FINAL EXAMINATION
Syllabus 2016

Paper 17: CORPORATE FINANCIAL REPORTING (CFR)

Time Allowed: 3 Hours **Full Marks: 100**

There are Sections A, B, C and D to be answered subject to instructions given against each.

Section A **You are required to answer all the questions. Each question carries 1 mark.** **Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.**					**20 × 1 = 20 Marks**
1.	**a.**	In India, IFRSs are known as ____________________.			
		(i)	IFRSs		
		(ii)	Ind AS	A	
		(iii)	AS		
		(iv)	IAS		
	b.	Which of the following is included in cost of inventories?			
		(i)	Sales commission		
		(ii)	After sales warranty costs		
		(iii)	Brokerage commission paid to indenting agents	A	
		(iv)	Distribution costs		
	c.	Property Plant and Equipment (PPE) are initially recognized at ______________.			
		(i)	Purchase Price		
		(ii)	Fair Value		
		(iii)	Cost	A	
		(iv)	Future Economic Benefits		
	d.	An asset is impaired when the carrying amount of the asset exceeds its ____________.			
		(i)	Fair Value		
		(ii)	Recoverable Amount	A	
		(iii)	Value in use		
		(iv)	Fair value less cost to sell		
	e.	A Ltd. acquires B Ltd. for Rs. 19,20,000. Fair Value (FV) of B's net assets at time of acquisition amounts Rs. 16,00,000. Calculate Goodwill.			
		(i)	Rs.3,20,000	A	
		(ii)	Rs. 16,00,000		
		(iii)	Rs. 19,20,000		
		(iv)	None of the above		
	f.	On 1 January 2021 M Ltd. acquires 80 per cent of the equity interests of P Ltd in exchange of cash of Rs.216. The identifiable assets acquired are measured at Rs.350 and the liabilities assumed are measured at Rs.50. Calculate Fair value of Non-controlling Interest.			
		(i)	Rs.270	A	

		(ii)	Rs. 216		
		(iii)	Rs.300		
		(iv)	Rs. 350		
	g.	Forward looking merger is _________________.			
		(i)	When two companies from different industries merge		
		(ii)	Merger between company and its supplier		
		(iii)	Merger between company and its customer	A	
		(iv)	None of the above		
	h.	Business combinations involving entities or businesses under common control shall be accounted for using the __________ of interests method.			
		(i)	Pooling	A	
		(ii)	Purchase		
		(iii)	Equity		
		(iv)	None of the above		
	i.	Which of the following is true as per Ind AS 111?			
		(i)	In a joint arrangement the parties are bound by a contractual arrangement.		
		(ii)	In a joint arrangement the parties enjoy joint control of the arrangement.		
		(iii)	A joint arrangement is either a joint operation or a joint control.		
		(iv)	All of the above	A	
	j.	Form the following information determine the amount of unrealized profit to be eliminated Y ltd holds 80% equity shares of W Ltd. Y Ltd. Sold goods costing Rs. 80,00,000 to W Ltd. At a profit of 25% on cost price. Entire stock were lying unsold as on the date of balance sheet.			
		(i)	Rs.20,00,000	A	
		(ii)	Rs. 80,00,000		
		(iii)	Rs.64,00,000		
		(iv)	None of the above		
	K.	By purchase of shares entailing voting powers of 20% or more the investor company may _____________.			
		(i)	Have significant control over the investee company		
		(ii)	Have joint control in the investee company		
		(iii)	Acquire control in the investee company		
		(iv)	All of the above	A	
	l.	A company having investments in associates or joint ventures prepares consolidated financial statements using equity method of accounting as per			
		(i)	Ind AS 28	A	
		(ii)	Ind AS 27		
		(iii)	Ind AS 111		
		(iv)	Ind AS 32		
	m.	Which of the following is not a part of Government Accounts in India?			
		(i)	RBI Fund	A	
		(ii)	Consolidated Fund		

		(iii)	Contingency Fund and		
		(iv)	Public Account		
	n.	Which of the following is not a feature of Government Accounting?			
		(i)	Reporting of Utilization of Public Funds		
		(ii)	Government Regulations		
		(iii)	Budget Heads		
		(iv)	Single Entry System	A	
	o.	Which of the following is not a dimension of Triple Bottom Line (TBL) reporting?			
		(i)	Social Equity		
		(ii)	Economic Factors		
		(iii)	Environmental Factors		
		(iv)	Regulators Factors	A	
	p.	Business Responsibility Reporting does not require compliance to the principle			
		(i)	That business should promote wellbeing of all employees		
		(ii)	That business should respect and promote human rights		
		(iii)	That business should make efforts to restore the Environment		
		(iv)	That business should maximise return to the shareholders	A	
	q.	Which of the following sections of the Companies Act 2013 contains the provisions on CSR?			
		(i)	Section 141		
		(ii)	Section 139		
		(iii)	Section 135	A	
		(iv)	Section 148		
	r.	Who are the users of the triple bottom line reporting?			
		(i)	Government		
		(ii)	Businesses		
		(iii)	Non profit organization		
		(iv)	All of the above	A	
	s.	A financial asset does not include___________________.			
		(i)	Cash		
		(ii)	Foreign currency		
		(iii)	Prepaid expenses	A	
		(iv)	Receivables		
	t.	When was The Public Accounts Committee first set up in India under the Montague Chelmsford Reforms?			
		(i)	1920		
		(ii)	1922		
		(iii)	1915		
		(iv)	1921	A	
Section B **You are required to answer all the questions. Each question carries 2 marks.** **Instructions: Each question is followed by a space where you are required to type your answer.**					**10 × 2 = 20 Marks**

2.	a.	Z Ltd. purchased 80% shares in C Ltd. on 01.10.2021 at Rs.2,40,000. C Ltd. at 31.03.2021 had Issued Share Capital Rs.2,00,000 and Other Equity Rs.60,000. For year ending on 31.03.2022 C Ltd. made profits Rs.30,000 and declared dividend Rs.40,000. Calculate the amount of NCI measured at fair value.	
		Type your answer here NCI = Rs. 60,000 **ROUGH WORK** NCI = 20/80 × 2,40,000	
	b.	State the accounting requirements in case of settlement after the reporting period of a Court Case, that confirms that the entity had a present obligation at the end of the Reporting Period.	
		Type your answer here It is an adjusting event. The Entity shall adjust any previously recognised provision related to this Court Case in accordance, or shall recognise a new provision. The Entity does not merely disclose a Contingent Liability because the settlement provides additional evidence that would be considered accordingly.	
	c.	X Ltd. purchased a machinery on 01.01.2019 for Rs.20 lakhs. WDV of the machine as on 31.03.2020 Rs.12 lakhs. The Recoverable amount of the machine is Rs.11 lakhs. What is the impairment loss?	
		Type your answer here Impairment loss = Rs.1 Lakh **ROUGH WORK** Impairment loss = Carrying Amount-Recoverable amount = Rs.12 lakh – Rs.11 lakh = Rs.1Lakh	
	d.	What is the meaning of “Bottom Line”?	
		Type your answer here In traditional accounting and common parlance, the “bottom line” refers to either the “operating result”, which is usually recorded at the very last line (or, bottom) of the income statement. Over the last few decades, environmentalists and advocates of social justice have been challenged to introduce a broader concept of ‘bottom line’ into public consciousness by introducing full cost accounting.	
	e.	Under which head the ‘gain on bargain purchase’ will appear in a Consolidated Balance Sheet?	
		Type your answer here Under Other Equity **ROUGH WORK** In a Consolidated Balance Sheet the ‘Gain on bargain purchase’ will appear under ‘Other Equity’ at the acquisition date value.	
	f.	At what value is non-controlling interest recorded in the books of the Acquiree at the time of a business combination transaction under Ind AS 103?	
		Type your answer here It is recognised either at fair value or at proportionate fair value of identified net assets.	
	g.	Fair value hierarchy is categorized into how many levels of input?	

<table>
<tr><td></td><td></td><td>Type your answer here
Three
ROUGH WORK
Fair value hierarchy is categorized into three levels of input.</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>h.</td><td>Super Profit of ABC Ltd (Computed): Rs.18,00,000 Normal rate of return: 12% Present value of annuity of Rs.1 for 4 years @ 12% : 3.0374
Calculate the value of goodwill.</td><td></td></tr>
<tr><td></td><td></td><td>Type your answer here
Value of goodwill = Rs.54,67,320
ROUGH WORK
Value of goodwill = Super profit × P.V of Annuity of 1for 4 years @ 12% = 18,00,000 × 3.0374
= Rs. 54,67,320.</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>i.</td><td>Mr. X is an employee of P Ltd. and also holder of equity shares of P Ltd. P Ltd. makes a right issue on equity and X receives his right. Is it a share based payment transaction?</td><td></td></tr>
<tr><td></td><td></td><td>Type your answer here No.
For the purpose of Ind AS 102, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share based payment transaction.</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>j.</td><td>What does IGAS 9 deal with?</td><td></td></tr>
<tr><td></td><td></td><td>Type your answer here
Government Investments in Equity</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="3">Section C
You are required to answer any 4 out of 6 questions in this section
Instructions: Each question is followed by a space where you are required to type your answer.</td><td>12 × 4 = 48 Marks</td></tr>
<tr><td colspan="3"></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>3.</td><td>a.</td><td>An equipment is leased for 3 years and its useful life is 5 years. Both the cost and the fair value of the equipment are Rs. 6,00,000. The amount will be paid in 3 installments and at the termination of lease, lessor will get back the equipment. The unguaranteed residual value at the end of 3 years is Rs. 80,000. The (internal rate of return) IRR of the investment is 8%. The annual payments have been determined in such a way that the present value of the lease payment plus the residual value is equal to the cost of machinery. The present value of Re. 1 due at the end of 1st, 2nd and 3rd year at 8% rate of interest is 0.9259, 0.8573 and 0.7938 respectively.</td><td></td></tr>
<tr><td></td><td>(i)</td><td>Compute the amount of Annual Lease Payment.</td><td>4</td></tr>
<tr><td></td><td></td><td>Type your answer here
Annual Lease Payment = Rs.2,08,186
ROUGH WORK
Calculation of Annual Lease Payment
<table>
<tr><th>Particulars</th><th>Rs.</th></tr>
<tr><td>Cost of equipment</td><td>6,00,000</td></tr>
<tr><td>Less: PV of unguaranteed residual value for 3 years @ 8% (Rs. 80,000 x 0.7938)</td><td>(63,504)</td></tr>
<tr><td>Fair value to be recovered from 3 years Annual Lease Payment</td><td>5,36,496</td></tr>
<tr><td>Annuity for 3 years @ 8% (0.9253+0.8573+0.7938)</td><td>2.577</td></tr>
<tr><td>Annual Lease Payment (Rs. 5,36,496 / Annuity for 3 years @ 8%)</td><td>2,08,186</td></tr>
</table></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>(ii)</td><td>Compute the amount of unearned Finance Income.</td><td>3</td></tr>
</table>

		Type your answer here Unearned Finance Income = Rs.1,04,558 **ROUGH WORK** Computation of Unearned Finance Income	

Particulars	Rs.
Total Lease payment (Rs. 2,08,186 x 3)	6,24,558
Add: Residual value	80,000
Gross investment	7,04,558
Less: Present / Fair value of Investment	(6,00,000)
Unearned Finance Income	1,04,558

	b.	In a production process, normal waste is 4% of input. 6,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is Rs.2,500. The entire quantity of waste is on stock at the year-end. Compute the cost of abnormal waste.	5
		Type your answer here Cost of Abnormal Waste Rs.1,50,000 will be charged to Profit and Loss Account. **ROUGH WORK** Abnormal Amounts of Waste Materials, Labour or other Production Costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. Normal Waste is 4% of 6,000 MT i.e. 240 MT and Abnormal Waste is 300 MT – 240 MT = 60 MT. Cost of Normal Waste 240 MT will be included in determining the cost of inventories at the year-end. Cost of Abnormal Waste 60 MT × Rs.1,250 i.e. Rs.1,50,000 will be charged to Profit and Loss Account. Ind AS 23, Borrowing Costs, identifies limited circumstances where borrowing costs are included in the cost of inventories.	
4.	a.	A Ltd. acquired a 60% interest in B Ltd. on January 1, 2021. Z paid Rs.1,920 Lakhs in cash for their interest in B Ltd. The fair value of B Ltd.'s assets is Rs.4,800 Lakhs, and the fair value of its liabilities is Rs.1,800 Lakhs. Compute the following: (i) Fair Value (FV) of Net Assets (ii) Non-controlling Interest (NCI) (iii) Value of Goodwill	2+2+2
		Type your answer here (i) Fair Value (FV) of Net Assets =: Rs.3,000 Lakhs (ii) Non-controlling Interest (NCI) = Rs. 1,200 Lakhs (iii) Value of Goodwill = Rs.120 Lakhs **ROUGH WORK** FV of Net Assets = Rs.(4,800 – 1,800) Lakhs = Rs.3,000 Lakhs Share of Parent in Acquireer = 60% and Share of Non-controlling Interest in Acquiree = 100% - 60% = 40% NCI (at proportionate net asset value) = 40% × Rs.3,000 Lakhs = Rs.1,200 Lakh Goodwill = A – B = Rs.(1,920 + 1,200) Lakhs – Rs.3,000 Lakhs = Rs.120 Lakhs where, A = Consideration + NCI, and B = Net Assets	
	b.	Difference between Ind AS 103 and AS 14.	6

		Type your answer here (i) Scope: Ind AS 103 has a wider scope than AS 14 [See para 6]. (ii) Method of accounting: Ind AS 103 prescribe only acquisition method for every business combination whereas AS 14 states two method of accounting: Pooling of interest method and Purchase method. (iii) Recognition and measurement: Ind AS 103 recognises acquired identifiable assets liabilities and no controlling interest at fair value. AS 14 allows choice of Book value or FV. (iv) Goodwill: Under Ind AS 103, Goodwill is not amortised but tested for annual impairment where as AS 14 require goodwill to be amortised over a period not exceeding 5 years. (v) Non Controlling Interest: Ind AS 103 provide for accounting of NCI, AS 14 does not. (vi) Recording for consolidated financial statements: It is provided in Ind AS 103, not in AS 14. (vii) Common control transactions: Appendix C deals with accounting for common control transactions, which prescribes Pooling of interest method of accounting. AS14 does not prescribe any different accounting for such transactions. (viii) Contingent Consideration: Ind AS 103 recognise contingent consideration, AS 14 does not. (ix) Reverse acquisitions: Ind AS 103 deal with reverse acquisitions, AS 14 does not	
5	a.	Investor A holds 40 per cent of the voting rights of an investee and twelve other investors each hold 5 per cent of the voting rights of the investee. A shareholder agreement grants investor A the right to appoint, remove and set the remuneration of management responsible for directing the relevant activities. To change the agreement, a two-thirds majority vote of the shareholders is required. Has A power over the investee?	4
		Type your answer here In this case, investor A concludes that the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power. However, investor A determines that its contractual right to appoint, remove and set the remuneration of management is sufficient to conclude that it has power over the investee	
	b.	Investor A holds 45 per cent of the voting rights of an investee. Two other investors each hold 26 per cent of the voting rights of the investee. The remaining voting rights are held by three other shareholders, each holding 1 per cent. There are no other arrangements that affect decision-making. Has A power over the investee?	3
		Type your answer here In this case, the size of investor A's voting interest and its size relative to the other shareholdings are sufficient to conclude that investor A does not have power. Only two other investors would need to co-operate to be able to prevent investor A from directing the relevant activities of the investee.	
	c.	On 1.4.2020 BM Ltd. acquired 80% share of CM Ltd. at Rs.10,00,000, when the fair value of its net assets was Rs.10,00,000. During 1.04.2020 to 31.03.2021 CM Ltd made TCI Rs.1,20,000. On that date BM sold 20% holding to outsiders at Rs.2,80,000. Calculate the amount of Gain credited to Other Equity.	5
		Type your answer here Gain credited to Other Equity = Rs.56,000 **ROUGH WORK** Net Assets on 3103.2021 = Rs.10,00,000 + Rs.1,20,000 (TCI) = Rs.11,20,000 Carrying amount of 20% holding sold i.e. NCI recognized= 20% × Rs.11,20,000 = Rs.2,24,000 Sale price = Rs.2,80,000 Gain credited to Other Equity = Rs.2,80,000 – Rs.2,24,000 = Rs.56,000	

6. a. ABC Ltd. provided the following information about its earned profits during the last 5 years. (3+3)

Year	2013	2014	2015	2016	2017
Profits	36000	32000	45000	38000	48000

Determine the value of Goodwill in the following cases:

(i) It was decided to value the Goodwill on the basis of 2 years' purchase of average profit of last five years.

(ii) It was decided to value the Goodwill on the basis of 3½ years' purchase of average profit of last five years after giving weights of 1, 2, 3, 6 and 8 to the profits chronologically.

Type your answer here

(i) Value of goodwill = Rs. 79,600

(ii) Value of goodwill = Rs. 1,48,225

ROUGH WORK

Average profit = Rs. (36,000 + 32,000 + 45,000 + 38,000 + 48,000)/5 = Rs. 39,800

Value of Goodwill = Rs. 39,800 × 2 year's purchase = Rs. 79,600

Weighted Average profit

= {(36000 × 1) + (32000 × 2) + (45000 x 3) +(38000 x 6) + (48000 x 8)}/(1+2+3+6+8) = Rs.42,350

Therefore, Value of Goodwill = Rs.42350 × 3½ years' purchase = Rs. 1,48,225

b. What does a company covered under CSR needs to do? 6

Type your answer here

Once a company is covered under the ambit of the CSR, it shall be required to comply with the provisions of the CSR. The companies covered under the Sub section 1 of Section 135 shall be required to do the following activities:

(i) As provided under Section 135(1) itself, the companies shall be required to constitute CSR Committee. The CSR Committee shall be comprised of 3 or more directors, out of which at least one director shall be an independent director.

(ii) The Board's report shall disclose the compositions of the CSR Committee.

(iii) Also, proviso to the Rule provide 3(1) of the CSR Rules that the net worth, turnover or net profit of a foreign company of the Act shall be computed in accordance with balance sheet and profit and loss account of such company prepared in accordance with the provisions of clause (a) of sub-section (1) of section 381 and section 198 of the Companies Act, 2013.

7. a. List any 8 benefits of GST. 4

Type your answer here

Following are the benefits of GST:

(i) Overall Reduction in Prices
(ii) Reduction in Cascading of Taxes
(iii) Common National Market
(iv) Benefits to Small Taxpayers
(v) Self-Regulating Tax System
(vi) Non-Intrusive Electronic Tax System
(vii) Decrease in Inflation
(viii) Ease of Doing Business
(ix) Simplified Tax Regime
(x) Reduction in Multiplicity of Taxes
(xi) Consumption Based Tax

b. Make a comparison between government accounting and commercial accounting. 8

		Type your answer here Although the basic principles of financial accounting that are applicable in regular commercial activities apply to the government accounts, there are certain features of governmental accounting which make it quite different from that of regular commercial accounting. The differences between commercial and government accounting have been presented here under: 1. Meaning: The accounting system applied in the government departments, offices and institutions is referred to as government accounting. While, the system of accounting applied by non-government organizations (whether profit-oriented or non-profit oriented) is known as commercial accounting. 2. Objective: Government accounting is maintained by the government offices for recording and reporting the utilisation and position of public funds. Commercial accounting is maintained by business organizations to know the profit or loss for an accounting period and disclose the financial position of the entity. 3. Scope: The government accounting happens to be more elaborate that that followed in commercial accounts. 4. Budget: Government accounting is directly influenced by the government budgeting system, while commercial accounting does not follow the government budgeting system. 5. accounting may be done on cash basis or accrual basis, or sometimes even on hybrid basis. 6. Level of Accounting: Government accounting has the system of central level and operating level accounting. Commercial accounting has no provision of central level and operating level accounting 7. Rules and Provisions: Government accounting is strictly maintained by following the financial rules and provisions as set by the concerned government. Commercial accounting is maintained by following the applicable rules and the 'Generally Accepted Accounting Principles' (GAAP). 8. Basis: Government accounting is prepared on cash basis. On the other hand, commercial 9. Information: Government accounting provides information to the government about the receipts, deposit, transfer and utilisation of public funds. Commercial accounting provides information to the various stakeholders about the operating result and financial position of the business. 10. Auditing: The audit the books of accounts maintained by government departments, offices or institutions are to be audited by a recognised department of the government(namely, the Auditor General Office); while the books of accounts maintained under commercial accounting is audited by any professional auditor.	
You are required write Short Notes on any 4 out of 5 questions.			**4 × 3 = 12 Marks**
8.	a.	Co-generic Merger	3
		Type your answer here This type of merger happens within the same industries and takes place at the same level of economic activity - exploration, production or manufacturing. It may be wholesale distribution or retail distribution to the ultimate consumer. The Co-generic mergers are of two types:	

		(a) Horizontal merger: This class of merger is a merger between business competitors who are manufacturers or distributors of the same type of products or who render similar or same type of services for profit i.e. they are in the same stage of business cycle. It involves joining together two or more companies which are producing essentially the same products or rendering same or similar services or their products and services directly competing in the market with each other. It is a combination of two or more firms in similar type of production/distribution line of business (b) Vertical merger: It occurs between firms which are complementary to each other, e.g. one of the companies is engaged in the manufacture of a particular product and the other is established and expert in the marketing of that product. In this merger the two companies merge and control the production and marketing of the product	
	b.	Fair value hierarchy	3
		Type your answer here This Ind AS establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value. (i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. (ii) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. (iii) Level 3 inputs are unobservable inputs for the asset or liability.	
	c.	Consolidated Funds of India	3
		Type your answer here The Consolidated Funds is constituted under Article 266 (1) of the Constitution of India. All revenues received by the Government by way of taxes like Income Tax, Central Excise, Customs and other receipts flowing to the Government in connection with the conduct of Government business i.e. Non-Tax Revenues are credited into the Consolidated Fund. Similarly, all loans raised by the Government by issue of Public notifications, treasury bills (internal debt) and loans obtained from foreign governments and international institutions (external debt) are credited into this fund. All expenditure of the government is incurred from this fund and no amount can be withdrawn from the Fund without authorization from the Parliament. This is the largest of all the three funds .	
	d.	Equity Method	3
		Type your answer here (a) The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. (b) A joint venturer shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with Ind AS 28, Investments in Associates and Joint Ventures, unless the entity is exempted from applying the equity method as specified in that standard. (c) A party that participates in, but does not have joint control of, a joint venture shall account for its interest in the arrangement in accordance with Ind AS 109, Financial Instruments, unless it has significant influence over the joint venture, in which case it shall account for it in accordance with Ind AS 28, and Ind AS 27.	

	e.	Investment property as per AS 13	3
		Type your answer here Investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. For example, if a company purchases land or building not for its business use but for earning the rent by letting the land or building, the land or building is not fixed asset but it is an investment or even if building is not let out but held with the intention to earn capital appreciation, then it is an investment.	
	Section D **You are required to answer all the questions in this section** **Instructions: Each question is followed by a space where you are required to type your answer.**		**12 Marks**
9.		Mr.OM is a wary investor. He regularly keeps a check on the stock market and judiciously decides when to invest and when to sell. The market has been severely volatile at present. Mr.OM has been holding about 20000 shares of RR Ltd. of the face value of Rs 10. He also holds 10000 equity shares of Rs. 4 each fully paid up. RR Ltd is a company that has grown over time. From a medium scale business selling different types of packaged food products, it has grown almost three times since its inception in the year 2000. Mr. OM has been gradually investing in this company, provided its steady growth and rapid expansion. It has nominal debt and robust assets. A steady increase in dividend payout has kept its outlook in the market bullish and hope for better performance in the future. Mr. M has been holding the shares for a long time now. His holding value has multiplied manifold, but he has kept on holding the shares since it is a well-paying stock. He held this stock with the aim of wealth maximisation and did not intend to sell off until recently. In recent times, he has been faced with some contingency. Due to the slow pace of his business, rising expenses and uncertain future, he has been compelled to think about selling off his holdings. In this scenario, he hardly wished to sell off the shares of P Ltd. But now with the impending situation, he has to sell them off. With the help of the fundamentals, as provided in the following chart, you are required to determine the answer to the questions posed thereon. The Balances of RR Ltd. as on 31.12.2022 is as follows:	

Liabilities	Rs. in Lakhs	Assets	Rs. in Lakhs
1,00,000 Equity shares of Rs.10 each fully paid-up	10	Goodwill	5
1,00,000 equity shares of Rs.6 each fully paid-up	6	Fixed Assets	15
Reserves & Surplus	2	Other Tangible Assets	5
Liabilities	10	Intangible Assets	3
	28		28

Fixed assets are worth Rs.24 lakhs. Other tangible assets are valued at Rs.3 lakhs. The company is expected to settle the disputed bonus claim of Rs.1 lakh, not provided for in the accounts. Goodwill appearing in the Balance Sheet is purchased goodwill. It is considered reasonable to increase the value of goodwill by an amount equal to average of the book value and a valuation made at 3 years purchase of average super profit for the last 4 years.

Year	PAT (in lakhs) %	Dividend
2018	3.00	11
2019	3.50	12
2020	4.00	13
2021	4.10	14

Normal expectation in the industry to which the company belongs to is 10%.

a. Calculate the average capital employed (excluding Goodwill). 3

Type your answer here

Rs.17.45 Lakhs

ROUGH WORK

Particulars	Rs. in Lakhs
Fixed assets	24.00
Other tangible assets	3.00
Intangible assets	3.00
	30.00
Less: Liabilities + Bonus	11.00
Net assets (excluding goodwill/Closing capital employed)	19.00
Less: ½ of profits [½ (4.10 - 1.0 (i.e. Disputed Bonus)]	1.55
Average Capital Employed	17.45

b. Calculate the value of Goodwill. 3

Type your answer here

Rs.4.9825 Lakhs

ROUGH WORK

Calculation of average super profit for 4 years	Rs. in Lakhs
Average profit = ¼ [3+3.5+4+4.1 - 1.0(i.e. Bonus)] = ¼ × 13.60	3.40
Less: Normal Profit 10% of Rs.17.45 lakhs (Average Capital Employed)	1.745
Super Profit	1.655
Calculation of goodwill	
3 years' purchase of average super profit = 3 × 1.655	4.965
Increase in value of goodwill = ½ (Book value + 3 years super profit) = ½ (5+ 4.965)	4.9825

c. Determine the Net Assets available for the shareholders. 2

		Type your answer here Rs.28.98 Lakhs **ROUGH WORK** Computation of Net Assets available for shareholders:	

Particulars	Rs. in Lakhs
Net assets as valued (excluding Goodwill) plus book value of goodwill	24.00
Add: Increase in goodwill (rounded off)	4.98
Net Assets available for shareholders	28.98

	d.	Determine the Break-up value of both kinds of shares.	4
		Type your answer here Breakup value of Rs. 10 paid up share = Rs.18.10 Breakup value of Rs. 6 paid up share = Rs.10.86 **ROUGH WORK** Break-up value of Rs.1 of share capital = Net assets available for shareholder /Total share capital = Rs. 28.98 lakhs/16.00 lakhs = Rs.1.81. Breakup value of Rs. 10 paid up share = Rs. 1.81 × 10 = Rs.18.10 Breakup value of Rs. 6 paid up share = Rs. 1.81 × 6 = Rs.10.86	

END