regarding spending of money by ministries: The committee not only ensures that ministries spend money in accordance with parliamentary grants, it also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. However, the committee cannot question the polices of the government. It only concerns itself with the execution of policy on its financial aspects.

4. Scrutinizing the audit reports of public corporations: A new dimension has been added to the function of the P.A.C. by entrusting it with the responsibility of scrutinizing the audit report of public corporations.

5. Scrutinising the working process of ministries and public corporations: In examining the accounts and audits of the ministries and public corporations, the Committee gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations Criticisms of the P.A.C. draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C. Thus, it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control.

8. Write short notes on *any four* of the following: [4x4=16]

(a) Balance Sheet and Profit and Loss Account of an NBFC
(b) Objectives of Government Accounting
(c) Scopes of Ind AS 2: Inventories
(d) Factors affecting Valuation of Shares
(e) Review of Accounts in case of Government Companies

Answer:

(a) Balance Sheet and Profit and Loss Account of an NBFC

- Every non-banking financial company shall prepare its balance sheet and profit and loss account as on March 31 every year. Whenever a non-banking financial company intends to extend the date of its balance sheet as per provisions of the Companies Act, it should take prior approval of the Reserve Bank of India before approaching the Registrar of Companies for this purpose.
- Further, even in cases where the Bank and the Registrar of Companies grant extension of time, the non-banking financial company shall furnish to the Bank a proforma balance sheet (unaudited) as on March 31 of the year and the statutory returns due on the said date. Every non-banking financial company shall finalise its balance sheet within a period of 3 months from the date to which it pertains.
- Every non-banking financial company shall append to its balance sheet prescribed under the Companies Act, 2013, the particulars in the schedule as set out in Division III of Schedule III.

(b) Objectives of Government Accounting

The objectives of government accounting are the financial administration of the activities of the government to promote maximisation of welfare in the form of various services. The specific objectives can be stated as under:

1. To record financial transactions of revenues and expenditure relating to the government organizations.
2. To provide reliable financial data and information about the operation of public fund.
3. To record the expenditures as per the appropriate Act, Rules, and legal provisions as set by the government.
4. To avoid the excess expenditures beyond the limit of the budget approved by the government.
5. To help in the preparation of various financial statements and reports.
6. To facilitate the auditing by the concerned government department.
7. To prevent misappropriation of government properties by maintaining the systematic records of cash and store items.
8. To facilitate for estimating the annual budget by providing historical financial data of government and expenditures.

(c) Scope of Ind AS 2: Inventories

Scopes
This Standard applies to all inventories, except:

(a) financial instruments ;
(b) biological assets related to agricultural activity and agricultural produce at the point of harvest;

This Standard does not apply to the measurement of inventories held by:

(a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are recognised in profit or loss in the period of the change.
(b) Commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

(d) Factors affecting Valuation of Shares

The different factors that affect the valuation of shares are:
1. Nature of the industry to which the company belongs
2. The companies past performance
3. Economic conditions of the country
4. Other political and economic factors (e.g., possibility of nationalization, excise duty on goods produced, etc.)
5. Demand and supply of shares
6. Income yielding capacity of the company
7. The availability of sufficient assets over liabilities
8. Proportion of liabilities and capital
9. Rate of proposed dividend and past profit of the company
10. Yield of other related shares of the Stock Exchange.

(e) Review of Accounts in case of Government Companies

The accounts of Government Companies set up under the provisions of the Companies Act (including Government Insurance Companies and deemed Government Companies) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 143 of the Companies Act, 2013. Under these provisions, the C&AG:

(i) shall appoint statutory auditor of a Government company,
(ii) may conduct supplementary or test audit of accounts of a Government Company, and
(iii) may comment upon the report of the statutory auditor. In addition he issues directions to the statutory auditors regarding the manner in which the accounts of a Government Company are to be audited.

The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the Central Government on the advice of the CAG under the Companies Act, 2013 are subjected to supplementary or test audit by officers of the CAG and CAG gives his comments or supplements the report of the Statutory Auditors. The Companies Act, 2013 empowers the CAG to issue directions to the Statutory Auditors on the manner in which the Company's accounts shall be audited.