FINAL EXAMINATION

June 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 the 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 mark for right choice and 1 mark for justification.) 2×10=20

(i) XYZ Ltd. acquired 2000 equity shares of DEF Ltd. on 01.04.2017 for a price of ₹ 3,00,000. DEF Ltd. made a net profit of ₹ 80,000 during the year 2017-18. DEF Ltd. issued Bonus shares of one shares for every five shares held out of post-acquisition profits earned during 2017-18. The share capital of DEF Ltd. is ₹ 2,50,000 consisting of shares of ₹ 100 each. If the shares of XYZ Ltd. in the pre-acquisition profit of DEF Ltd. is ₹ 56,000, the amount of Goodwill/Capital Reserve to be shown in the consolidated balance sheet as on 31.03.2018 is:

(A) ₹ 4,000 (Goodwill)

(B) ₹ 4,000 (Capital Reserve)

(C) ₹ 44,000 (Goodwill)

(D) ₹ 50,000 (Goodwill)

(ii) Mittal Ltd. has provided the following information:

Depreciation as per accounting records ₹ 30,00,000, Depreciation as per income tax records ₹ 75,00,000. Unamortized preliminary expenses as per income tax records ₹ 4,50,000. Tax rate 35%. There is adequate evidence of future profit sufficiency. As per AS 22 Deferred Tax Asset/Liability to be recognized will be:

(A) ₹ 15,75,000 (DTL)

(B) ₹ 14,17,500 (Net DTL)

(C) ₹ 72,000 (Net DTA)

(D) None of the above

(iii) The market price of Company Caa is ₹ 450 per share and that of Company Baa is ₹ 300. If Caa offers three-fourths a share of common stock for each share of Baa, the ratio of exchange of market prices would be:

(A) 0·667

(B) 1·000

(C) 1·125

(D) 1·500

(iv) A company has an inter-segment transfer pricing policy of charging at cost less 10%. The market prices are generally 25% above cost. Policy adopted by the company is

(A) Correct as per AS but not as per Ind AS

(B) Not Correct

(C) Correct, if total transfer is below 10% of total revenue of the Company

(D) Always correct, if applied consistently

(v) Cee Ltd. acquired a 60% interest in Jee Ltd. on January 1, 2017. Cee Ltd. paid ₹ 700 Lakhs in cash for their interest in Jee Ltd. The fair value of Jee Ltd.'s assets is ₹ 1,800 Lakhs and the fair value of its liabilities is ₹ 900 Lakhs. Compute the Non-controlling interest (NCI) at fair value.

(A) ₹ 360 Lakhs

(B) ₹ 700 Lakhs

(C) ₹ 280 Lakhs

(D) None of the above

(vi) Utkarsh Ltd. declares the following information:

	Exchange Rate (USD/IND ₹)
Purchased goods on 12.03.2018 of USD 1,00,000	68·60
Exchange rate as on 31.03.2018	69·00
Date of actual payment is 12.04.2018	69·50

What will be the gain/loss to be booked in the financial year 2018-19?

(A) ₹ 90,000 (loss)

(B) ₹ 40,000 (loss)

(C) ₹ 1,30,000 (loss)

(D) None of the above

(vii) During 2017-18, Mindblogger Ltd. incurred costs to develop and produce a mobile application computer software product, as follows:

Completion of detailed program design	₹ 23,000
Cost incurred for coding and testing to establish technological feasibility	₹ 20,000
Other coding costs after establishing technological feasibility	₹ 39,000
Other testing costs after establishing technological feasibility	₹ 31,000
Cost of producing product masters for training purposes	₹ 30,000

What amount should be capitalized as software cost?

(A) ₹ 43,000

(B) ₹ 70,000

(C) ₹ 23,000

(D) ₹ 1,00,000

(viii) Suchitra purchased 1000 shares in Tip-Top Ltd. of ₹ 600 per share in 2016. There was issue in 2018 of one share for every two held at price of ₹ 150 per share. If Suchitra subscribes the rights, what would be carrying cost of 1500 shares as per AS-13.

(A) ₹ 6,00,000

(B) ₹ 6,75,000

(C) ₹ 75,000

(D) Data insufficient

(ix) Future Limited undertakes a contract for construction of a Bridge on 01.04.2017 at a contract price of ₹ 1,250 Lakh. The contract was to be completed in two years. Cost incurred up to 31.03.2018 is ₹ 780 Lakh. The Company estimated that a further cost of ₹ 520 lakh would be incurred for completing the project. What amount should be credited to revenue as Contract Price for the financial year 2017-18 as per the provisions of Ind AS 11?

(A) ₹ 780 Lakh

(B) ₹ 750 Lakh

(C) ₹ 730 Lakh

(D) None of the above

(x) **Statement** – Preparation of CFS is not mandatory for companies having subsidiary in India. Choose correct option:

(A) Statement is correct as the Companies Act, 2013 does not require preparation of CFS.

(B) Statement is correct as AS 21 allows it if financial statement of subsidiary is attached with the stand-alone financial statements of the holding Company.

(C) Statement is incorrect as the Companies Act, 2013 requires preparation of CFS.

(D) Statement is incorrect as the Government of India by notification has imposed the requirement of preparation of CFS.

Section-B

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

2. (a) Which is Related Party as per Ind AS 24? State objectives and scopes of the Ind AS 24. 4+4=8

(b) Following are the Extracts of Balance Sheets of Mirchiram Ltd.:

Particulars	31.03.2019(₹)	31.03.2018(₹)
Equity Share Capital	9,10,000	5,00,000
General Reserve	2,10,000	2,50,000
Profit and Loss A/c	9,50,000	(40,000)
Securities Premium	50,000	—
Capital Redemption Reserve	—	1,00,000
Capital Grant	8,00,000	Nil
Convertible Debentures (into equity shares at 25% premium)	—	2,00,000
Trade Payables	1,05,000	1,00,000
Goodwill	15,000	—
Plant and Machinery	7,65,000	5,00,000
Inventories	95,640	54,000
Trade Receivables	7,50,000	6,25,000
Less: Provision for Doubtful Debts	(1,90,000)	(1,50,000)
Voluntary Separation Payments	1,25,000	65,000

Additional Information:

(i) Depreciation on Plant and Machinery written off @ 15%.

(ii) It was decided to value Inventories at cost whereas previously the practice was to value Inventories at cost less 10%. However the closing stock on 31st March, 2019 was correctly valued at cost.

(iii) On 31st March, 2019, the business of Y Ltd. was purchased for ₹ 60,000 payable in fully paid equity shares of ₹ 10 each at a premium of 20%. The assets included Inventories ₹ 26,640, Trade Receivables ₹ 10,000 and Machine ₹ 18,360. In addition Trade Payables of ₹ 15,000 were taken over.

(iv) Debtors of ₹ 2,30,000 were written off against the Provision for Doubtful Debts A/c during the year. Grant of ₹ 10,00,000 amortised in P&L A/c. Compensation received in a suit filed by the Company ₹ 90,000. Voluntary Separation Payments ₹ 50,000 adjusted against General Reserve.

Required : Calculate

(A) Cash Flow Operating Activities.

(B) Cash Flow from Investing Activities.

(C) Cash Flow from Financing Activities

for preparing Cash Flow Statement as per AS-3. 8

3. (a) 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 ₹ 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 ₹ 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.

(i) Calculate unearned finance income.

(ii) Segregate the finance income in the hands of lessor. 8

(b) A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crore. Its accumulated depreciation as at 31st March, 2018 was ₹ 16·60 crore. Depreciation estimated for the financial year 2018-19 is ₹ 1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1·20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at ₹ 1·40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant accounting standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakh, how would you answer to question (i) and (ii) above? 8

4. (a) Following are the summarized Balance Sheets of Hope Ltd. and Happy Ltd. as on 31st March, 2018.

Liabilities	Hope Ltd (₹)	Happy Ltd. (₹)	Assets	Hope Ltd (₹)	Happy Ltd. (₹)
Equity Share Capital (Rs 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, 2018 Hope Ltd. decided to take over Happy Ltd. No Balance Sheet was prepared on that date. For six months period form 1st April, 2018 to 30th September, 2018, Hope Ltd. and Happy 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 on Machinery and Furniture for both the Companies.

Hope Ltd. and Happy Ltd. paid equity dividend @ 8% on 15th July, 2018. Tax @ 10% on such payments was also paid by each of them. Goodwill of Happy 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 Hope Ltd. and Happy Ltd. would be reduced by 5% and 6% respectively.

Hope Ltd. issued fully paid equity shares of ₹ 10 each to the shareholders' of Happy Ltd., on the basis of comparative intrinsic values of shares on the take-over date.

You are required to calculate total purchase consideration and intrinsic value of share of both the Companies for the purpose of calculation of share exchange ratio. All the working are to form part of your answer. 8

(b) What are the objectives of Ind AS 103? List the information an acquirer should disclose to help users of financial statement to evaluate the nature and financial effect of a business combination. 2+6=8

5. (a) Following are the Balance Sheets of three Companies as at 31st March, 2019:

Particulars	A Limited (₹ in lakh)	B Limited (₹ in lakh)	C Limited (₹ in lakh)
I. Equity and Liabilities			
1. Shareholders' Funds			
(a) Equity Share Capital (of ₹ 10 each)	50,000	15,000	4,500
(b) Reserves and Surplus:			
- General Reserve	62,000	6,300	—
- Statement of Profit and Loss	17,000	2,400	1,125
2. Non-current Liabilities			
(a) 10% Debentures of ₹ 100 each	—	—	2,250
(b) Loan from B Limited	—	—	150
3. Current Liabilities			
(a) Trade Creditors	25,200	5,400	1,395
(b) Bills Payables	—	—	225
Total	**1,54,200**	**29,100**	**9,645**
II. Assets			
1. Non-current Assets			
(a) Fixed Assets:			
- Tangible Assets	88,000	18,000	4,090
(b) Non-current Investment (on 1st April, 2018)			
- 900 Lakh Equity Shares in B Ltd.	13,500	—	—
- 360 Lakh Equity Shares in C Ltd.	3,250	—	—
- 5 Lakh 10% Debentures in C Ltd.	490	—	—
(c) Long-term Loans & Advances			
- Loan to C Ltd.	—	180	—
2. Current Assets			
(a) Inventories	28,500	6,000	2,270
(b) Trade Debtors	13,500	2,700	1,935
(c) Bills Receivables	390	150	—
(d) Cash and Cash Equivalents	6,570	2,070	1,350
Total	**1,54,200**	**29,100**	**9,645**

Additional Information:

(i) On 1st April, 2018 B Limited showed a balance of ₹ 5,100 Lakh in General Reserve and a credit balance of ₹ 3,800 Lakh in Statement of Profit and Loss. On the same date, B Limited showed a debit balance of ₹ 540 Lakh in Statement of Profit and Loss.

(ii) All the Bills payable appearing in C Limited's Balance Sheet were accepted in favour of B Limited out of which bills amounting to ₹ 110 Lakh were endorsed by B Limited to A Limited and bills amounting to ₹ 65 Lakh had been discounted by B Limited with its Bank.

(iii) On 28th March, 2019 C Limited remitted ₹ 30 Lakh by means of a cheque to B Limited to return part of the loan, but the cheque was not received by B Limited up to 31st March, 2019.

(iv) Stock with B Limited includes goods purchased from A Limited for ₹ 260 Lakh, which was owing also on 31st March, 2019. A Limited invoiced the goods at cost plus 30 per cent.

(v) In August, 2018 B Limited declared and distributed dividend @ 20 per cent for the year ended 31st March, 2018. B Limited credited the dividend received to its Statement of Profit and Loss Account.

You are required to prepare a Consolidated Balance Sheet of A Limited and its subsidiaries B Limited and C Limited as at 31st March, 2019. 12

(b) What are the disclosure requirements under Ind AS 112 about subsidiaries that have non-controlling interests that are material to reporting entity. 4

6. (a) (i) Write a brief note on initial measurement of financial asset or financial liability under Ind AS 109. 2

(ii) A Company has its share capital divided into shares of ₹ 10 each. On 1st April, 2017 it granted 10000 employees' stock options (ESOP) at ₹ 40, when the market price was ₹ 130. The options were to be exercised between 16th December, 2017 and 15th March, 2018. The employees exercised their options for 9500 shares only; the remaining options lapsed. The Company closes its books on 31st March every year. Show Journal entries up to the year ended 31.03.2018. 6

(b) From the following information, calculate the Fair Value of an Equity Share:

(i) 400000 Equity Shares of ₹ 10 each (paid up ₹ 8 each).

(ii) 700000 Equity Shares of ₹ 5 each fully called up (Call-in arrears @ ₹ 2 on 200000 shares).

(iii) 10000, 9% Preference Shares of ₹ 100 each fully paid up.

(iv) Reserves and Surplus ₹ 73,76,000.

(v) Tangible Fixed Assets ₹ 3,00,000. 50% of total Tangible Fixed Assets are found undervalued by 50% of market value and 50% of remaining are found overvalued by 50% of market value. 10% Investments: [Face value ₹ 80,000] ₹ 1,00,000. Of the Investments 10% is trade and the balance non-trade. All trade Investments are to be valued at 10% below cost.

(vi) External Liabilities ₹ 10,00,000.

(vii) Expected Future Maintainable Profits before tax ₹ 25,59,000.

(viii) Rate of Tax-30% (Ignore Corporate Dividend Tax).

(ix) Normal Rate of Earnings – 9%. 8

7. (a) State the process of Election of Members of Public Accounts Committee. 8

(b) Write a short note on Government Accounting Standards issued by Government Accounting Standards Advisory Board (GASAB). 8

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

(a) Corporate Social Responsibility Reporting

(b) Myth about XBRL reporting

(c) Fair value hierarchy as per Ind AS 113

(d) Meaning and Advantages of Triple Bottom Line Reporting (TBL)

(e) Derivative and an Embedded Derivative as per Ind AS 109