## FINAL EXAMINATION

December 2019

*P–17(CFR)*
*Syllabus 2016*

**Corporate Financial Reporting**

Time Allowed: 3 Hours — Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Where considered necessary, suitable assumptions may be made, and clearly indicated in answer.*

*Both the sections are to be answered subject to instructions given against each.*

*[All working must form part of your answer.]*

### Section-A

(*Answer the following questions.*)

**1.** Choose the most appropriate answer from the four alternatives given (1 marks for right choice and 1 mark for justification.): 2×10=20

(i) Downsize Ltd. earned ₹ 800 lakhs pre-tax profit in the first quarter ended 30.06.2019 and it expects to incur losses of ₹ 100 lakhs each of the three remaining quarters of 2019-20. Tax rate is 30%. It has carried forward loss of ₹ 300 lakhs for income tax purpose for which deferred tax asset is not recognized. The amount of tax expenses reported in the first and second quarters of 2019-20 are

(A) ₹ 240 lakhs and ₹ (30) lakhs

(B) ₹ 150 lakhs and ₹ (30) lakhs

(C) ₹ 15 lakhs and ₹ 15 lakhs

(D) ₹ 96 lakhs and ₹ (12) lakhs

(ii) An engineering goods Company provides after sales warranty for 2 years to its customers. Based on past experience, the Company has the following policy for making provision for warranties on the invoice amount, on the remaining balance of warranty period:

Less than 1 year : 2% provision, More than 1 year : 3% provision.

The Company has raised invoices as under:

| Invoice date | Amount (₹) |
|---|---|
| 19th January, 2017 | 40,000 |
| 29th January, 2018 | 25,000 |
| 15th October, 2018 | 90,000 |

The amount to be debited to Profit and Loss Account for the year ended 31st March, 2018 would be

(A) ₹ 1,650

(B) ₹ 3,200

(C) ₹ 1,550

(D) None of the above

(iii) A Company showed a net profit of ₹ 7,20,000 for the third quarter of the year 2018-19 after incorporating the following:

(a) Bad Debts of ₹ 40,000 incurred during the quarter. 50% of the Bad Debts have been deferred to the next quarter.

(b) Extra Ordinary loss of ₹ 35,000 incurred during the quarter has been fully recognized in the quarter.

Correct Quarterly Income as per applicable Ind AS will be

(A) ₹ 6,80,000

(B) ₹ 7,00,000

(C) ₹ 6,35,000

(D) None of the above

(iv) In a conglomerate merger of two companies the merging companies operate

(A) in related markets having similar product lines.

(B) in unrelated markets having no functional economic relationship.

(C) in related markets and merging companies are complementary to each other.

(D) in two countries and one of them use the product of the others as raw materials.

(v) On April 1, 2018 May Ltd. purchased 40% of the shares of June Ltd. for ₹ 10 lakhs. At the time of the purchase June Ltd. reported net assets of ₹ 20 lakhs. The fair value of identifiable assets and liabilities of June Ltd. at the time of purchase was approximate to their book values except for Building which had a fair value of ₹ 2 lakhs more than its book value. May Ltd. has significant influence over operating and financial policies of June Ltd. The amount of purchase price attributable to Goodwill is

(A) ₹ 0

(B) ₹ 1,20,000

(C) ₹ 2,00,000

(D) ₹ 2,80,000

(vi) On April 1, 2018 Bob Ltd. purchased a 30% interest in Dad Ltd. for ₹ 2,50,000. On that date Dad's shareholders equity was ₹ 5,00,000. The carrying value of Dad's identifiable net assets was equal to book value. Bob correctly reports this significant influence investment using equity method. Both companies have a March 31 year end. For the year ended 31.03.2019, Dad reported net income of ₹ 1,50,000 and paid total dividends of ₹ 40,000. Which of the following amount that Bob would report as its investment in Dad on March 31, 2019?

(A) ₹ 2,50,000

(B) ₹ 2,83,000

(C) ₹ 2,95,000

(D) ₹ 3,60,000

**Please Turn Over**

(vii) On 01.04.2018 MB Ltd. acquired 80% shares of MC Ltd. at ₹ 20,00,000 when the fair value of the identifiable net assets was ₹ 20,00,000. During 2018-19, MC Ltd. reported net income of ₹ 2,40,000. On that date MB Ltd. sold 20% of its holding to an outsider at ₹ 5,60,000. The amount of gain to be credited to other equity by MB for sale of partial holding retaining control is

(A) ₹ 1,12,000

(B) ₹ 1,60,000

(C) ₹ 0

(D) ₹ 1,21,000

(viii) Details for an Asset are as under:

Cost of Assets ₹ 60 lakhs, Useful life period 10 years, Salvage value ₹ 4 lakhs, Useful life remaining 3 years. Upward revision done in last year by 50%. Current value in use is ₹ 12 lakhs, Current selling price ₹ 11 lakhs, Current disposal cost ₹ 1 lakh. Impairment Loss to be charged to Profit and Loss Account as per applicable Ind AS would be

(A) ₹ 18·7 lakhs

(B) ₹ 13·2 lakhs

(C) ₹ 5·5 lakhs

(D) None of the above

(ix) **Statement**–All NBFCs in India are required to maintain Tier I capital at 10% of risk-weighted assets. Choose correct option:

(A) Statement is correct as per the RBI norms applicable to NBFCs.

(B) Statement is incorrect as certain categories of NBFCs are exempted from such requirement by the RBI.

(C) Statement is incorrect as the Ministry of Finance, Government of India exempt all categories of NBFCs from capital adequacy norms.

(D) Statement is correct as the Ministry of Finance, Government of India by notification has imposed such requirements to overcome liquidity problems.

(x) Which of the following is not a feature of Government Accounting?

(A) Reporting utilization of public funds

(B) Double Entry System

(C) Non-fund based accounting

(D) Both (A) and (B)

## Section-B

*Answer* any five *questions out of* seven *questions.* 16×5=80

2. (a) Discuss the applicability of and disclosure requirement of AS 11. 8

(b) State with reference to accounting standard (AS 2), how you will value the inventories in the following cases: 8

(i) Raw material was purchased at ₹ 100 per kilo. Price of raw material is on the decline. The finished goods in which the raw material is incorporated is expected to be sold at below cost. 10,000 kg of raw material is on stock at the year end. Replacement cost is ₹ 80 per kg.

(ii) In a production process, normal waste is 5% of input 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹ 1,000. The entire quantity of waste is on stock at the year end.

(iii) Per kg of finished goods consisted of—

Material cost— ₹ 100 per kg

Direct labour cost— ₹ 20 per kg

Direct variable production overheads— ₹ 10 per kg

Fixed production charges for the year on normal capacity of one lakh kg. are ₹ 10 lakhs. 2,000 kg of finished goods are on stock at the year end.

3. (a) Describe what is meant by Joint arrangement as per Ind AS 111. 8

(b) Briefly explain how contingent consideration payable in relation to a business combination is accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following case: 8

On 1 April, 2018, Aaa Ltd. acquires 100% interest in Baa Ltd. As per the terms of agreement the purchase consideration was payable in the following 2 tranches:

(i) an immediate issuance of 5 lakhs shares of Aaa Ltd. having face value of ₹ 10 per share.

(ii) a further issuance of 1 lakh shares after one year if the profit before interest and tax of Baa Ltd. for the first year following acquisition exceeds ₹ 1 crore.

The fair value of the shares of Aaa Ltd. on the date of acquisition is ₹ 20 per share. Further, the Management has estimated that on the date of acquisition, the fair value of contingent consideration is ₹ 12·5 lakhs. During the year ended 31 March, 2019, the profit before interest and tax of Baa Ltd. exceeded ₹ 1 crore. As on 31 March, 2019, the fair value of shares of Aaa Ltd. was 25 per share.

4. (a) Following are the summarized Balance Sheets of Sun Ltd. and Moon Ltd. as on 31st March, 2019:

| Liabilities | Sun Ltd. (₹) | Moon Ltd. (₹) | Assets | Sun Ltd. (₹) | Moon Ltd. (₹) |
|---|---|---|---|---|---|
| Equity Share Capital (₹ 10 each fully paid up) | 10,50,000 | 5,00,000 | Building | 9,25,000 | 3,00,000 |
| General Reserve | 8,16,900 | 2,23,300 | Machinery | 2,25,000 | 75,000 |
| Profit & Loss A/c | 1,00,000 | 1,00,000 | Furniture | 1,50,000 | 28,000 |
| Trade Payables | 3,81,000 | 1,60,000 | Inventory | 3,00,000 | 3,90,000 |
| | | | Trade Receivables | 4,10,000 | 1,05,000 |
| | | | Cash at Bank | 3,37,900 | 85,300 |
| | **23,47,900** | **9,83,300** | | **23,47,900** | **9,83,300** |

On 1st October, 2019 Sun Ltd. decided to takeover Moon Ltd. No Balance Sheet was prepared on that date. For six months period from 1st April, 2019 to 30th September, 2019, Sun Ltd. and Moon Ltd. earned a profit of ₹ 3,36,000 and ₹ 1,98,000 respectively after writing off depreciation @ 15% per annum on Building and @ 10% per annum of Machinery and Furniture for both the companies.

Sun Ltd. and Moon Ltd. paid equity dividend @ 8% on 15th July, 2018. Tax @ 10% on such payments was also paid by each of them. Goodwill of Moon Ltd. was valued at ₹ 97,320 on the date of takeover.

For the purpose of takeover:

Inventory of both the companies would be appreciated by 12%. Trade Receivables of Sun Ltd. and Moon Ltd. would be reduced by 5% and 6% respectively.

Sun Ltd. issued fully paid equity shares of ₹ 10 each to the shareholders' of Moon Ltd., on the basis of comparative intrinsic values of shares on the takeover date.

You are required to calculate Intrinsic value of Shares of the two Companies, Purchase consideration to be paid and Number of Shares to be issued on the basis of Intrinsic value. 12

(b) Explain briefly the 'principle of control' as mentioned in Ind AS 110. 4

**5.** (a) Explain the concept of equity method in the context of Ind AS 28. 4

(b) Ganga Limited purchased 40,000 shares in Yamuna Limited on 31st March, 2017, at 50% premium over face value by issue of 8% Debentures at 20% premium. The Balances of Assets, Liabilities, Equity etc. of Ganga Limited and Yamuna Limited as on 31.03.2017, i.e., on the date of purchase were as under:

(in ₹)

| **Liabilities** | Ganga Ltd. | Yamuna Ltd. | Assets | Ganga Ltd. | Yamuna Ltd. |
|---|---|---|---|---|---|
| Share Capital of ₹ 10 each | 10,50,000 | 6,00,000 | Fixed Assets | 6,50,000 | 2,00,000 |
| General Reserve | 1,20,000 | 40,000 | Inventory in Trade | 3,00,000 | 1,80,000 |
| Profit & Loss A/c | 80,000 | – | Trade Receivables | 3,40,000 | 2,10,000 |
| Trade Payables | 1,00,000 | 60,000 | Cash in hand | 60,000 | 30,000 |
| | | | Profit & Loss A/c | – | 80,000 |
| | **13,50,000** | **7,00,000** | | **13,50,000** | **7,00,000** |

(i) Particulars of Ganga Limited:

(I) Profits made: 2017-18 ₹ 1,60,000
2018-19 ₹ 2,00,000

(II) The above profit was made after charging depreciation of ₹ 60,000 and ₹ 40,000 respectively.

(III) Out of profit shown above, every year ₹ 20,000 had been transferred to General Reserve.

(IV) 10% Dividend had been paid in both the year.

(V) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

(ii) Particulars of Yamuna Limited:

The company incurred losses of ₹ 40,000 and ₹ 60,000 in 2017-2018 and 2018-2019 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01.04.2017.

Prepare Consolidated Balance Sheet of Ganga Limited and its subsidiary as at 31st March, 2019 as per requirements of Schedule III. 12

6. (a) The summarised Balance Sheet of TMI Ltd. for the year ended on 31st March, 2017, 2018 and 2019 are as follows:

| | | ₹ in thousand | |
|---|---|---|---|
| | 2017 | 2018 | 2019 |
| 1,60,000 equity shares of ₹ 10 each fully paid | 1,600 | 1,600 | 1,600 |
| General Reserve | 1,200 | 1,400 | 1,600 |
| Profit and Loss Account | 140 | 160 | 240 |
| Trade Payable | 600 | 800 | 1,000 |
| | 3,540 | 3,960 | 4,440 |
| Assets: | | | |
| Goodwill | 1,000 | 800 | 600 |
| Building and machinery less depreciation | 1,400 | 1,600 | 1,600 |
| Inventory | 1,000 | 1,200 | 1,400 |
| Trade Receivable | 20 | 160 | 440 |
| Bank balance | 120 | 200 | 400 |
| | 3,540 | 3,960 | 4,440 |

*Additional information*:

(i) Actual valuations were as under:

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| Building and machinery less depreciation | 1,800 | 2,000 | 2,200 |
| Inventory | 1,200 | 1,400 | 1,600 |
| Net profit (including opening balance after writing off depreciation, goodwill, tax provision and transfer to general reserve) | 420 | 620 | 820 |

(ii) Capital employed in the business at market value at the beginning of 2016-2017 was ₹ 3,66,000 which included the cost of goodwill. The normal annual return on average capital employed in the line of business engaged by T Ltd. is 12·5%.

(iii) The balance in the general reserve on 1st April, 2016 was ₹ 10 lakhs.

(iv) The goodwill shown on 31st March, 2017 was purchased on 1st April, 2016 for ₹ 10 lakhs on which date the balance in the Profit and Loss Account was ₹ 1,20,000.

You are required to find out the average capital employed in each year. Also compute goodwill to be valued at 5 years purchase of Super Profit (Simple average method). 8

(b) Jal Agni Ltd. provides you the following particulars in respect of stock options grated:

| | |
|---|---|
| Grant Date | April 1, 2015 |
| Number of Employees covered | 1050 |
| Number of Options granted per Employee | 50 |
| Vesting Condition: Continuous employment for 3 years | |
| Nominal Value per share (₹) | 100 |
| Exercise Price per share (₹) | 125 |
| Market Price per share on Grant Date (₹) | 149 |
| Vesting Date | March 1, 2018 |
| Exercise Date | March 31, 2019 |
| Fair Value of Option per share on Grant Date (₹) | 30 |

| Position on | 31.03.2016 | 31.03.2017 | 31.03.2018 |
|---|---|---|---|
| Estimated Annual Rate of Departure | 2% | 3% | |
| Number of Employees left | 30 | 20 | 16 |
| Number of Employees entitled to exercise option | | | 984 |

On 31st March, 2019, 960 Employees exercised the option and 24 Employees did not exercise the option.

**Required:**

Compute Expenses to be recognised in each year and Value of Options Forfeited by Fair Value Method. 8

**7.** (a) What are the advantages of using XBRL? 9

(b) Write briefly about Consolidated Fund of India, Contingency Fund and Public Accounts of India. 7

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

(a) Benefits of Integrated Reporting

(b) Responsibilities of GASSB

(c) Meaning and advantages of Sustainability Reporting

(d) Power of C&AG in connection with Audit of Accounts

(e) Non Current Assets held for sale and discontinued operation